

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 2004.

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 the PRC and more recently in Hong Kong, under the brand name PORTS INTERNATIONAL and BMW Lifestyle. The Group is one of the leading international fashion companies in the PRC with 299 PORTS INTERNATIONAL and BMW Lifestyle retail outlets as at 31 December 2004.

6.2 Major Customers & Suppliers

An overview of the Group’s major customers and suppliers is set out on page 13.

6.3 Financial Results & Appropriations

The results of the Group for FY2004 are set out in the consolidated profit and loss account on page 34.

An interim dividend of RMB21.7 million was paid to shareholders during FY2004. The Board recommends the payment of a final dividend of RMB0.0875 per share, amounting to approximately RMB47.534 million to be paid to shareholders on the register of members (pending shareholders approval at the forthcoming annual general meeting). This final dividend, together with the interim dividend payment, amounts to approximately RMB69.263 million. The remaining profits for FY2004 were retained by the Group.

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 Company, upon payment of this final dividend, will be solvent and able to meet all of its obligations as they become due.

6.4 Transfer to Reserves

The Group transferred approximately RMB12.2 million from its profit attributable to shareholders before dividends to its reserves in FY2004, compared with RMB5.4 million in FY2003. Details of transfers to reserves are outlined on pages 68 to 69.

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 Company are set out on pages 65.

6.7 Fixed Assets

During FY2004, the Group acquired fixed assets of approximately RMB42.0 million, compared with RMB26.2 million in 2003. Details of fixed asset acquisitions are outlined on page 60.

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 Chanh Lien Tran

6.8.3 Independent Non-Executive Directors

Mr. Rodney Ray Cone
Ms. Valarie Fong Wei Lynn
Ms. Lara Magno Lai

Pursuant to bye-law 99 of the bye-laws of the Company, Edward Han Kiat Tan, Alfred Kai Tai Chan, Pierre Frank Bourque, Kunnasagaran Chinniah, Rodney Ray Cone, Valarie Wei Lynn Fong and Lara Magno Lai shall retire by rotation in the forthcoming annual general meeting and all, being eligible, offer themselves for re-election. Ms Janine Chanh Lien Tran will retire at the forthcoming annual general meeting but will not be seeking re-election

The Company has received from each of its independent non-executive Directors an annual confirmation of his or her independence and the Company still considers all its independent non-executive Directors to be independent

A brief biography of each Director and each member of senior management of the Company can be found on pages 29 to 31.

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 determinable 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 2004, 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\$0.0025 each ("Shares")

	Personal Interest	Corporate Interest	Family Interest	Other interest	Total interest
Mr. Edward Han Kiat Tan ¹	0	251,091,276	0	0	251,091,276
Mr. Alfred Kai Tai Chan ¹	0	251,091,276	0	0	251,091,276
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
Ms. Lara Magno Lai	0	0	0	0	0

Note: 3,491,276 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. 247,600,000 Shares are owned 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, during FY2004 no interests and short positions were held or deemed 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) which 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 were required pursuant to section 352 of the SFO to be entered in the register referred to therein.

6.11 Share Options 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. Chan, Kai Tai Alfred and Mr. Tan, Han Kiat Edward 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 23 March 2005, the maximum number of Shares available for issue under the Scheme was 40,324,000 representing approximately 7.4% of the issued share capital of the Company.
4. Unless otherwise approved 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 the 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. The period for exercise 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 2004 under the Scheme were as follows:

	Options held at 1/1/2004	Options granted during the period	Options exercised during the period	Options lapsed during the period	Exercise Price per option (HK\$)	Grant Date	Exercisable from	Exercisable until
Mr. Edward Han Kiat Tan	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Alfred Kai Tai Chan	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Pierre Frank Bourque	45,000	0	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	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Rodney Ray Cone	15,000	0	0	0	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013
Ms. Valarie Fong	15,000	0	0	0	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013
Ms. Lara Lai	0	0	0	0	10.50	N/A	N/A	N/A
Continuous contract employees	3,425,000	0	0	14,800	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013

Notes: On and subject to the terms of the Share Option Scheme (terms and conditions contained in this letter shall prevail in case of any inconsistencies), 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 of Directors may in its absolute discretion relax or accelerate all or any of the above vesting periods in such manner as it may deem fit. The exercise price for each share is HK\$2.625 (after adjustment for the effect of share split during the year).

6.12 Substantial Shareholders

As at 31 December 2004, 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 recorded 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 issued share capital
CFS International Inc.	Ordinary	Beneficial Owner	247,600,000	247,600,000	45.58%
Ports International Enterprises Limited	Ordinary	Beneficial Owner	3,491,276	251,091,276	46.22%
		Interest of Controlled Corporation	247,600,000		
Tetrad Ventures Pte. Limited	Ordinary	Beneficial Owner	52,908,724	52,908,724	9.74%
GIC Special Investments Pte. Ltd.	Ordinary	Interest of Controlled Corporation	32,620,724	32,620,724	6.00%
Government of Singapore Investment Corp. Pte. Ltd.	Ordinary	Interest of Controlled Corporation	52,908,724	52,908,724	9.74%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.	Ordinary	Interest of Controlled Corporation	52,908,724	52,908,724	9.74%
Minister for Finance (Incorporated), Singapore	Ordinary	Interest of Controlled Corporation	52,908,724	52,908,724	9.74%
Arisaig Greater China Fund Limited	Ordinary	Beneficial Owner	42,556,000	42,556,000	7.83%
Arisaig Partners (Mauritius) Limited	Ordinary	Investment Manager	42,556,000	42,556,000	7.83%
Baring Asset Management	Ordinary	Investment manager	33,358,000	33,358,000	6.14%

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 2004.

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, during FY2004.

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

During FY2004, the Company did not redeem, and neither the Company nor any of its subsidiaries 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 on page 60.

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 resells them in Europe and North America. These transactions constitute "Continuing Connected Transactions" for the purpose of the Listing Rules. 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. During FY2004, the Group's total sales to PIRC was RMB5,681,190, representing approximately 0.84% of the Group's then consolidated net tangible assets.

The independent non-executive Directors of the Company have reviewed the Continuing Connected Transactions made during FY2004 and have 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 2004 had been approved by the Directors of the Company;
- (b) nothing came to their attention that caused them to believe that the Connected Transactions entered into between the Group and its connected parties during the year ended 31 December 2004 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 their attention that caused them 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 2004.

Details of the transactions between the Group and any related parties can be found on pages 57 to 58.

6.19 Pledging of shares by controlling shareholders

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

6.20 Corporate Governance

The Group's principal corporate governance practices are outlined on pages 15 to 19.

6.21 Use of Proceeds

There has been no change to the proposed application of proceeds raised from the IPO on 31 October 2003.

6.22 Auditors

A resolution for the re-appointment of KPMG as auditors of the Group is to be proposed at the upcoming annual general meeting.

6.23 Statement of Sufficiency of Public Interest

As at 23 March 2005, based on the information publicly available to the Company and within the knowledge of the Directors, 44.04% of the Shares were publicly held.



On Behalf of the Board
Edward Tan Han Kiat
Chairman

23 March 2005
Xiamen, China