

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan)

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34 “Interim financial reporting” adopted by the International Accounting Standards Board (“IASB”).

The interim financial report have been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s independent review report to the Board of Directors is included on page 15.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information does not constitute the Group’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2004 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2005.

2. Changes in accounting policies

The IASB has issued a number of new and revised International Financial Reporting Standards (IFRSs, which term collectively includes IASs and Interpretation) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group’s annual financial statements for the year ending 31 December 2005, on the basis of IFRSs currently in issue.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes promulgated by the IASB subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group’s financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

(a) *Employee share option scheme (IFRS 2 “Share-based payment”)*

In prior years, no amounts were recognized when employees (which term includes directors) were granted share options over shares in the company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option’s exercise price receivable.

With effect from 1 January 2005, in order to comply with IFRS 2, the Group recognizes the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group’s accounting policies. A corresponding increase is recognized in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognizes the fair value of the options granted over the vesting period. Otherwise, the Group recognizes the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with IFRS 2, except that the group has taken advantage of the transitional provisions set out in paragraph 53 of IFRS 2 under which the new recognition and measurement policies have not been applied to all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As a result of the adoption of this new accounting policy retrospectively, the opening balance of retained earnings as of 1 January 2005 has decreased by RMB4,162,988 (1 January 2004: RMB577,921), and the capital reserve as of that dates have increased by the corresponding amounts.

The amount charged to the consolidated income statement as a result of the change of policy increased cost of sales, distribution expenses and administrative expenses for the six months ended 30 June 2005 by RMB372,318, RMB53,188 and RMB1,347,437 respectively (2004: RMB374,375, RMB53,482 and RMB1,354,881 respectively), with the corresponding amounts credited to the capital reserve.

Details of the employee share option scheme can be found in the Company’s annual report for the year ended 31 December 2004 and note 14 on this interim report.

(b) *Related party disclosures (IAS 24 “Related party disclosure”)*

With effect from 1 January 2005, in order to comply with IAS 24, the Group has made further disclosure of key management personnel compensation, contribution to post-retirement benefit and share-based payment. The disclosure of such related party transactions in Note 8 for the comparative period has been made accordingly.

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3. 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.

Business segments

	<i>Six months ended 30 June</i>	
	<i>2005</i>	<i>2004</i>
		<i>(restated)</i>
Turnover		
Retail	283,894,090	222,524,418
OEM	72,673,144	62,100,851
Unallocated	<u>26,584,301</u>	<u>6,932,751</u>
Total	<u>383,151,535</u>	<u>291,558,020</u>
Segment result		
Retail	72,939,096	55,434,468
OEM	<u>6,614,262</u>	<u>5,176,654</u>
Total	79,553,358	60,611,122
Unallocated operating income and expenses	<u>(8,999,436)</u>	<u>(11,090,954)</u>
Profit from operations	70,553,922	49,520,168
Net finance (costs)/income	(1,981,678)	1,026,006
Income tax	<u>(1,977,029)</u>	<u>(7,092,054)</u>
Profit attributable to shareholders	<u>66,595,215</u>	<u>43,454,120</u>

Geographical segments

Turnover		
the PRC	278,068,440	217,074,633
North America	81,072,104	63,645,413
Europe	18,185,341	5,388,189
Hong Kong	<u>5,825,650</u>	<u>5,449,785</u>
Total	<u>383,151,535</u>	<u>291,558,020</u>

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4. 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>2005</i>	<i>2004</i>
(i) Net finance costs/(income)		
Interest income	(3,753,469)	(1,755,346)
Interest expense on bank advances repayable		
within five years	120,679	-
Bank charges	708,294	746,715
Net foreign exchange loss/(gain)	<u>4,906,174</u>	<u>(17,375)</u>
Net finance costs/(income)	<u>1,981,678</u>	<u>(1,026,006)</u>
(ii) Other items		
Loss on disposal of property, plant and equipment	-	368,976
Depreciation		
- owned fixed assets	13,075,460	8,416,089
- leased fixed assets	135,885	135,885
Amortisation		
- lease prepayments for land	86,365	127,190
- intangible assets	322,830	322,830
Operating leases charges in respect of properties		
- minimum lease payments	18,025,381	16,036,760
- contingent rents	<u>55,983,095</u>	<u>42,083,577</u>

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5. Income tax expense

Income tax expense represents:

	<i>Six months ended 30 June</i>	
	<i>2005</i>	<i>2004</i>
Current period expense	10,681,275	8,879,355
Under/(over) provision in prior periods	154,570	(276,093)
Income tax refund	<u>(7,010,682)</u>	<u>-</u>
	3,825,163	8,603,262
Changes in deferred taxes	<u>(1,848,134)</u>	<u>(1,511,208)</u>
	<u>1,977,029</u>	<u>7,092,054</u>

The Company and certain subsidiaries located in foreign jurisdictions are not subject to any income tax in their local jurisdictions.

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 2005 and 2004.

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.

Pursuant to the income tax rules and regulations of the PRC, certain subsidiaries located in the PRC ("PRC subsidiaries") are entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, they are subject to PRC Enterprise income tax at 50% of the applicable income tax rate for the following three years.

The Group was granted tax refund of RMB 7,010,682 during the six months ended 30 June 2005 (30 June 2004: RMB Nil), pursuant to the relevant PRC tax law and regulations applicable to re-investment of profits earned.

6. Dividends

(a) Dividends attributable to the period

	<i>Six months ended 30 June</i>	
	<i>2005</i>	<i>2004</i>
Interim dividend proposed after the balance sheet date of RMB 0.075 per share (2004:RMB0.16 per share)	<u>40,744,489</u>	<u>21,729,600</u>

The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. The calculation of proposed interim dividend per share is based on 543,259,856 ordinary shares in issue as at 30 June 2005 (2004:135,810,000).

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(b) Dividends attributable to the previous financial year and approved during the period

	<i>Six months ended 30 June</i>	
	2005	2004
Final dividend in respect of the financial year ended 31 December 2004 and approved during the period, of RMB 0.0875 per share (year ended 31 December 2003: RMB0.23 per share)	<u>47,533,797</u>	<u>31,236,300</u>

7. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2005 is based on the profit attributable to ordinary shareholders of RMB66,595,215 (2004 (restated): RMB43,454,120) and the weighted average number of ordinary shares of 543,242,833 (2004: 543,240,000, after adjusting for the share split effected in November 2004 (note 14)) during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2005 is based on the profit attributable to ordinary shareholders of RMB66,595,215 (2004 (restated): RMB43,454,120) and the weighted average number of ordinary shares of 549,115,773 (2004 (restated): 545,084,816 , after adjusting for the share split effected in November 2004 (note 14)).

(c) Reconciliation

	<i>Six months ended 30 June</i>	
	2005	2004
	<i>Number of shares</i>	<i>Number of shares</i> <i>(restated)</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	543,242,833	543,240,000
Deemed issue of ordinary shares for no consideration	<u>5,872,940</u>	<u>1,844,816</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>549,115,773</u>	<u>545,084,816</u>

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8. Related party transactions

- (a) Transactions with a fellow subsidiary company

During the period, the Group entered into the following transactions with Ports International Retail Corporation, a fellow subsidiary company.

	<i>Six months ended 30 June</i>	
	2005	2004
Sales of goods	<u>2,981,990</u>	<u>1,463,547</u>

- (b) Transactions with key management personnel

Key management personnel compensations and post-employment benefit plan for the period are as follows:

	<i>Six months ended 30 June</i>	
	2005	2004
Short-term employee benefits	661,444	600,278
Retirement scheme contributions	<u>-</u>	<u>-</u>

Key management personnel also participate in the Company's share option scheme. Details of the share option scheme can be found in the Company's annual report for the year ended 31 December 2004 and note 14 on this interim report.

9. Property, plant and equipment

	2005	2004 (Audited)
Cost:		
Balance at 1 January	136,968,487	104,883,220
Acquisitions for the period/year	32,249,041	42,027,215
Disposals for the period/year	<u>(2,447,075)</u>	<u>(9,941,948)</u>
Balance at 30 June/31 December	<u>166,770,453</u>	<u>136,968,487</u>
Depreciation:		
Balance at 1 January	46,208,640	35,184,448
Depreciation charge for the period/year	13,211,345	19,980,108
Disposals for the period/year	<u>(2,447,075)</u>	<u>(8,955,916)</u>
Balance at 30 June/31 December	<u>56,972,910</u>	<u>46,208,640</u>
Net book value:		
At 30 June/31 December	<u>109,797,543</u>	<u>90,759,847</u>

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10. Inventories

Inventories represent:

	<i>30 June 2005</i>	<i>31 December 2004</i> (Audited)
Raw materials	58,319,505	52,183,338
Work in progress	20,871,226	14,771,610
Finished goods	144,380,312	143,463,513
Goods in transit	<u>323,148</u>	<u>2,531,073</u>
	<u>223,894,191</u>	<u>212,949,534</u>
Inventories stated at net realisable value	<u>72,701,531</u>	<u>70,671,151</u>

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

	<i>Six months ended 30 June</i> <i>2005</i>	<i>2004</i> (restated)
Cost of sales	134,117,145	106,112,964
Stock provision	<u>14,272,201</u>	<u>11,976,765</u>
	<u>148,389,346</u>	<u>118,089,729</u>

11. Trade and other receivables, deposits and prepayments

	<i>30 June 2005</i>	<i>31 December 2004</i> (Audited)
Accounts receivable (note (i) below)	67,647,963	89,898,515
Bills receivable	2,115,822	7,896,468
Amount due from a related company (note 13)	898,038	1,922,238
Advances to suppliers	11,908,547	9,368,417
Other receivables, deposits and prepayments	<u>31,174,930</u>	<u>21,318,828</u>
	<u>113,745,300</u>	<u>130,404,466</u>

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

	<i>30 June 2005</i>	<i>31 December 2004</i> (Audited)
Invoice date:		
Within 1 month	52,132,699	77,929,060
Over 1 month but less than 3 months	13,665,230	11,439,416
Over 3 months but less than 6 months	748,063	435,089
Over 6 months but less than 12 months	<u>1,101,971</u>	<u>94,950</u>
	<u>67,647,963</u>	<u>89,898,515</u>

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

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12. Trade payables, other payables and accruals

	<i>30 June 2005</i>	<i>31 December 2004</i> (Audited)
Bills payable	1,479,523	405,052
Accounts payable (note (i) below)	41,245,080	60,637,010
Other creditors and accruals	<u>63,833,249</u>	<u>74,920,914</u>
	<u>106,557,852</u>	<u>135,962,976</u>

(i) An ageing analysis of accounts payable is as follows:

	<i>30 June 2005</i>	<i>31 December 2004</i> (Audited)
Within 1 month or on demand	21,576,982	32,888,958
Over 1 month but less than 3 months	14,559,438	19,206,908
Over 3 months but less than 6 months	4,523,143	7,864,089
Over 6 months but less than 12 months	<u>585,517</u>	<u>677,055</u>
	<u>41,245,080</u>	<u>60,637,010</u>

13. Amount due from a related company

	<i>30 June 2005</i>	<i>31 December 2004</i> (Audited)
Ports International Retail Corporation	<u>898,038</u>	<u>1,922,238</u>

The amount due from a related company is unsecured, interest free and has no fixed repayment terms. The balance arises from the related party transactions disclosed in note 8.

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14. Share capital

	<i>30 June 2005</i>		<i>31 December 2004</i>	
	<i>Number of shares</i>	<i>Amount HK\$</i>	<i>Number of shares</i>	<i>Amount HK\$ (Audited)</i>
Authorised:				
Ordinary shares of HK\$0.0025 each	<u>3,600,000,000</u>	<u>9,000,000</u>	<u>3,600,000,000</u>	<u>9,000,000</u>
	<u>3,600,000,000</u>	<u>9,000,000</u>	<u>3,600,000,000</u>	<u>9,000,000</u>
Issued and fully paid:				
At 1 January	543,240,000	1,358,100	135,810,000	1,358,100
Shares sub-division	-	-	407,430,000	-
Shares issued under share option scheme	<u>19,856</u>	<u>50</u>	-	-
At 30 June/31 December	<u>543,259,856</u>	<u>1,358,150</u>	<u>543,240,000</u>	<u>1,358,100</u>
		<i>RMB equivalent</i>		<i>RMB equivalent</i>
		<u>1,442,237</u>		<u>1,442,185</u>

Pursuant to an ordinary resolution passed at a special general meeting held on 15 November 2004, the Company subdivided every issued and unissued ordinary share of HK\$0.01 each in the capital of the Company into four ordinary shares of HK\$0.0025 each in the Company.

The Company adopted a share option scheme pursuant to the resolutions of the shareholders of the Company passed on 14 October 2003. On 3 November 2003, under the terms of the share option scheme, the Company granted 3,500,000 share options to certain employees and directors to subscribe for 3,500,000 ordinary shares at a price of HK\$ 10.50 per share. The options vest as to one-third on each of the first, second and third anniversary dates of the offer and are exercisable for a period commencing 3 November 2003 to 2 November 2013. As a result of the shares subdivision effected in November 2004, the share options were adjusted to enable employees and directors to subscribe for 14,000,000 ordinary shares at a price of HK\$2.625 per share.

As at 30 June 2005, the outstanding options were as follows:

<u>Date of options granted</u>	<u>Exercise price per share</u>	<u>Period during which options exercisable</u>	<u>Number of shares involved in the options outstanding at 30 June 2005</u>
3 November 2003	HK\$ 2.625	3 November 2003 to 2 November 2013	13,888,001

No option had been granted to the directors of the Company and employees of the Group during the six months ended 30 June 2005 (2004: nil). Share options involving a total number of 32,943 ordinary shares (2004: nil) previously granted to certain employees of the Company were cancelled during the period.

During the six month ended 30 June 2005, the employees of the Group exercised options relating to the one-third fraction which vested on 3 November 2004 to subscribe for 19,856 ordinary shares (2004: nil) of the Company. None of the directors of the Company exercised options during the period (2004: nil).

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Details of share options exercised during the six months ended 30 June 2005 are as follows:

<u>Grant date</u>	<u>Exercise price</u>	<u>Weighted average closing price per share of the share options exercised</u>	<u>Proceeds received</u>	<u>Number of shares involved in the options</u>
3 November 2003	HK\$ 2.625	HK\$ 5.36	HK\$ 52,122	19,856

15. 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 2005 and the consolidated balance sheet as at 30 June 2005 are translated from Renminbi Yuan at RMB 8.2765=US\$1.00, the rate ruling at 30 June 2005. The consolidated income statement for the six months ended 30 June 2004 and the consolidated balance sheet as at 31 December 2004 are translated from Renminbi Yuan at RMB8.2766= US\$1.00 and RMB8.2765=US\$1.00, the rates ruling at 30 June 2004 and 31 December 2004, 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.

16. Operating leases commitments

Non-cancellable operating lease rentals are payable as follows:

	<i>30 June 2005</i>	<i>31 December 2004</i> <i>(Audited)</i>
Less than one year	55,173,268	54,621,821
Between one and five years	39,747,344	49,732,624
More than five years	<u>244,989</u>	<u>-</u>
	<u>95,165,601</u>	<u>104,354,445</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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17. Capital commitments

Capital commitments outstanding at 31 December 2004 and 30 June 2005 but not provided for in the consolidated financial report were as follows:

	<i>30 June 2005</i>	<i>31 December 2004</i> <i>(Audited)</i>
Contracted for	12,312,356	11,866,208
Authorised but not contracted for	<u>73,000,000</u>	<u>98,000,000</u>
	<u>85,312,356</u>	<u>109,866,208</u>

18. Subsequent event

On 21 July 2005, the People's Bank of China announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of foreign currencies. Particularly, the exchange rate of US dollar against Renminbi was adjusted upward to 8.11 yuan per US dollar with effect from the time of 19:00 hour on 21 July 2005.

At 30 June 2005, the Group has the following significant cash and cash equivalents which are denominated in foreign currencies.

	<i>At 30 June 2005</i> Original currency Dr/(Cr)
Cash at bank	
- Euro	3,683,185
- Hong Kong dollars	3,275,652
- United States dollars	18,220,050

19. Ultimate holding company

The directors consider the ultimate holding company at 30 June 2005 to be CFS International Incorporated, which is incorporated in Canada.