

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.

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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>

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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>
(i) Net finance (income)/costs		
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>
(ii) Other items		
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>

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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.

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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>

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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.

Name of party	Relationship
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>
Sales of goods to:		
PIHK Limited	-	1,362,635
Purchase of goods and fixed assets from:		
CFS International Incorporated	-	80,904
PIHK Limited	-	2,958,387
Expenditure paid on the Group's behalf by:		
PIHK Limited	-	1,676,793
CFS International Incorporated	-	139,283
Expenditure paid on behalf of:		
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.

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8. Property, plant and equipment

	2004	2003 <i>(Audited)</i>
Cost		
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>
Depreciation		
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>
Net book value		
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>

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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>
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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>

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Share options

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

Date of options granted	Exercise Price per share	Period during which options exercisable	Number of options outstanding at 30 June 2004
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.

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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>