

## **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