

6. REPORT OF THE DIRECTORS

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

6.1 Principal Activities

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

6.2 Major Customers & Suppliers

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

6.3 Financial Results & Appropriations

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

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

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

6.4 Transfer to Reserves

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

6.5 Group Financial Summary

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

6.6 Share Capital

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

6.7 Fixed Assets

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

6.8 Directors

The Directors of PORTS during the year were:

6.8.1 Executive Directors

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

6.8.2 Non-Executive Directors

Mr. Kunnasagaran Chinniah
Ms. Janine Tran Chanh Lien

6.8.3 Independent Non-Executive Directors

Mr. Rodney Ray Cone
Ms. Valarie Fong Wei Lynn

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

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

6.9 Directors' Service Contracts

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

6.10 Directors' and Chief Executives' Interests and Short Positions

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

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

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

Notes:

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

(ii) Share Options in the Company

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

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

6.11 Share Option Scheme

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

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

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

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

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

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

Fraction of the shares covered under the option

1/3
1/3
1/3

Vesting date

First anniversary of the offer date
Second anniversary of the offer date
Third anniversary of the offer date

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

6.12 Substantial Shareholders

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

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

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

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

6.13 Directors' Interest in Contracts of Significance

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

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

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

6.15 Pre-emptive Rights

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

6.16 Properties

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

6.17 Retirement Scheme

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

6.18 Continuing Connected Transactions

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

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

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

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

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

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

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

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

6.19 Pledging of shares by controlling shareholders

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

6.20 Compliance with the Code of Best Practices

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

6.21 Corporate Governance

Principal corporate governance practices are outlined in page 17.

6.22 Use of Proceeds

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

6.23 Auditors

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

6.24 Statement of Sufficiency of Public Interest

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



On Behalf of the Board
Edward Tan Han Kiat
Chairman

30 March 2004
Xiamen, China