

### **3. CHAIRMAN'S STATEMENT**

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

#### **3.1 Highlights from 2003**

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

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

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

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

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

### **3.2 A look forward to 2004 and beyond**

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

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

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

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

### **3.3 Investor Relations & Corporate Governance**

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

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

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



**Edward Tan Han Kiat**  
*Chairman*

30 March 2004  
Xiamen, China