15. NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

1. Reorganisation

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

2. Basis of presentation

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

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

3. Significant accounting policies

(a) Statement of compliance

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

(b) Basis of preparation

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

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

(c) Basis of consolidation

i) Subsidiaries

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

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

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

(d) Lease prepayments

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

(e) Property, plant and equipment

(i) Owned assets

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

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

(ii) Leased assets

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

(iii) Subsequent expenditure

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

(iv) Depreciation

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

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

(v) Disposals

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

(f) Inventories

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

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

(g) Trade and other receivables

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

(h) Cash and cash equivalents

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

(i) Impairment

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

(j) Intangible asset

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

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

(k) Interest-bearing borrowings

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

(l) Employee benefits

(i) Defined contribution plan

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

(ii) Mandatory Provident Funds

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

(iii) Share option

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

(m) Trade and other payables

Trade and other payables are stated at their cost.

(n) Provisions

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

(o) Revenue

(i) Sales of goods

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

(ii) Services rendered

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

(p) Expenses

(i) Operating lease payments

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

(ii) Net financing costs

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

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

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

(q) Income tax

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

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

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

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

(r) Foreign currency transactions

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

(s) Related parties

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

(t) Dividends

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

(u) Segment reporting

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

4. Turnover

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

5. Segment information

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

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

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

Business segments

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

Geographical segments

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

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

5.1 Business segments

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

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

5.2 Geographical segments

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

6. Other operating income

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

7. Other operating expenses

	2003	*2002*
Stock provision	21,165,556	16,350,110
Amortisation of intangible asset	645,660	645,660
	21,811,216	16,995,770

8. Personnel expenses

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

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

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

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

9. Profit from ordinary activities before taxation

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

(i) Net financing costs

	2003	*2002*
Interest income	(543,156)	(415,312)
Interest expense on bank advances repayable within five years	1,771,347	3,918,507
Bank charges	1,578,459	1,101,579
Net foreign exchange loss	437,275	125,952
Net financing costs	3,243,925	4,730,726

(ii) Other items

	2003	*2002*
Auditors' remuneration	900,000	505,400
Depreciation		
- owned fixed assets	14,118,615	10,398,042
- leased fixed assets	271,770	271,770
Amortisation		
- lease prepayment for land	254,365	209,542
- intangible assets	645,660	645,660
Operating leases charges in respect of properties		
- minimum lease payments	27,513,162	23,749,364
- contingent rents	71,165,440	59,435,468

10. Income tax expense

(i) Income tax expense represents:

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

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

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

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

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

(iii) Taxation in the consolidated balance sheet represents:

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

11. Profit attributable to shareholders

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

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

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

12. Dividends attributable to the year

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

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

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

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

13. Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

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

(c) Reconciliation

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

14. Directors' emoluments

Details of directors' emoluments are as follows:

	2003	*2002*
Fees	-	-
Basic salaries, housing benefits, other allowances and benefits in kind	1,191,850	850,000
Contributions to retirement benefit scheme	-	-
	1,191,850	850,000

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

	2003	*2002*
RMB Nil – RMB1,000,000	7	3

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

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

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

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

15. Senior management's emoluments

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

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

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

	2003	*2002*
RMB Nil – RMB1,000,000	4	5

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

16. Related party transactions

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

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

(a) Recurring

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

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

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

(b) Non-recurring

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

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

17. Lease prepayments

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

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

18. Property, plant and equipment

	Buildings	Plant and machinery	Fixtures, fitting and other fixed assets	Construction in progress	Total
Cost					
Balance at 1 January 2002	16,869,106	12,768,328	26,820,495	4,470,501	60,928,430
Acquisitions	-	1,255,470	11,314,903	18,103,014	30,673,387
Transfer from construction in progress	10,235,448	-	4,608,561	(14,844,009)	-
Disposals	(2,080,189)	-	(6,604,891)	-	(8,685,080)
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 31 December 2003	35,368,951	17,961,445	50,226,740	1,326,084	104,883,220
Depreciation					
Balance at 1 January 2002	3,050,867	6,572,585	12,329,370	-	21,952,822
Depreciation charge for year	1,129,737	1,097,996	8,442,079	-	10,669,812
Disposals	(1,058,821)	-	(6,594,437)	-	(7,653,258)
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 31 December 2003	4,585,045	8,698,351	21,901,052	-	35,184,448
Net book value					
At 31 December 2003	30,783,906	9,263,094	28,325,688	1,326,084	69,698,772
At 31 December 2002	21,902,582	6,353,217	21,962,056	7,729,506	57,947,361

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

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

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

19. Intangible assets

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

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

20. Deferred tax assets

Deferred tax assets are attributable to the following:

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

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

21. Inventories

Inventories represent:

	2003	*2002*
Raw materials	43,683,505	32,968,466
Work in progress	10,300,709	9,378,442
Finished goods	129,008,372	115,517,089
Goods in transit	1,823,119	2,410,860
	184,815,705	160,274,857
Inventories stated at net realisable value	60,916,809	42,246,320

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

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

22. Accounts receivable

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

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

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

23. Amounts due from/to related companies

(a) The Group

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

(b) The Company

	2003	*2002*
Amounts due to		
PIHK Limited	(506,508)	-
	(506,508)	-

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

24. Cash and cash equivalents

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

(a) The Group

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

(b) The Company

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

25. Interest-bearing loans and borrowings

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

	2003	*2002*
Current liabilities		
Unsecured bank loans	-	61,331,900
	-	61,331,900

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

26. Accounts payable

An ageing analysis of accounts payable is as follows:

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

27. Share capital

	2003 HK$	2002 HK$
Authorised:		
900,000,000 ordinary shares of HK$0.01 each	9,000,000	9,000,000

Issued and fully paid:

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

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

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

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

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

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

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

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

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

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

Share options

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

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

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

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

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

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

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

28. Reserves

(a) The Group

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

(i) Capital reserve

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

(ii) Share premium

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

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

(iii) PRC statutory reserves

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

(i) General reserve fund

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

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

(ii) Enterprise expansion fund

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

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

(b) The Company

	Share premium	Contributed surplus	Retained earnings	Total
Balance at 1 January 2002	-	-	-	-
Arising on acquisition of PAHL and applied in payment of 10,000,000 share allotted nil paid on incorporation	-	151,259,151	-	151,259,151
Balance at 31 December 2002	-	151,259,151	-	151,259,151
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	315,414,137	151,259,151	12,034	466,685,322

(i) Share premium

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

(ii) Contributed surplus

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

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

(iii) Distributable reserves

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

29. Investments in subsidiaries

	2003	*2002*
Unlisted shares, at cost	152,379,654	152,378,826

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

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

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

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

Notes:

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

30. Financial instruments

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

(a) Credit risk

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

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

(b) Interest rate risk

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

(c) Foreign currency risk

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

(d) Fair value

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

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

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

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

(ii) *Bank loans*

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

31. Operating leases commitments

Non-cancellable operating lease rentals are payable as follows:

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

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

32. Capital commitments

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

	2003	*2002*
Contracted for	-	-
Authorised but not contracted for	120,000,000	46,800,000
	120,000,000	46,800,000

33. Subsequent events

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

34. Ultimate holding company

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