

**PORTS DESIGN LIMITED**

**2004**

**INTERIM REPORT**



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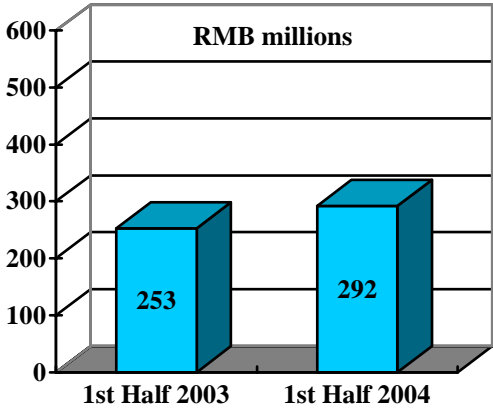
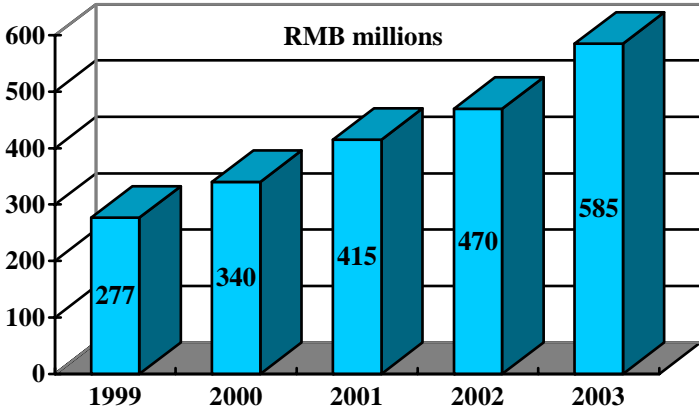
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## FINANCIAL HIGHLIGHTS

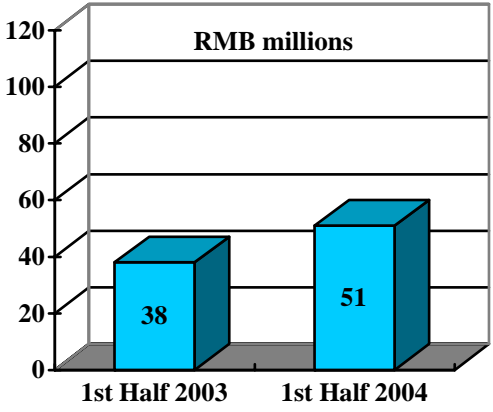
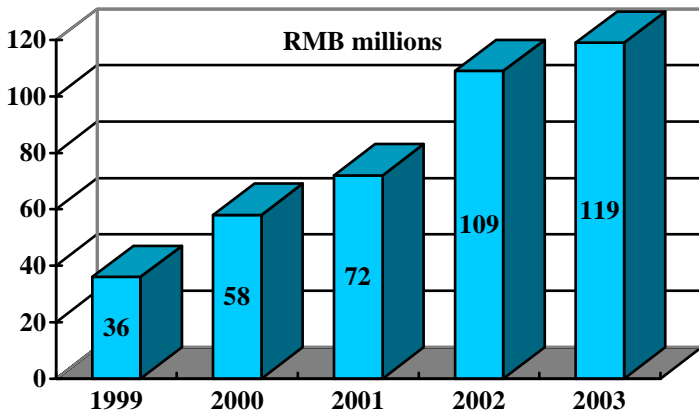
(Financial figures are expressed in Renminbi (“RMB”) million)

	<u>For the six months ended 30th June</u>		<u>For the year ended 31 December</u>				
	2004	2003	2003	2002	2001	2000	1999
	<i>(Unaudited)</i>						
<hr/>							
<b>Results</b>							
Turnover	<u>292</u>	<u>253</u>	<u>585</u>	<u>470</u>	<u>415</u>	<u>340</u>	<u>277</u>
Profit from Operations	<u>51</u>	<u>38</u>	<u>119</u>	<u>109</u>	<u>72</u>	<u>58</u>	<u>36</u>
Profit attributable to shareholders	<u>45</u>	<u>36</u>	<u>108</u>	<u>93</u>	<u>59</u>	<u>48</u>	<u>29</u>
<b>Assets and liabilities</b>							
Non-current assets	<u>90</u>	<u>80</u>	<u>86</u>	<u>77</u>	<u>51</u>	<u>39</u>	<u>34</u>
Current assets	<u>602</u>	<u>303</u>	<u>607</u>	<u>282</u>	<u>250</u>	<u>200</u>	<u>148</u>
Current liabilities	<u>85</u>	<u>144</u>	<u>100</u>	<u>155</u>	<u>150</u>	<u>111</u>	<u>77</u>
Net current assets	<u>517</u>	<u>159</u>	<u>507</u>	<u>127</u>	<u>100</u>	<u>89</u>	<u>71</u>
Total assets less current liabilities	<u>607</u>	<u>240</u>	<u>593</u>	<u>204</u>	<u>151</u>	<u>128</u>	<u>105</u>
Non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Shareholders' Equity	<u>607</u>	<u>240</u>	<u>593</u>	<u>204</u>	<u>151</u>	<u>128</u>	<u>105</u>

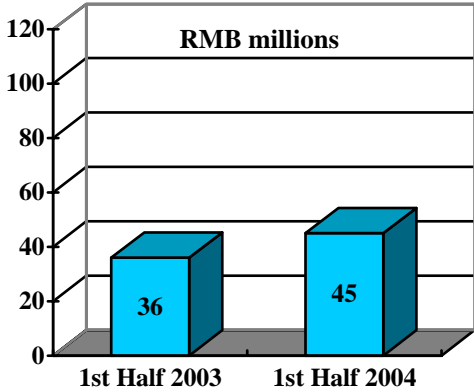
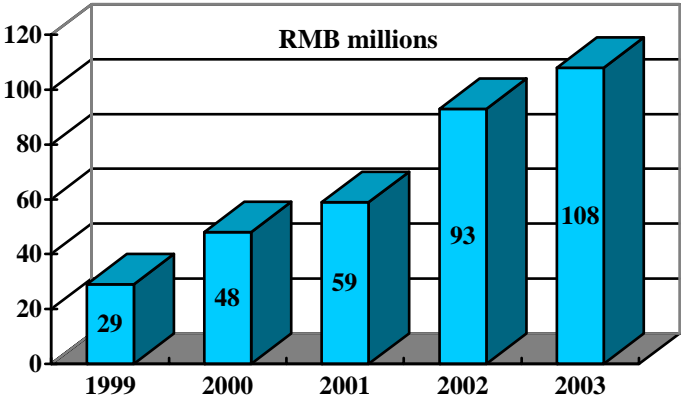
**Turnover**



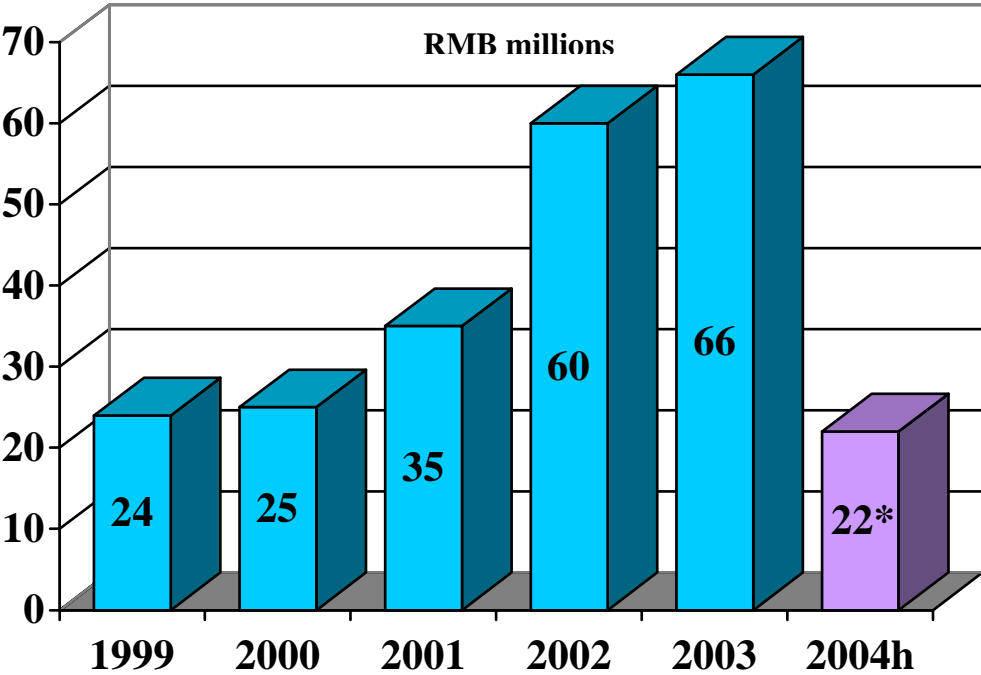
**Profit from Operations**



**Profit Attributable to Shareholders**



**Dividend History**



\* An interim dividend of RMB0.16 per share, totaling RMB21.73 million (US\$2.62 million).

## **CHAIRMAN'S STATEMENT**

PORTS DESIGN LIMITED ("PORTS" or the "Company") and its subsidiaries (the "Group") performed strongly during the first half of 2004. In particular, the retail division, which operates the PORTS and the Bayerische Motoren Werke AG ("BMW") branded line of merchandise ("BMW Lifestyle") stores in China and in Hong Kong, achieved record first half sales and net profit for the Group. Turnover for the Company increased from RMB253.4 million (US\$30.6 million) for the six months ended 30 June 2003 to RMB291.6 million (US\$35.2 million) for the six months ended 30 June 2004, an increase of 15.07%. Profit from ordinary activities before taxation increased from RMB36.0 million (US\$4.4 million) for the six months ended 30 June 2003 to RMB52.3 million (US\$6.3 million) for the six months ended 30 June 2004, an increase of 45.28%, while profit attributable to shareholders increased from RMB35.8 million (US\$4.3 million) to RMB45.2 million (US\$5.5 million), an increase of 26.26%. The Company's balance sheet strength also increased significantly, with no bank borrowings as at 30 June 2004. Furthermore, cash plus cash equivalents and time deposits reduced from RMB315.1 million (US\$38.1 million) as of 31 December 2003 to RMB308.5 million (US\$37.3 million) as of 30 June 2004. This reduction was mainly a result of the final dividend payment of RMB31.2 million (US\$3.8 million) for year 2003, and paid during the first half of year 2004. In short, the Company continued to build on its strong financial position in the first half of 2004.

### **Highlights for the Period Ended 30 June 2004**

The Company's retail division achieved record turnover and profitability during the first half of 2004. Retail turnover increased from RMB163.3 million (US\$19.7 million) in the first half of 2003 to RMB222.5 million (US\$26.9 million) in the first half of 2004, an increase of 36.25%. Similarly, the retail division's gross profit contribution increased from RMB123.8 million (US\$15.0 million) in the first half of 2003 to RMB173.6 million (US\$21.0 million) in the first half of 2004, an increase of 40.23%. The retail division's strong performance was driven by an increase in unit volume sold as well as management's decision at the start of the Spring/Summer 2004 season to raise average unit selling price for the collection. The retail division's strong growth was seen in all regions of China in which the Company operates. The Company's store location management program, which oversees the opening of new stores as well as the closure of older stores, continued at a normal pace, with a net increase of 13 PORTS stores and 5 BMW Lifestyle stores compared with 31 December 2003, for a total of 272 PORTS stores and 16 BMW Lifestyle stores at 30 June 2004.

The strong performance of the retail division more than offset the weakness in the OEM sector. The OEM division's turnover and gross profit contribution declined from RMB84.5 million (US\$10.2 million) and RMB10.9 million (US\$1.3 million) in the first half of 2003 to RMB62.1 million (US\$7.5 million) and RMB9.6 million (US\$1.1 million) in the first half of 2004, respectively. This decline reflects a return to a more normal trading pattern after the abnormally large surge of exports from China during the first half of 2003 due to the events in Iraq and the threat of terrorism in parts of the world. Gross profit margin, however, increased slightly from 12.92% to 15.44% reflecting improved sourcing, with further improvement in volume and margin expected in the second half of 2004.

The balance of the Group's business, which is classified under the "Others" category, experienced a significant increase in business. Turnover increased from RMB5.6 million (US\$0.7 million) in the first half of 2003 to RMB6.9 million (US\$0.8 million) in the first half of 2004, an increase of 23.21%. Gross profit remained flat, however, due to the shift in the mix of the division's business. There was a decline in the wholesale business that represents mostly corporate gifts with the PORTS International brand, which generates a higher gross margin. This was offset by an increase in the export of BMW Lifestyle merchandise, which has a lower gross profit margin. The volume of the wholesale type of business is small with limited growth potential. Therefore, the Company is intentionally focusing its attention on pursuing the BMW Lifestyle exports due to the strong prospects for future sales growth with a reasonable mark up structure. The preliminary feedback from BMW dealers worldwide regarding the BMW Lifestyle apparel products has been very favorable. The Company expects that turnover and contribution to earnings from this business segment, while small at the moment will improve and contribute significantly to the Group's financial performance in the future.

#### **A Look Forward to Second Half of 2004**

The Company is optimistic about its business prospects for the second half of 2004. The strong positive performance trend in the retail business appears to have continued in July and early August. The Company is positioning itself for future success by continuing to invest in the PORTS brand. Several key milestones to look forward to include the opening in September of the Company's first "superstore" in Shanghai's Xintiandi district, and the Company's further expansion of its retail presence in Hong Kong with the opening of its new store in Hong Kong's Landmark complex scheduled for the end of the third quarter of 2004.

The BMW Lifestyle business has seen a remarkable improvement in the first half of 2004 and is expected to begin contributing to the Group's earnings from the second half of 2004 onwards. The Company's relationship with BMW AG, in Munich, has strengthened and grown to include new projects such as the BMW-Williams Formula One and BMW Oracle Yachting collections. The Company expects the BMW Lifestyle brand to increase in presence globally as penetration of the BMW global dealer network grows and as new BMW Lifestyle stand-alone stores are opened worldwide. The Company's expertise both in design and manufacturing, as well as its reputation for quality and reliability has won much critical acclaim. As a result, several major global brands in the United States and the European Union have approached the Company to explore possible ways to tap into its core areas of design and manufacturing expertise. These leads may well develop into significant new business opportunities for the Company in the future.

The Company's strong historical track record and future business prospects have caught the attention of some of the best and largest investors in the world. The management team at PORTS DESIGN LIMITED is honored by the confidence and support of the investment community. The Company will strive to continue to earn this support through operational excellence and the highest standards of ethical corporate behavior.

## **Interim Dividend**

The strong performance during the first half of 2004, as well as the strong business outlook, has enabled the Directors to recommend and declare an interim dividend of RMB0.16 per share, totaling RMB21.73 million (US\$2.62 million).

**Edward Tan Han Kiat**

*Chairman*

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name.

25<sup>th</sup> August 2004  
Xiamen, China

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

## OVERALL PERFORMANCE

### Turnover

Turnover for the first half of 2004 was RMB291.6 million (US\$35.2 million) compared to RMB253.4 million (US\$30.6 million) for the same period in 2003, representing an increase of 15.07%. Turnover comprises of three different segments: Retail, OEM and Other.

### Retail Turnover

Retail turnover for the first half of 2004 was RMB222.5 million (US\$26.9 million) compared to RMB163.3 million (US\$19.7 million) for the same period in 2003, representing an increase of 36.25%. This increase was driven by increases in same store sales, increases in unit volume sold as well as by unit price increases. The increase in unit volume sold reflected, in part, an increase in the number of the Company's retail outlets from 270 at the beginning of 2004 to 288 at the end of the first half of the year. This increase is in line with the company's internal store location management program's planning. The increase in average unit selling price reflected, in part, the strength of the PORTS brand in the Chinese market due to the continued effectiveness of the Company's marketing activities, as well as the continued improvement in the knowledge about the consumers' preferences in the Chinese market. It should be noted that the Company was able to achieve price increases in line with and greater than the rate of inflation. The sales increases for the months of January, February, March, and June were strong compared with the same months last year. These increases were further enhanced during April and May, due to the depressed sales levels due to SARS in 2003. As a percentage of total turnover, retail turnover increased from 64.44% in the first half of 2003 to 76.32% in the first half of 2004, representing the increasing importance of the retail division to the Company.

### OEM Turnover

Turnover from the OEM division declined 26.51% from RMB84.5 million (US\$10.2 million) in the first half of 2003 to RMB62.1 million (US\$7.5 million) in the first half of 2004. This decline was driven primarily by a return in export trading patterns to normality. In the first half of 2003, export trading volumes in China benefited from the reticence of overseas buyers to travel to South Asia due to fears of terrorism related to the outbreak of the Iraq War. The first half of 2004 has seen a gradual reduction in these fears and has correspondingly affected export-trading volumes in China. As a percentage of total turnover, OEM turnover declined from 33.35% in the first half of 2003 to 21.30% in the first half of 2004.

### Other Turnover

The Company's "Other" turnover was RMB6.9 million (US\$0.8 million) in the first half of 2004 compared to RMB5.6 million (US\$0.7 million) in the first half of 2003, representing an increase of 23.21%. Other turnover comprised mainly of the export of BMW Lifestyle apparel to the global BMW dealer network as well as to BMW

Lifestyle boutiques (outside of China). It also includes wholesale sales to corporate customers and sales to retailers in smaller cities in China. As a percentage of total turnover, other sales increased from 2.21% in the first half of 2003 to 2.38% in the first half of 2004. With the development of the BMW Lifestyle apparel export market, it is anticipated that this division's contribution to the Company's business will increase.

### **Cost of sales**

Cost of sales in the first half of 2004 was RMB105.7 million (US\$12.8 million) compared to RMB114.8 million (US\$13.9 million) in the first half of 2003, representing a decline of 7.93%. This decline in cost of sales was driven by a shift in the mix of the business away from the OEM division, which has a higher "cost of goods sold" structure, to the retail division, which enjoys a lower "cost of goods sold" structure. The retail division has significantly higher gross profit margin.

### **Gross profit**

As a result of the factors discussed above, the Company's gross profit increased 34.10% from the first half of 2003 to the first half of 2004, and the Company's gross profit margin increased from 54.69% in the first half of 2003 to 63.73% in the first half of 2004. The increase in gross margin was driven, in part, by the improvement in the gross profit margin in the retail division. The management's decision to raise the average unit retail selling price at the start of the 2004 Spring/Summer season was the primary reason for the improvement. Furthermore, the increase in gross margin was also driven by a shift in the mix of the business away from the OEM division, which has a higher "cost of goods sold" structure, to the retail division, which enjoys a lower "cost of goods sold" structure, and hence a higher gross profit margin.

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

#### **Retail Gross Profit**

Retail gross profit increased 40.17% from the first half of 2003 to the first half of 2004, while gross margin increased from 75.85% to 78.01% over the same period. The management team believes the Company's gross margin is within the range of such margins achieved by other international fashion and luxury brands. The increase in gross margin was driven, in part, by management's decision to raise prices at the start of the Spring/Summer 2004 season. The ability to do so reflects largely on the strength of the PORTS brand in the Chinese market, the pricing power enjoyed by the Company, as well as a return to a slightly more inflationary environment at the start of 2004 in the PRC consumer market.

Of the Company's gross profit, retail contributed 93.42% of the total in the first half of 2004, compared to 89.37% in the first half of 2003, reflecting the increasing importance of the retail business to the Company.

### **OEM Gross Profit**

Gross profit from the OEM Division was RMB9.6 million (US\$1.2 million) in the first half of 2004, compared to RMB10.9 million (US\$1.3 million) in the first half of 2003, representing a decline of 11.93%. This decline occurred as a result of the reduction in volume handled by the OEM division. However, gross margin increased from 12.92% in the first half of 2003 to 15.44% in the first half of 2004. The increase in gross margin was driven by improved sourcing and a return to a more normal trading environment after the disruption caused by the outbreak of the Iraq War during the first half of 2003.

### **Gross Profit of Other Turnover**

Gross profit from other turnover remained flat from the first half of 2003 to the first half of 2004. Gross margin, however, declined from 68.02% in the first half of 2003 to 38.12% in the first half of 2004. This decline in gross margin reflects an intentional shift in managerial focus from the domestic Chinese wholesale market (mainly in the form of corporate gifts) to the export wholesale market (mainly in the form of the export of BMW Lifestyle apparel products to BMW dealers and BMW Lifestyle boutiques worldwide). While the domestic wholesale market currently enjoys higher gross margin, the potential for volume growth is limited. The management team feels that the export market for BMW Lifestyle apparel products offers significantly greater growth opportunities and has, therefore, focused its attention on the development of this business.

### **Other operating income**

Other operating income declined 52.17% from RMB4.6 million (US\$0.6 million) in the first half of 2003 to RMB2.2 million (US\$0.3 million) in the first half of 2004. Other operating income consists mainly of income from store design and decoration services provided to third parties, including department stores that contain new PORTS INTERNATIONAL concessions. Design and decoration income decreased by 89.40% to RMB0.4 million (US\$0.05 million) in the first half of 2004. This decrease was a result of management's decision to reduce this activity and focus on the Retail business.

### **Profit from operations**

As a result of the factors discussed above, the Company's profit from operations increased by 34.60% from RMB38.1 million (US\$4.6 million) in the first half of 2003 to RMB51.3 million (US\$6.2 million) in the first half of 2004. The Company's operating margin (profit from operations expressed as a percentage of turnover) increased from 15.03% to 17.60% over the same period. The increase in profitability is largely due to improved economies of scale with increased sales in the retail division as well as a shift in the mix of the business away from the OEM division, which has a higher "cost of goods sold" structure, to the retail division, which enjoys a lower "cost of goods sold" structure, and hence a higher gross profit margin.

## **Profit attributable to shareholders**

As a result of the factors discussed above, the Company's profit attributable to shareholders increased 26.26% from RMB35.8 million (US\$4.3 million) in the first half of 2003 to RMB45.2 million (US\$5.5 million) in the first half of 2004. The Company's net profit margin increased from 14.15% in the first half of 2003 to 15.52% in the first half of 2004. The increase in profitability is largely due to improved economies of scale related to increased sales in the retail division as well as a shift in the mix of the business away from the OEM division, which has a higher "cost of goods sold" structure, to the retail division, which enjoys a lower "cost of goods sold" structure, and hence a higher gross profit margin.

## **OPERATING EXPENSES**

Operating expenses increased to RMB136.7 million (US\$16.5 million) in the first half of 2004 from RMB105.0 million (US\$12.7 million) for the same period last year, an increase of 30.07%. Operating Expenses consists of distribution expenses, administrative expenses and other operating expenses. The changes in various components are summarized in the following paragraphs.

### **Distribution expenses**

Distribution expenses increased 29.43% from RMB86.3 million (US\$10.4 million) in the first half of 2003 to RMB111.7 million (US\$13.5 million) in the first half of 2004. This increase was principally due to increases in rent and salaries and benefits. Rent expense for retail outlets increased 32.55% from RMB42.7 million (US\$5.2 million) in the first half of 2003 to RMB56.6 million (US\$6.8 million) in the first half of 2004. This increase was mainly due to an increase in the number of retail outlets and the increased sales volume in concession stores. In particular, the occupancy cost of a concession store is equal to a percentage of the monthly sales made through that concession. Accordingly, the Company's rental expenses increase as its retail turnover increases. Salaries and benefit expenses increased 42.86% from RMB15.4 million (US\$1.8 million) in the first half of 2003 to RMB22.0 million (US\$2.7 million) in the first half of 2004. This increase reflects investments made by the Company in human capital, specifically in design talent and the corresponding support staff.

Other major components of selling expenses only increased modestly. Depreciation expenses increased 25.53% from RMB4.7 million (US\$0.6 million) in the first half of 2003 to RMB5.9 million (US\$0.7 million) in the first half of 2004. The increase was principally driven by greater renovation and fixturing costs related to an increase in the number of Company-owned stores. Advertising expenses increased 5.43% from RMB9.1 million (US\$1.1 million) in the first half of 2003 to RMB9.7 million (US\$1.2 million) in the first half of 2004. This modest increase reflects the increasingly effective and efficient use of the advertising budget by the Company.

### **Administrative expenses**

Administrative expenses increased 33.70% from RMB9.2 million (US\$1.1 million) in the first half of 2003 to RMB12.3 million (US\$1.5 million) in the first half of 2004. This increase was due mainly by an increase in official sundries, which comprises mainly the increase in auditor's expenses, rental, annual listing fees, and Director's

limited liability insurance. Official sundries expense increased 162.50% from RMB0.8 million (US\$0.1 million) in the first half of 2003 to RMB2.1 million (US\$0.3 million) in the first half of 2004. Administrative salaries and benefits, which is the largest category of administrative expense, increased by 8.06% to RMB6.7 million (US\$0.8 million) in the first half of 2004, as a result of salary increases, and an increase in the number of middle management personnel to support the continued expansion of the Company's operations. Other administrative expenses (except for salary and sundry expenses), such as travel and general office expenses, increased by 59.09% reflecting the increased size of the administrative function, as noted above. For instance, increased travel to Munich, Germany, in support of the BMW Lifestyle initiative and the continued expansion of the Company's operations.

### **Other operating expenses**

Other operating expenses increased modestly from RMB9.6 million (US\$1.2 million) in the first half of 2003 to RMB12.7 million (US\$1.5 million) in the first half of 2004. Other operating expenses consist principally of a stock provision that is taken against aging inventory. The slight increase in operating expenses was driven by a slight increase in aging inventory.

### **Income Tax**

The Company's effective income tax rate increased from 0.5% of profit before tax in the first half of 2003 to 13.55% of profit before tax in the first half of 2004. This increase is the result of a tax refund of RMB4.6 million (US\$0.6 million) received during the first half of 2003.

### **Financial Position, Liquidity and Gearing Ratio**

The Group continues to be in a very strong financial position, with significant cash generated from normal business operations and from the proceeds of the IPO in 2003. As of 30 June 2004, the Group had roughly RMB308.5 million (US\$37.3 million) in cash and cash equivalents and time deposits with major banks compared with RMB315.1 million (US\$38.1 million) as of 31 December 2003. The Group also possessed available bank loans and overdraft facilities of roughly RMB101.0 million (US\$12.2 million), which have not been utilized. The Group currently has no outstanding bank borrowing. As of 30 June 2004, the Group's gearing ratio was zero, based on no bank debt outstanding and total assets of roughly RMB691.7 million (US\$83.6 million). The Group's gearing ratio was 0% as of 31 December 2003 based on no bank debt outstanding. As of 30 June 2004, the current ratio was 7.08, based on current assets of RMB602.0 million (US\$72.7 million) and current liabilities of RMB85.1 million (US\$10.3 million).

### **Acquisitions & Disposals of Subsidiaries & Associated Companies**

The Group did not engage in any material acquisitions or disposals of any subsidiaries or associated companies in the six months ended 30 June 2004.

### **Currency Risk Management**

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

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

### **Capital Commitments & Contingent Liabilities**

The Group has capital commitments of RMB1.9 million (US\$0.2 million) which have been contracted for, and capital commitments of RMB120.0 million (US\$14.5 million), which are authorized but not contracted for as at 30 June 2004, and no contingent liabilities as at 30 June 2004.

### **Capital Structure of the Group**

The Group requires working capital to support manufacturing, Retail, OEM and Other operations. In the past, the Group financed its working capital needs principally through net cash inflows from operating activities and from short-term interest-bearing loans. The IPO of the Company's shares on 31 October 2003 has provided an additional source of working capital. As of 30 June 2004, the Group had cash and cash equivalents and time deposits of RMB308.5 million (US\$37.3 million), denominated principally in HK\$, US\$ and RMB, a decrease of 2.09% from 31 December 2003. Net cash inflows from operating activities increased 130.95% to RMB38.8 million (US\$4.7 million) in the first half of 2004, as compared to RMB16.8 million (US\$2.0 million) for the same period in 2003. The Group currently has no outstanding interest-bearing debt obligations.

### **Major Customers & Suppliers**

During the first half of 2004, the Group purchased approximately 11% and 30% of its goods from its largest supplier and five largest suppliers, respectively. The percentage of turnover attributable to the Group's largest customer and five largest customers combined were approximately 11% and 22%, 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 during this period in the above suppliers or customers.

### **Charges on Assets**

As of 30 June 2004, the Group had not charged any of its assets.

### **Human Resources**

As of 30 June 2004, the Group had approximately 3400 employees. Total personnel expenses, comprised of wages, salaries and benefits, was RMB45.3million (US\$5.5million) in first half of 2004, compared to RMB36.5million (US\$4.4million) for the same period in 2003.

### **Post-Balance Sheet Date Developments**

After the balance sheet date, the Directors proposed an interim dividend of RMB0.16 per share, totaling RMB21.73 million (US\$2.62 million) on 25 August 2004, payable to shareholders of record on 30 September 2004. Further details are disclosed in the "OTHER INFORMATION" section on page 33.

### **Significant Events**

The Board of Directors intend to put forward a proposal to shareholders that, subject to the approval of shareholders and the Listing Committee of the Stock Exchange of Hong Kong, each of the existing issued and unissued shares in the Company be subdivided into four shares. A circular containing details of the proposed subdivision of shares, with a notice to convene a special general meeting, will be issued to the shareholders as soon as practicable.

**INTERIM FINANCIAL REPORT**

**PORTS DESIGN LIMITED**

**INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2004**



## **INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF PORTS DESIGN LIMITED**

*(Incorporated in Bermuda with limited liability)*

### **Introduction**

We have been instructed by the company to review the interim financial report for the six months ended 30 June 2004 set out on pages 18 to 32.

### **Respective responsibilities of directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” adopted by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

**KPMG**

Certified Public Accountants  
Hong Kong, 25 August 2004

**UNAUDITED CONSOLIDATED INCOME STATEMENT**  
**for the six months ended 30 June 2004**

	Note	<i>Six months ended 30 June</i>			
		<i>2004</i> <i>(RMB)</i>	<i>2003</i> <i>(RMB)</i> <i>Audited</i>	<i>2004</i> <i>(US\$)</i> <i>(Note 13)</i>	<i>2003</i> <i>(US\$)</i> <i>(Note 13)</i>
<b>Turnover</b>		291,558,020	253,350,648	35,226,786	30,607,515
Cost of sales		<u>(105,738,589)</u>	<u>(114,786,018)</u>	<u>(12,775,607)</u>	<u>(13,867,400)</u>
<b>Gross profit</b>		185,819,431	138,564,630	22,451,179	16,740,115
Other operating income		2,210,409	4,594,852	267,067	555,108
Distribution expenses		(111,739,981)	(86,268,503)	(13,500,711)	(10,422,173)
General and administrative expenses		(12,318,382)	(9,234,399)	(1,488,338)	(1,115,616)
Other operating expenses		<u>(12,668,571)</u>	<u>(9,588,009)</u>	<u>(1,530,649)</u>	<u>(1,158,336)</u>
<b>Profit from operations</b>		51,302,906	38,068,571	6,198,548	4,599,098
Net finance income/(costs)	3	<u>1,026,006</u>	<u>(2,042,097)</u>	<u>123,965</u>	<u>(246,708)</u>
<b>Profit from ordinary activities before taxation</b>	3	52,328,912	36,026,474	6,322,513	4,352,390
Income tax expenses	4	<u>(7,092,054)</u>	<u>(180,897)</u>	<u>(856,880)</u>	<u>(21,854)</u>
<b>Profit attributable to shareholders</b>		<u>45,236,858</u>	<u>35,845,577</u>	<u>5,465,633</u>	<u>4,330,536</u>
<b>Dividends:</b>	5				
- Dividend approved and paid during the period		31,236,300	-	3,774,050	-
- Interim dividend proposed after the balance sheet date		<u>21,729,600</u>	<u>35,000,000</u>	<u>2,625,426</u>	<u>4,228,381</u>
<b>Earnings per share</b>					
-Basic	6	<u>0.33</u>	<u>0.34</u>	<u>0.04</u>	<u>0.04</u>
-Diluted	6	<u>0.33</u>	<u>N/A</u>	<u>0.04</u>	<u>N/A</u>

The notes on pages 23 to 32 form part of the interim financial report.

**UNAUDITED CONSOLIDATED BALANCE SHEET**  
**at 30 June 2004**

	<i>Note</i>	<i>At 30 June 2004 (RMB)</i>	<i>At 31 December 2003 (RMB) Audited</i>	<i>At 30 June 2004 (US\$) (Note 13)</i>	<i>At 31 December 2003 (US\$) (Note 13)</i>
<b>Assets</b>					
Lease prepayments		11,063,385	11,190,575	1,336,706	1,352,058
Property, plant and equipment	8	72,802,324	69,698,772	8,796,163	8,421,082
Intangible assets		860,880	1,183,710	104,014	143,017
Deferred tax assets		<u>5,014,437</u>	<u>3,503,229</u>	<u>605,857</u>	<u>423,264</u>
<b>Total non-current assets</b>		<b>89,741,026</b>	<b>85,576,286</b>	<b>10,842,740</b>	<b>10,339,421</b>
<hr/>					
Inventories	9	202,142,861	184,815,705	24,423,418	22,329,637
Accounts receivable	10	58,852,727	72,275,008	7,110,737	8,732,346
Bills receivable		4,735,292	12,651,091	572,130	1,528,519
Advances to suppliers		8,547,456	8,882,482	1,032,726	1,073,191
Other receivables, deposits and prepayments		19,025,388	12,877,316	2,298,696	1,555,851
Amounts due from a related company		139,104	-	16,807	-
Time deposits with banks		129,065,474	82,767,000	15,594,021	10,000,000
Cash and cash equivalents		<u>179,470,403</u>	<u>232,290,271</u>	<u>21,684,074</u>	<u>28,065,566</u>
<b>Total current assets</b>		<b>601,978,705</b>	<b>606,558,873</b>	<b>72,732,609</b>	<b>73,285,110</b>
<hr/>					

The notes on pages 23 to 32 form part of the interim financial report.

**UNAUDITED CONSOLIDATED BALANCE SHEET (continued)**  
**at 30 June 2004**

	<i>Note</i>	<i>At 30 June 2004 (RMB)</i>	<i>At 31 December 2003 (RMB) Audited</i>	<i>At 30 June 2004 (US\$) (Note 13)</i>	<i>At 31 December 2003 (US\$) (Note 13)</i>
<b>Current liabilities</b>					
Bills payable		409,658	359,124	49,496	43,390
Accounts payable	11	34,537,234	39,972,591	4,172,877	4,829,532
Other creditors and accruals		44,662,538	47,698,551	5,396,243	5,762,991
Amounts due to related companies		-	1,100,828	-	133,003
Tax payable		5,483,256	6,526,888	662,501	788,586
Dividend payable		-	3,850,690	-	465,245
<b>Total current liabilities</b>		<u>85,092,686</u>	<u>99,508,672</u>	<u>10,281,117</u>	<u>12,022,747</u>
<b>Net current assets</b>		<u>516,886,019</u>	<u>507,050,201</u>	<u>62,451,492</u>	<u>61,262,363</u>
<b>Net assets</b>		<u>606,627,045</u>	<u>592,626,487</u>	<u>73,294,232</u>	<u>71,601,784</u>
<b>Equity</b>					
Share capital	12	1,442,185	1,442,185	174,248	174,246
Reserves		<u>605,184,860</u>	<u>591,184,302</u>	<u>73,119,984</u>	<u>71,427,538</u>
<b>Capital and reserves</b>		<u>606,627,045</u>	<u>592,626,487</u>	<u>73,294,232</u>	<u>71,601,784</u>

Approved and authorised for issue by the Board of Directors on 25 August 2004.



**Alfred Chan Kai Tai**  
*Chief Executive Officer*



**Pierre Frank Bourque**  
*Executive Vice President*

The notes on pages 23 to 32 form part of the interim financial report.

**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**for the six months ended 30 June 2004**  
*(Expressed in Renminbi Yuan)*

	<i>Six months ended 30 June</i>	
	<i>2004</i>	<i>2003</i>
		<i>Audited</i>
Net cash inflows from operating activities	38,834,752	16,846,939
Net cash outflows from investing activities	(56,567,630)	(13,236,842)
Net cash outflows from financing activities	<u>(35,086,990)</u>	<u>(6,534,310)</u>
Net decrease in cash and cash equivalents	(52,819,868)	(2,924,213)
Cash and cash equivalents at 1 January	<u>232,290,271</u>	<u>44,783,479</u>
Cash and cash equivalents at 30 June	<u><u>179,470,403</u></u>	<u><u>41,859,266</u></u>

The notes on pages 23 to 32 form part of the interim financial report.

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the six months ended 30 June 2004**  
*(Expressed in Renminbi Yuan)*

	Share capital	Capital reserve	Share premium	General reserve fund	Enterprise expansion fund	Retained earnings	Total
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 period	-	-	-	-	-	45,236,858	45,236,858
Dividend declared	-	-	-	-	-	(31,236,300)	(31,236,300)
Balance at 30 June 2004	<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>181,493,823</u>	<u>606,627,045</u>
<b>Audited</b>							
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
Net profit for the period	-	-	-	-	-	35,845,577	35,845,577
Balance at 30 June 2003	<u>1,119,675</u>	<u>42,483,919</u>	<u>20,675,104</u>	<u>29,844,052</u>	<u>9,867,952</u>	<u>136,236,086</u>	<u>240,226,788</u>

The notes on pages 23 to 32 form part of the interim financial report.

## **NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**

*(Expressed in Renminbi Yuan)*

### **1. Basis of preparation**

This interim financial report are unaudited but have been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (the “HKSA”). KPMG’s independent review report to the Board of Directors is included on page 17. In addition, this interim financial report has been reviewed by the audit committee of PORTS DESIGN LIMITED (“the Company”).

The interim financial report have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with International Accounting Standard 34 “Interim financial reporting” adopted by the International Accounting Standards Board (“IASB”).

The financial information relating to the financial year ended 31 December 2003 included in the interim financial report do not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. The Company’s statutory financial statements for the year ended 31 December 2003 are available from the Company’s registered office. The Company’s independent auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2004.

The accounting policies have been consistently applied by the Company and its subsidiaries (hereinafter collectively referred as “the Group”) and are consistent with these adopted in the 2003 annual financial statements. The 2003 annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), promulgated by the IASB. IFRS includes International Accounting Standards and related interpretations.

### **2. 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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
*(Expressed in Renminbi Yuan)*

*Business segments*

	<i>Six months ended 30 June</i>	
	<i>2004</i>	<i>2003</i>
		<i>(Audited)</i>
Turnover		
Retail	222,524,418	163,263,228
OEM	62,100,851	84,486,732
Unallocated	<u>6,932,751</u>	<u>5,600,688</u>
Total	<u>291,558,020</u>	<u>253,350,648</u>
Segment result		
Retail	55,862,325	37,796,650
OEM	<u>5,176,654</u>	<u>5,696,822</u>
Total	61,038,979	43,493,472
Unallocated operating income and expenses	<u>(9,736,073)</u>	<u>(5,424,901)</u>
Profit from operations	51,302,906	38,068,571
Net finance income/(costs)	1,026,006	(2,042,097)
Income tax	<u>(7,092,054)</u>	<u>(180,897)</u>
Profit attributable to shareholders	<u>45,236,858</u>	<u>35,845,577</u>

*Geographical segments*

Turnover		
the PRC	217,074,633	165,425,701
North America	63,645,413	85,225,188
Hong Kong	5,449,785	2,699,759
Europe	<u>5,388,189</u>	<u>-</u>
Total	<u>291,558,020</u>	<u>253,350,648</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
**(Expressed in Renminbi Yuan)**

**3. Profit from ordinary activities before taxation**

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

	<i>Six months ended 30 June</i>	
	<i>2004</i>	<i>2003</i>
		<i>(Audited)</i>
<b>(i) Net finance (income)/costs</b>		
Interest income	(1,755,346)	(118,202)
Interest expense on bank advances repayable		
within five years	-	1,191,151
Bank charges	746,715	847,558
Net foreign exchange (gain)/loss	<u>(17,375)</u>	<u>121,590</u>
Net finance (income)/costs	<u>(1,026,006)</u>	<u>2,042,097</u>
<b>(ii) Other items</b>		
Loss on disposal of property, plant and equipment	368,976	3,347
Depreciation		
- owned fixed assets	8,416,089	7,013,839
- leased fixed assets	135,885	135,885
Amortisation		
- lease prepayments for land	127,190	127,190
- intangible assets	322,830	322,830
Operating leases charges in respect of properties		
- minimum lease payments	16,036,760	13,950,523
- contingent rents	<u>42,083,577</u>	<u>31,154,527</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
(Expressed in Renminbi Yuan)**

**4. Income tax expense**

Income tax expense represents:

	<i>Six months ended 30 June</i>	
	<i>2004</i>	<i>2003</i>
		<i>(Audited)</i>
Current period expense	8,879,355	3,295,325
Over-provision in prior periods	(276,093)	-
Income tax refund	<u>-</u>	<u>(4,555,144)</u>
	8,603,262	(1,259,819)
Changes in deferred taxes	<u>(1,511,208)</u>	<u>1,440,716</u>
	<u>7,092,054</u>	<u>180,897</u>

No provision has been made for Hong Kong profits tax as there were no estimated Hong Kong assessable profits for the six months ended 30 June 2004 and 2003.

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

The Group was granted tax refund of RMB4,555,144 during the six months ended 30 June 2003, pursuant to the relevant PRC tax law and regulations applicable to re-investment of profits earned.

**5. Dividends**

**(a) Dividends attributable to the previous financial year, approved and paid during the period**

	<i>Six months ended 30 June</i>	
	<i>2004</i>	<i>2003</i>
		<i>(Audited)</i>
Final dividend in respect of the previous financial year, approved and paid during the period of RMB0.23 (2003:Nil) per share	<u>31,236,300</u>	<u>-</u>

**(b) Dividends attributable to the period**

	<i>Six months ended 30 June</i>	
	<i>2004</i>	<i>2003</i>
		<i>(Audited)</i>
Interim dividend proposed after the balance sheet date of RMB 0.16 (2003:RMB0.33) per share	<u>21,729,600</u>	<u>35,000,000</u>

The proposed interim dividend for the six months ended 30 June 2004 of RMB21,729,600 is calculated based on 135,810,000 (2003:105,560,000) ordinary shares in issue as at 30 June 2004.

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

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
**(Expressed in Renminbi Yuan)**

**6. Earnings per share**

*(a) Basic earnings per share*

The calculation of basic earnings per share for the six months ended 30 June 2004 is based on the profit attributable to ordinary shareholders of RMB45,236,858 (2003:RMB35,845,577) and the weighted average of 135,810,000 (2003:105,560,000) ordinary shares in issue during the six months ended 30 June 2004.

*(b) Diluted earnings per share*

The calculation of diluted earnings per share for the six months ended 30 June 2004 is based on the profit attributable to ordinary shareholders of RMB45,236,858 and the weighted average number of 136,851,806 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2003, and therefore diluted earnings per share is not presented for the six months ended 30 June 2003.

*(c) Reconciliation*

	<i>Six months ended 30 June 2004 Number of shares</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	135,810,000
Deemed issue of ordinary shares for no consideration	<u>1,041,806</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>136,851,806</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
(Expressed in Renminbi Yuan)**

**7. Related party transactions**

Transactions with the following parties are considered as related party transactions for the six months ended 30 June 2004 and 2003.

<b>Name of party</b>	<b>Relationship</b>
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 six months ended 30 June 2004 and 2003 are as follows:

	<i>Six months ended 30 June</i>	
	<i>2004</i>	<i>2003</i>
		<i>(Audited)</i>
Sales of goods to:		
Ports International Retail Corporation	1,463,547	738,456

**(b) Non-recurring**

	<i>Six months ended 30 June</i>	
	<i>2004</i>	<i>2003</i>
		<i>(Audited)</i>
<b>Sales of goods to:</b>		
PIHK Limited	-	1,362,635
<b>Purchase of goods and fixed assets from:</b>		
CFS International Incorporated	-	80,904
PIHK Limited	-	2,958,387
<b>Expenditure paid on the Group's behalf by:</b>		
PIHK Limited	-	1,676,793
CFS International Incorporated	-	139,283
<b>Expenditure paid on behalf of:</b>		
Ports International Retail Corporation	-	40,269

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.

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
(Expressed in Renminbi Yuan)**

**8. Property, plant and equipment**

	2004	2003 <i>(Audited)</i>
<b>Cost</b>		
At 1 January	104,883,220	82,916,737
Acquisitions	12,089,070	26,152,843
Disposals	<u>(6,080,420)</u>	<u>(4,186,360)</u>
At 30 June/ 31 December	<u>110,891,870</u>	<u>104,883,220</u>
<b>Depreciation</b>		
Balance at 1 January	35,184,448	24,969,376
Depreciation charge	8,551,974	14,390,385
Disposals	<u>(5,646,876)</u>	<u>(4,175,313)</u>
Balance at 30 June/ 31 December	<u>38,089,546</u>	<u>35,184,448</u>
<b>Net book value</b>		
At 30 June/ 31 December	<u>72,802,324</u>	<u>69,698,772</u>

**9. Inventories**

Inventories represent:

	<i>30 June 2004</i>	<i>31 December 2003 (Audited)</i>
Raw materials	48,786,644	43,683,505
Work in progress	13,209,079	10,300,709
Finished goods	137,462,928	129,008,372
Goods in transit	<u>2,684,210</u>	<u>1,823,119</u>
	<u>202,142,861</u>	<u>184,815,705</u>
Inventories stated at net realisable value	<u>70,717,996</u>	<u>60,916,809</u>

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

	<i>Six months ended 30 June 2004</i>	<i>2003 (Audited)</i>
Cost of sales	105,738,589	114,786,018
Stock provision	<u>11,976,765</u>	<u>9,265,179</u>
	<u>117,715,354</u>	<u>124,051,197</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
**(Expressed in Renminbi Yuan)**

**10. Accounts receivable**

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

	<i>30 June 2004</i>	<i>31 December 2003</i> <i>(Audited)</i>
Within 1 month	41,786,376	59,587,793
Over 1 month but less than 3 months	11,853,884	11,455,675
Over 3 months but less than 6 months	2,259,009	1,201,928
Over 6 months but less than 12 months	<u>2,953,458</u>	<u>29,612</u>
	<u>58,852,727</u>	<u>72,275,008</u>

Customers are normally granted credit terms of 0 to 90 days, depending on the credit worthiness of individual customers.

**11. Accounts payable**

An ageing analysis of accounts payable is as follows:

	<i>30 June 2004</i>	<i>31 December 2003</i> <i>(Audited)</i>
Within 1 month or on demand	18,738,329	23,308,866
Over 1 month but less than 3 months	10,756,374	11,202,688
Over 3 months but less than 6 months	4,635,096	4,798,751
Over 6 months but less than 12 months	<u>407,435</u>	<u>662,286</u>
	<u>34,537,234</u>	<u>39,972,591</u>

**12. Share capital**

	<i>30 June 2004</i> <i>HK\$</i>	<i>31 December 2003</i> <i>HK\$</i> <i>(Audited)</i>
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**Authorised:**

900,000,000 ordinary shares of HK\$0.01 each	<u>9,000,000</u>	<u>9,000,000</u>
----------------------------------------------	------------------	------------------

**Issued and fully paid:**

	<u>30 June 2004 and 31 December 2003</u>		
	Number of shares	HK\$	RMB equivalent
135,810,000 ordinary shares of HK\$ 0.01 each	<u>135,810,000</u>	<u>1,358,100</u>	<u>1,442,185</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
**(Expressed in Renminbi Yuan)**

**Share options**

As at 30 June 2004, the outstanding share options were as follows:

<b>Date of options granted</b>	<b>Exercise Price per share</b>	<b>Period during which options exercisable</b>	<b>Number of options outstanding at 30 June 2004</b>
3 November 2003	HK\$10.50	3 November 2003 to 2 November 2013	<u>3,500,000</u>

No share option had been granted, exercised or cancelled during the six months ended 30 June 2004.

**13. 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 six months ended 30 June 2004 and the consolidated balance sheet as at 30 June 2004 are translated from Renminbi Yuan at RMB8.2766=US\$1.00, the rate ruling at 30 June 2004. The consolidated income statement for the six months ended 30 June 2003 and the consolidated balance sheet as at 31 December 2003 are translated from Renminbi Yuan at RMB8.2774= US\$1.00 and RMB8.2767=US\$1.00, the rates ruling at 30 June 2003 and 31 December 2003, respectively. These translations should not be construed as representations that the Renminbi amounts could actually be converted into U.S. dollars at such rates or at all.

**14. Operating leases commitments**

Non-cancellable operating lease rentals are payable as follows:

	<i>30 June 2004</i>	<i>31 December 2003</i> <i>(Audited)</i>
Less than one year	32,037,061	33,651,952
Between one and five years	22,103,860	23,032,534
More than five years	<u>-</u>	<u>84,000</u>
	<u>54,140,921</u>	<u>56,768,486</u>

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

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
**(Expressed in Renminbi Yuan)**

**15. Capital commitments**

Capital commitments outstanding at 31 December 2003 and 30 June 2004 but not provided for in the consolidated financial report were as follows:

	<i>30 June 2004</i>	<i>31 December 2003</i> <i>(Audited)</i>
Contracted for	1,866,208	-
Authorised but not contracted for	<u>120,000,000</u>	<u>120,000,000</u>
	<u>121,866,208</u>	<u>120,000,000</u>

## **OTHER INFORMATION**

The Directors submit their interim report together with the unaudited financial results of PORTS DESIGN LIMITED (“PORTS” or the “Company”) and its subsidiaries (the “Group”) for the six months ended 30 June 2004.

### **Interim Dividend and Closure of Register of Members**

The earnings for the Group for the six months ended 30 June 2004 are RMB45.2 million (US\$5.5 million). The Directors have declared an interim dividend of RMB0.16 per share for the six months ended 30 June 2004, totaling RMB21.73 million (US\$2.62 million) to be payable to shareholders of record on 30 September 2004.

The interim dividend will be payable on 30 September 2004 to shareholders whose names appear on the register of members of the Company on 30 September 2004. The register of members will be closed from 27 September 2004 to 30 September 2004, both days inclusive, during which period no transfer of shares can be effected.

In order to qualify for the above dividend, all transfer of shares accompanied by the requisite share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on 24 September 2004.

### **Directors**

The Directors of PORTS during the six months ended 30 June 2004 were:

#### **Executive Directors**

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

#### **Non-Executive Directors**

Mr. Kunnasagaran Chinniah  
Ms. Janine Tran Chanh Lien

#### **Independent Non-Executive Directors**

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

## Directors' and Chief Executives' Interests and Short Positions

As at 30 June 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\$0.01 each ("Shares")

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

#### Notes:

- 872,819 shares are owned by Ports International Enterprise Limited ("PIEL"), the issued share capital of which is owned as to 50% by Mr. Tan and Mr. Chan. 61,900,000 Shares was owned by CFS International Inc., a subsidiary of PIEL. Mr. Tan and Mr. Chan are deemed to be interested in 46.22% of the issued share capital of the Company by virtue of their respective interests in PIEL pursuant to Part XV of the SFO

### (ii) Share Options in the Company

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

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or Chief Executive of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) were required to be notified to the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for

Securities Transactions by Directors of Listed Companies or which are required pursuant to section 352 of the SFO to be entered in the register referred to therein.

Details of the share options outstanding as at 30 June 2004 under the Scheme were as follows:

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

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

Fraction of the shares covered under the option	Vesting date
1/3	First anniversary of the offer date
1/3	Second anniversary of the offer date
1/3	Third anniversary of the offer date

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

## Substantial Shareholders

As at 30 June 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 the issued share capital
CFS International Inc.	Ordinary	Beneficial Owner	61,900,000	61,900,000	45.58%
Ports International Enterprises Limited	Ordinary	Beneficial Owner	872,819	62,772,819	46.22%
		Interest of Controlled Corporation	61,900,000		
Tetrad Ventures Pte. Limited	Ordinary	Beneficial Owner	12,727,181	12,727,181	9.37%
GIC Special Investments Pte. Ltd.	Ordinary	Interest of Controlled Corporation	12,727,181	12,727,181	9.37%
Government of Singapore Investment Corp. Pte. Ltd.	Ordinary	Interest of Controlled Corporation	12,727,181	12,727,181	9.37%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.	Ordinary	Interest of Controlled Corporation	12,727,181	12,727,181	9.37%
Minister for Finance (Incorporated), Singapore	Ordinary	Interest of Controlled Corporation	12,727,181	12,727,181	9.37%
Baring Asset Management	Ordinary	Investment Manager	6,870,000	6,870,000	5.06%

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

Save as disclosed above, the register required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2004.

### **Directors' Interests in Contracts of Significance**

There were no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, at the end of the period ended 30 June 2004.

### **Purchase, Sale or Redemption of Group's Listed Securities**

During the six months ended 30 June 2004, the Company has not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

### **Pre-emptive Rights**

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

### **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.

### **Pledging of shares by controlling shareholders**

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

### **Corporate Governance**

None of the Directors is aware of any information that would reasonably indicate that the Company is not in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited ("the Listing Rules").

The Company has adopted the Model Code for securities transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific inquiry of all Directors regarding non-compliance with the Model Code for the period ended 30 June 2004, and they have all confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' security transactions.

## **Audit Committee**

The Audit Committee, which comprises two independent non-executive directors, has reviewed the interim financial report of the Company and the auditors' independent review report for the six months ended 30 June 2004 and submitted its views to the Board of Directors. The Audit Committee has also endorsed the accounting treatment adopted by the Company.

The Company will have appointed a minimum of three independent non-executive directors to the Audit Committee by 30 September 2004, at least one of whom will have appropriate professional qualifications or accounting or related financial management expertise.

## **Statement of Sufficiency of Public Interest**

As at 25 August 2004, based on the information publicly available to the Company and within the knowledge of the Directors, 44.41% of the Shares were publicly held.



On Behalf of the Board  
**Edward Tan Han Kiat**  
*Chairman*

25 August 2004  
Xiamen, China

## LISTING INFORMATION

### Share Listing

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

### Stock Code

The Stock Exchange of Hong Kong Limited: 589

Bloomberg: 589 HK

Reuters: 0589.HK

### Price History

	High (HK\$)	Low (HK\$)
<b>Jan</b>	14.90	13.60
<b>Feb</b>	16.80	13.60
<b>March</b>	16.20	13.75
<b>April</b>	16.10	14.00
<b>May</b>	15.80	14.10
<b>June</b>	15.75	14.80

### Board of Directors

Edward Tan Han Kiat\*, *Chairman*

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

Pierre Frank Bourque\*, *Executive Vice President*

Janine Tran, *Non-executive Director*

Kunnasagaran Chinniah, *Non-executive Director*

Rodney Ray Cone, *Independent Non-executive Director*

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

Lara Magno Lai, *Independent Non-executive Director*

\* *Executive Director*

### Company Secretary

Irene Wong Fung Mei

### Registered Office

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

## **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

## **Principal Place of Business in Hong Kong**

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

## **Auditors**

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

## **Corporate Counsel**

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

## **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  
17<sup>th</sup> Floor, Hopewell Center  
183 Queen's Road East  
Hong Kong