

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

1. Significant accounting policies

Ports Design Limited ("the Company") is a company incorporated in Bermuda with limited liability. The consolidated financial statements for the year ended 31 December 2005 comprise the company and its subsidiaries (together referred to as the "Group").

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Boards ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the IASB. These financial statements also comply with the applicable 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. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised IFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

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

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Basis of consolidation

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. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances, 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, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

1. Significant accounting policies (continued)

(d) Leased assets

(i) Classification of leased assets

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 1(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

(iii) Operating leases charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the year in which they are incurred.

(iv) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's land bureau. Land use rights are carried at cost less accumulated amortization and impairment losses (see note 1(j)). Amortisation is provided to write off the cost of lease prepayment on a straight-line basis over the respective periods of the rights.

(e) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation (see below) and impairment losses (see note 1(j)).

The cost of self-constructed items of property, plant and equipment includes cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

1. Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

Construction in progress is stated at cost less impairment losses (see note 1(j)). Cost comprises direct costs of construction incurred during the period of construction and installation. The asset concerned is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the Group's policy.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost of inventories is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(g) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(j)), except where the receivables are interest-free advances made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(j)).

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(i) Intangible asset

The intangible asset acquired by the Group represents trademark use rights with finite useful lives. The intangible asset is stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 1(j)). Amortisation of intangible asset is charged to the income statement on a straight-line basis over the assets' estimated useful lives of 10 years from the date they are available for use.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

1. Significant accounting policies (continued)

(j) 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 p), 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 amortization, if no impairment loss had been recognised.

(k) Employee benefits

(i) Defined contribution retirement plans

Obligations for contributions to a defined contribution pension plan, including contributions to Mandatory Provident Fund 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.

(ii) Share-based payment

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving

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(Expressed in Renminbi Yuan)

1. Significant accounting policies (continued)

(k) Employee benefits (continued)

vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits). Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiary in the Company's balance sheet which is eliminated on consolidation.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in income statement as follows:

(i) Sales of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Services rendered

Revenue from services rendered is recognised when the service is rendered.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(o) Net finance 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, using the effective interest method.

All interests and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

1. Significant accounting policies (continued)

(p) Income tax

Income tax on the income statement 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.

(q) Foreign currency transactions

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

(r) Related parties

For the purposes of these financial statements, 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefits of employees of the Group or of any entity that is a related party of the Group.

(s) Dividends

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

(t) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

1. Significant accounting policies (continued)

(f) Segment reporting (continued)

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, tax balances, corporate and financing expenses.

2. Changes in accounting policies

The IASB has issued a number of new and revised IFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or the Company after the adoption of these new and revised IFRSs have been summarised in note 1. The Group has not applied any new standard or interpretation that is not yet effective to the current accounting period (see note 35).

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

(a) Related party disclosures (IAS 24 "Related party disclosure")

The definition of related parties under IAS 24 as disclosed in Note 15 has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or any entity this is a related party of the Group.

With effect from 1 January 2005, in order to comply with IAS 24, the Group has made further disclosure of key management personnel compensation and contributions to post-retirement benefit plans. The disclosure of such related party transactions in Note 15 for the comparative period has been made accordingly.

(b) Employee share option scheme (IFRS 2 "Share-based payment")

In prior years, no amounts were recognised 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. Details of the employee share option scheme are set out in note 27.

With effect from 1 January 2005, in order to comply with IFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 1(k)(ii).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

2. Changes in accounting policies (continued)

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 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.

The adjustments for each financial statement line affected for the years ended 31 December 2004 and 2005 are set out in notes (i) and (ii) below.

(i) Restatement of prior periods and opening balances resulting from the adoption of IFRS 2

During 2005, the Company and Group adopted IFRS 2 "share-based payment" as described as above. The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the IFRS 2 to each of the line items in the consolidated income statement and balance sheet and the Company's balance sheet and other significant related disclosure items as previously reported for the year ended 31 December 2004. The effects of the changes in accounting policies resulting from the adoption of IFRS 2 on the balances at 1 January 2004 and 2005 are disclosed in note 26.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

2. Changes in accounting policies (continued)

(i) Restatement of prior periods and opening balances resulting from the adoption of IFRS 2 (continued)

(1) Effect on the consolidated financial statements

Consolidated income statement for the year ended 31 December 2004

	2004 (as previously reported)	Effect of new policy (decrease in profit for the year)	2004 (as restated)
Turnover	714,150,093	-	714,150,093
Cost of sales	(278,008,426)	(752,864)	(278,761,290)
Gross profit	436,141,667	(752,864)	435,388,803
Other operating income	4,758,771	-	4,758,771
Distribution expenses	(243,844,679)	(107,552)	(243,952,231)
Administrative expenses	(26,456,997)	(2,724,651)	(29,181,648)
Other operating expenses	(24,463,218)	-	(24,463,218)
Profit from operations	146,135,544	(3,585,067)	142,550,477
Net finance income	3,375,077	-	3,375,077
Profit before taxation	149,510,621	(3,585,067)	145,925,554
Income tax	(12,397,293)	-	(12,397,293)
Profit for the year – attributable to equity shareholders of the Company	137,113,328	(3,585,067)	133,528,261
Earnings per share			
- Basic	0.25	-	0.25
- Diluted	0.25	(0.01)	0.24
Other significant disclosure items:			
Personnel expenses (note 7)	95,867,128	3,585,067	99,452,195
Costs of inventories (note 8(iii))	301,825,984	752,864	302,578,848

Consolidated balance sheet at 31 December 2004

The adoption of the new accounting policies under IFRS 2 has resulted in a decrease in retained earnings as of 31 December 2004 by RMB 4,162,988 (1 January 2004: RMB 577,921) and increase in capital reserve as of that dates by the corresponding amounts. Except for the above, the adoption of the new accounting policies under IFRS 2 had no effect on the consolidated balance sheet as at 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

2. Changes in accounting policies (continued)

(1) Restatement of prior periods and opening balances resulting from the adoption of IFRS 2 (continued)

(2) Effect on the Company's balance sheet

Balance sheet at 31 December 2004

	2004 (as previously reported)	Effect of new policy (increase/ (decrease) in net assets)	2004 (as restated)
Non-current assets			
Investment in subsidiaries	152,387,931	4,079,728	156,467,659
	152,387,931	4,079,728	156,467,659
Net current assets	316,582,578	-	316,582,578
Net assets	468,970,509	4,079,728	473,050,237
Capital and reserves			
Share capital	1,442,185	-	1,442,185
Share premium	315,414,137	-	315,414,137
Contributed surplus	151,259,151	-	151,259,151
Capital reserve – staff share options issued (undistributable)	-	4,162,988	4,162,988
Retained earnings	855,036	(83,260)	771,776
	468,970,509	4,079,728	473,050,237

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

2. Changes in accounting policies (continued)

(ii) Estimated effect of changes in accounting policies resulting from the adoption of IFRS 2 on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and the Company's balance sheet and other significant related disclosure items for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year.

(1) Effect on the consolidated financial statements

Estimated effect on the consolidated income statement for the year ended 31 December 2005:

	Effect of new policy (decrease in profit for the year)
Cost of sales	(675,715)
Gross profit	(675,715)
Distribution expenses	(96,531)
Administrative expenses	(2,445,447)
Profit for the year-attributable to equity shareholders of the Company	(3,217,693)

Estimated effect on the consolidated balance sheet at 31 December 2005:

The adoption of the new accounting policies under IFRS 2 has resulted in an increase in capital reserve and share premium as of 31 December 2005 by RMB 6,817,880 and RMB 562,801 respectively and decrease in retained earnings as of that date by RMB 7,380,681.

(2) Effect of the Company's balance sheet

Estimated effect on the balance sheet at 31 December 2005:

	Effect of new policy (increase)/(decrease) in net assets)
Non-current assets	
Investment in subsidiaries	7,233,067
	<u>7,233,067</u>
Net current assets	-
Net assets	7,233,067
Capital and reserves	
Share capital	-
Share premium	562,801
Contributed surplus	-
Capital reserve – staff share options issued (undistributable)	6,817,880
Retained earnings	(147,614)
	<u>7,233,067</u>

NOTES TO THE FINANCIAL STATEMENTS

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3. Turnover

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

4. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

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

	2005	2004 <i>(restated)</i>
Turnover:		
Retail	643,548,850	491,639,236
OEM	156,952,680	157,234,803
Unallocated	51,224,459	65,276,054
Total	851,725,989	714,150,093
	2005	2004 <i>(restated)</i>
Segment result:		
Retail	187,495,254	121,294,161
OEM	14,826,748	16,557,638
Total	202,322,002	137,851,799
Unallocated operating income and expenses	(16,357,338)	4,698,678
Profit from operations	185,964,664	142,550,477
Net finance (costs)/income	(4,726,416)	3,375,077
Income tax	(16,178,291)	(12,397,293)
Profit for the year	165,059,957	133,528,261

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4. Segment reporting (continued)

	2005	2004
Depreciation and amortization:		
Retail	26,438,238	19,778,019
OEM	-	-
Unallocated	2,017,860	1,095,313
Total	28,456,098	20,873,332
Capital expenditure incurred:		
Retail	70,721,994	39,723,088
OEM	-	-
Unallocated	5,397,753	2,303,927
Total	76,119,747	42,027,015
Segment assets:		
Retail	458,316,017	383,816,651
OEM	22,753,320	24,013,255
Total	481,069,337	407,829,906
Unallocated assets	431,484,783	414,957,596
Total assets	912,554,120	822,787,502
Segment liabilities:		
Retail	114,703,805	112,680,268
OEM	16,031,196	23,282,737
Total	130,735,001	135,963,005
Unallocated liabilities	21,564,836	10,050,582
Total liabilities	152,299,837	146,013,587

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4. Segment reporting (continued)

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.

Turnover:	2005	2004
the PRC	636,982,918	502,348,520
North America	162,585,370	163,040,206
Hong Kong	13,431,616	12,329,965
Europe	38,726,085	36,431,402
Total	851,725,989	714,150,093

Segment assets:

the PRC	794,464,764	614,156,803
North America	21,473,881	14,825,256
Hong Kong	84,959,788	166,348,016
Europe	11,655,687	27,457,427
Total	912,554,120	822,787,502

Capital expenditure incurred:

the PRC	69,902,248	40,492,360
Hong Kong	6,217,499	1,534,655
Total	76,119,747	42,027,015

5. Other operating income

	2005	2004
Liaison service income	256,965	265,735
Royalty income	2,740,000	2,134,700
Design and decoration income	4,171,175	1,100,409
Insurance compensation	1,231,337	251,228
Others	3,022,337	1,006,699
	11,421,814	4,758,771

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6. Other operating expenses

	2005	2004
Stock provision	27,520,349	23,817,558
Amortisation of intangible asset	538,050	645,660
	28,058,399	24,463,218

7. Personnel expenses

	2005	2004 (restated)
Wages, salaries and staff benefits	101,782,371	93,366,039
Contributions to defined contribution retirement plan	2,769,384	2,501,089
Equity-settled share-based payment expense	3,217,693	3,585,067
	107,769,448	99,452,195

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% (2004: 14%) 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.

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8. Profit before taxation

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

	2005	2004
(i) Net finance cost/(income)		
Interest income	(6,771,395)	(3,874,311)
Interest expense on bank advances repayable		
within five years	120,679	-
Bank charges	1,216,741	1,498,653
Net foreign exchange loss/(gain)	10,160,391	(999,419)
Net finance cost/(income)	4,726,416	(3,375,077)
	2005	2004
		<i>(restated)</i>

(ii) Other items

Cost of inventories# (note 20)	323,359,399	302,578,848
Auditors' remuneration - audit services	1,636,418	1,754,966
Depreciation#		
- owned fixed assets	27,473,548	19,708,338
- leased fixed assets	271,770	271,770
Amortisation#		
- lease prepayments	172,730	247,564
- intangible assets	538,050	645,660
Operating leases charges in respect of properties		
- minimum lease payments	42,042,767	38,364,773
- contingent rents	124,615,235	89,813,282

#Cost of inventories includes RMB55,469,965 (2004: RMB42,893,975) relating to personnel expenses, depreciation and amortization expenses, which amount is also included in the respective total amounts disclosed separately above or in note 7 for each type of these expenses.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

9. Income tax expense

(i) Income tax expense represents:

	2005	2004
Current year expense	25,702,904	20,181,188
Under/(over) provision in prior years	154,570	(270,829)
Income tax refund	(7,010,682)	(5,016,960)
	18,846,792	14,893,399
Changes in deferred taxes	(2,668,501)	(2,496,106)
	16,178,291	12,397,293

Pursuant to the rules and regulations of Bermuda, the Company is not subject to any income tax in Bermuda. Also, certain subsidiaries located in foreign jurisdictions are not subject to any income tax in their local jurisdictions.

Provision for Hong Kong Profits tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits of a subsidiary in Hong Kong. No provision for Hong Kong Profits tax has been made during the year ended 31 December 2005 as that subsidiary did not earn any assessable income for Hong Kong Profits tax purposes.

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 a tax refund of RMB7,010,682 during the year ended 31 December 2005 (2004: RMB5,016,960), 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 Group's PRC applicable tax rate with income tax expense.

	2005	2004 (restated)
Profit from ordinary activities before taxation	181,238,248	145,925,554
Computed tax using the Group's applicable tax rate at 15%	27,185,737	21,888,833
Rate differential on the Company and subsidiaries' income taxed at 0%	(3,123,077)	(2,238,160)
Tax holiday enjoyed by a PRC subsidiary	(2,861,665)	(3,657,820)
Non-deductible expenses net of non-taxable income	498,142	573,814
Deferred tax asset not recognised	1,335,266	1,118,415
Income tax refund	(7,010,682)	(5,016,960)
Under/(over) provision in prior years	154,570	(270,829)
	16,178,291	12,397,293

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(Expressed in Renminbi Yuan)

9. Income tax expense (continued)

(iii) Taxation in the consolidated balance sheet represents:

	2005	2004
Balance at beginning of year	10,050,611	6,526,888
Provision for income tax for the year	25,857,474	19,910,359
Paid during the year	(24,926,244)	(16,386,636)
Balance at end of year	10,981,841	10,050,611

10. Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB 35,089,284 (2004(restated): RMB22,500,900) 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:

	2005	2004 (restated)
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	35,089,284	22,500,900
Final dividends from a subsidiary attributable to the profit of the previous financial year, approved and paid during the year	47,533,797	31,236,300
Company's profit for the year (Note 26 (b))	82,623,081	53,737,200

11. Dividends

(a) Dividends payable to the equity shareholders of the Company attributable to the year

	2005	2004
Interim dividend approved and paid of RMB0.075 (2004:RMB0.16) per share	40,746,139	21,729,600
Final dividend proposed after the balance sheet date of RMB 0.11 (2004: RMB0.0875) per share	59,896,441	47,533,797
	100,642,580	69,263,397

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. The calculation of final dividend per share is based on 544,513,096 ordinary shares in issue as at 31 December 2005 (2004: 543,240,000 ordinary shares).

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(Expressed in Renminbi Yuan)

11. Dividends (continued)

(b) Dividends payable to the equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2005	2004
Final dividend in respect of the previous financial year, approved and paid during the year of RMB0.0875 (2004: RMB 0.23) per share	47,533,797	31,236,300

12. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB 165,059,957 (2004(restated): RMB133,528,261) and the weighted average of 543,415,801 (2004: 543,240,000) ordinary shares in issue during the year.

(i) Weighted average number of ordinary shares

	2005 Number of shares	2004 Number of shares
Issued ordinary shares at 1 January	543,240,000	135,810,000
Shares sub-division	-	407,430,000
Effect of share options exercised (note 25)	175,801	-
Weighted average number of ordinary shares at 31 December	543,415,801	543,240,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of RMB 165,059,957 (2004(restated): RMB133,528,261) and the weighted average number of 550,856,263 (2004(restated): 545,728,687) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's share option scheme.

(c) Reconciliation

	2005 Number of shares	2004 Number of shares (restated)
Weighted average number of ordinary shares at 31 December	543,415,801	543,240,000
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 27)	7,440,462	2,488,687
Weighted average number of ordinary shares (diluted) at 31 December	550,856,263	545,728,687

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

13. Directors' remuneration

Details of directors' remuneration are as follows:

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Share-based payments	Total 2005
Executive Directors					
Mr. Edward Tan Han Kiat	-	247,000	-	-	247,000
Mr. Alfred Chan Kai Tai	-	247,000	-	-	247,000
Mr. Pierre Frank Bourque	-	685,608	-	38,612	724,220
Non-Executive directors					
Mr. Kunnasagaran Chinniah	-	-	-	-	-
Ms. Janine Tran Chanh Lien	-	-	-	-	-
Ms. Julie Ann Enfield	-	-	-	-	-
Mr. Rodney Ray Cone *	-	-	-	12,871	12,871
Ms. Valarie Fong Wei Lynn *	-	-	-	12,871	12,871
Ms. Lara Magno Lai *	-	-	-	-	-
	-	1,179,608	-	64,354	1,243,962

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Share-based payments (restated)	Total 2004
Executive Directors					
Mr. Edward Tan Han Kiat	-	266,000	-	-	266,000
Mr. Alfred Chan Kai Tai	-	266,000	-	-	266,000
Mr. Pierre Frank Bourque	-	668,556	-	43,022	711,578
Non-Executive directors					
Mr. Kunnasagaran Chinniah	-	-	-	-	-
Ms. Janine Tran Chanh Lien	-	-	-	-	-
Mr. Rodney Ray Cone *	-	-	-	14,340	14,340
Ms. Valarie Fong Wei Lynn *	-	-	-	14,340	14,340
Ms. Lara Magno Lai *	-	-	-	-	-
	-	1,200,556	-	71,702	1,272,258

* independent non-executive directors

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

13. Directors' remuneration (continued)

- (a) The above emoluments include the value of share options granted to certain directors under the Company's share option scheme as estimated at the date of grant. The details of these benefits in kind are disclosed under the paragraph "Share Options Scheme" section in the Report of the Directors and note 27.
- (b) No bonuses were paid or payable as at 31 December 2005 and 2004 by the Group to the directors which were discretionary or based on the Group's or any member of the Group's performance.
- (c) Save as disclosed above, no directors' remuneration has been paid or is payable by the Group for the year ended 31 December 2005.

14. Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2004: none) is a director whose remuneration is disclosed in note 13. The aggregate of the emoluments in respect of the other four (2004: five) individuals are as follows:

	2005	2004 (restated)
Basic salaries, allowances and other benefits	4,112,325	4,530,133
Discretionary bonuses	-	-
Share-based payments	689,552	1,562,014
Contributions to retirement benefit scheme	-	-
	<u>4,801,877</u>	<u>6,092,147</u>

The emoluments of the four (2004: five) individuals with the highest emoluments are within the following bands:

	2005 Number of individuals	2004 Number of individuals
RMB Nil – RMB 1,000,000	1	1
RMB 1,000,001 – RMB 1,500,000	2	3
RMB 1,500,001 – RMB 2,000,000	1	1
	<u>4</u>	<u>5</u>

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

15. Related party transactions

Transactions with the following entities are considered as related party transactions for the years ended 31 December 2005 and 2004.

Name of party	Relationship
CFS International Incorporated	Ultimate holding company
Ports International Retail Corporation	Fellow subsidiary company
PIHK Limited	Fellow subsidiary company
Ports 1961 (New York) Incorporated	Fellow subsidiary company
Ports International Enterprise Limited	Fellow subsidiary company

The Group also has a related party relationship with its directors and senior officers.

Particulars of significant transactions between the Group and the above related parties for the years ended 31 December 2005 and 2004 are as follows:

(a) Transactions with ultimate holding company and fellow subsidiaries

	2005	2004
Sales of goods to:		
Ports International Retail Corporation	9,250,511	5,681,190
Expenditure paid on behalf by:		
PIHK Limited	6,583,978	-

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 favourable 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) Transactions with key management personnel

	2005	2004 (restated)
Short-term employee benefits	1,179,608	1,200,556
Post-employment benefits	-	-
Equity compensation benefits	64,354	71,702
	1,243,962	1,272,258

Total remuneration is included in "personnel expenses" (see note 7).

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Renminbi Yuan)

16. Lease prepayments

	The Group	
	2005	2004
Cost		
Balance at beginning of year	7,864,693	11,946,485
Disposal	-	(4,081,792)
Balance at end of year	7,864,693	7,864,693
Accumulated amortization		
Balance at beginning of year	(792,619)	(755,910)
Amortisation charge for the year	(172,730)	(247,564)
Disposal	-	210,855
Balance at end of year	(965,349)	(792,619)
Net book value		
At end of year	6,899,344	7,072,074

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

17. Property, plant and equipment

The Group

	Buildings	Plant and machinery	Fixtures, fitting and other fixed assets	Construction in progress	Total
Cost					
Balance at 1 January 2004	35,368,951	17,961,445	50,226,740	1,326,084	104,883,220
Acquisitions	-	5,749,968	24,831,744	11,445,503	42,027,215
Transfer from construction in progress	303,377	348,941	4,935,887	(5,588,205)	-
Disposals	-	(3,667,205)	(6,274,743)	-	(9,941,948)
Balance at 1 January 2005	35,672,328	20,393,149	73,719,628	7,183,382	136,968,487
Acquisitions	-	3,163,022	35,494,015	37,462,710	76,119,747
Transfer from construction in progress	-	-	6,344,893	(6,344,893)	-
Disposals	-	(286,513)	(7,431,615)	-	(7,718,128)
Balance at 31 December 2005	35,672,328	23,269,658	108,126,921	38,301,199	205,370,106
Depreciation					
Balance at 1 January 2004	4,585,045	8,698,351	21,901,052	-	35,184,448
Depreciation charge for year	1,595,472	1,336,829	17,047,807	-	19,980,108
Disposals	-	(2,878,779)	(6,077,137)	-	(8,955,916)
Balance at 1 January 2005	6,180,517	7,156,401	32,871,722	-	46,208,640
Depreciation charge for year	1,605,250	1,770,985	24,369,083	-	27,745,318
Disposals	-	(217,960)	(7,139,778)	-	(7,357,738)
Balance at 31 December 2005	7,785,767	8,709,426	50,101,027	-	66,596,220
Net book value					
At 31 December 2005	27,886,561	14,560,232	58,025,894	38,301,199	138,773,886
At 31 December 2004	29,491,811	13,236,748	40,847,906	7,183,382	90,759,847

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

As at 31 December 2005, the net book value of a building held under a finance lease arrangement of the Group amounted to RMB3,688,120 (2004: RMB3,959,890).

NOTES TO THE FINANCIAL STATEMENTS (Expressed in Renminbi Yuan)

18. Intangible assets

	The Group	
	2005	2004
Cost		
Balance at beginning/end of year	6,450,600	6,450,600
Amortisation		
At beginning of year	5,912,550	5,266,890
Amortisation charge for the year	538,050	645,660
At end of year	6,450,600	5,912,550
Net book value		
At end of year	-	538,050

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

19. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the items set out below:

	The Group				
	Stock provision	Tax value of loss carried forward	Other creditors and accruals	Others	Total
At 1 January 2004	3,078,021	378,978	-	46,230	3,503,229
Credited/(Charged) to the income statement for the year	1,898,587	(378,978)	845,909	130,588	2,496,106
At 31 December 2004	4,976,608	-	845,909	176,818	5,999,335
At 1 January 2005	4,976,608	-	845,909	176,818	5,999,335
Credited to the income statement for the year	2,091,466	-	493,676	83,359	2,668,501
At 31 December 2005	7,068,074	-	1,339,585	260,177	8,667,836

Unrecognised deferred tax asset

A deferred tax asset has not been recognised in respect of the following item:

	The Group	
	2005	2004
Tax losses of a subsidiary	2,453,681	1,118,415
Total	2,453,681	1,118,415

A deferred tax asset has not been recognised in respect of the above item because it is not probable that sufficient future taxable profits will be available against which the subsidiary can utilise the benefits therefrom.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

20. Inventories

Inventories comprise:

	The Group	
	2005	2004
Raw materials	69,842,374	52,183,338
Work in progress	21,683,430	14,771,610
Finished goods	160,600,846	143,463,513
Goods in transit	2,189,720	2,531,073
	254,316,370	212,949,534

The analysis of the amount of inventories recognised as an expense is as follows:

	2005	2004 (restated)
Cost of sales	295,839,050	278,761,290
Stock provision	27,520,349	23,817,558
	323,359,399	302,578,848

21. Trade and other receivables, deposits and prepayments

(a) The Group

	2005	2004
Accounts receivable (note (i) below)	100,589,405	89,898,515
Bills receivable	-	7,896,468
Amounts due from related companies (note 24(a))	9,869,350	1,922,238
Advances to suppliers	10,783,203	9,368,417
Other receivables, deposits and prepayments	35,905,774	21,318,828
	157,147,732	130,404,466

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

	2005	2004
Within 1 month	85,352,654	77,929,060
Over 1 month but less than 3 months	14,908,656	11,439,416
Over 3 months but less than 6 months	275,938	435,089
Over 6 months but less than 12 months	52,157	94,950
	100,589,405	89,898,515

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

The Group's credit policy is set out in note 29(a).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

21. Trade and other receivables, deposits and prepayments (continued)

(b) The Company

	2005	2004
Amounts due from subsidiaries	262,227,696	160,492,532
Other receivables, deposits and prepayments	2,696,618	454,376
	<u>264,924,314</u>	<u>160,946,908</u>

22. Cash and cash equivalents

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

(a) The Group

	2005	2004
Cash at bank and on hand	111,187,417	96,494,857
Time deposits with banks	104,920,008	212,186,839
	<u>216,107,425</u>	<u>308,681,696</u>

(b) The Company

	2005	2004
Cash at bank and on hand	7,837,341	7,454,530
Time deposits with banks	51,792,473	149,267,004
	<u>59,629,814</u>	<u>156,721,534</u>

Time deposits with banks included in cash and cash equivalents are within three months of maturity at acquisition.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

23. Trade payables, other payables and accruals

(a) The Group

	2005	2004
Bills payable	-	405,052
Accounts payable (note (i) below)	61,654,010	60,637,010
Other creditors and accruals	72,657,452	74,920,914
Amounts due to related companies (note 24(a))	7,006,534	-
	141,317,996	135,962,976

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

	2005	2004
Within 1 month or on demand	33,467,489	32,888,958
Over 1 month but less than 3 months	19,113,435	19,206,908
Over 3 months but less than 6 months	8,919,725	7,864,089
Over 6 months but less than 12 months	153,361	677,055
	61,654,010	60,637,010

(b) The Company

	2005	2004
Other creditors and accruals	1,141,219	1,028,950
Amounts due to subsidiaries	8,940,170	56,914
	10,081,389	1,085,864

24. Amounts due from/to related companies

(a) The Group

	2005	2004
Amount due from		
PIHK Limited	-	1,670,392
Parts International Retail Corporation	9,869,350	251,846
Amount due to		
CFS International Incorporated	649,147	-
PIHK Limited	6,357,387	-
	7,006,534	-

The amounts due from/to related companies are unsecured, interest free and have no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

25. Share capital

(i) Authorised and issued share capital

	The Group and the Company			
	2005		2004	
	Number of shares	Amount HK\$	Number of shares	Amount HK\$
Authorised:				
Ordinary shares of HK\$0.0025 each	3,600,000,000	9,000,000	3,600,000,000	9,000,000
	<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 the beginning of the year	543,240,000	1,358,100	135,810,000	1,358,100
Shares sub-division	-	-	407,430,000	-
Shares issued under share option scheme	1,273,096	3,183	-	-
At the end of the year	544,513,096	1,361,283	543,240,000	1,358,100
		RMB equivalent		RMB equivalent
		<u>1,445,503</u>		<u>1,442,185</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

All ordinary shares, rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option scheme

In 2005, 1,273,096 ordinary shares of HK\$ 0.0025 each of the Company were issued for a total cash consideration of HK\$ 3,341,877 (equivalent to RMB 3,483,764) before the related issue expenses as certain share options were exercised by the holders pursuant to the share option scheme adopted by the Company. Details of the share option scheme are disclosed under the paragraph "Share Option Scheme" section in the Report of the Directors and note 27.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

26. Reserves

(a) The Group

	Capital reserve - staff share options issued (undistributable)	Capital reserve	Share premium	General reserve fund	Enterprise expansion fund	Retained earnings	Total
Balance at 1 January 2004							
- as previously reported	-	42,483,919	336,089,241	35,249,925	9,867,952	167,493,265	591,184,302
- reclassification (see note(1) below)	-	20,675,104	(20,675,104)	-	-	-	-
	-	63,159,023	315,414,137	35,249,925	9,867,952	167,493,265	591,184,302
- prior period adjustments arising from changes in accounting policies (see Note 2(b))	577,921	-	-	-	-	(577,921)	-
- as restated	577,921	63,159,023	315,414,137	35,249,925	9,867,952	166,915,344	591,184,302
Dividend declared	-	-	-	-	-	(52,965,900)	(52,965,900)
Equity settled share-based transactions (as restated-note 2(b))	3,585,067	-	-	-	-	-	3,585,067
Profit for the year (as restated-note 2(b))	-	-	-	-	-	133,528,261	133,528,261
Transfer to reserve	-	-	-	12,155,319	-	(12,155,319)	-
Balance at 31 December 2004 (as restated)	4,162,988	63,159,023	315,414,137	47,405,244	9,867,952	235,322,386	675,331,730
Balance at 1 January 2005 (as restated)	4,162,988	63,159,023	315,414,137	47,405,244	9,867,952	235,322,386	675,331,730
Dividend declared	-	-	-	-	-	(88,279,936)	(88,279,936)
Shares issued under share option scheme	(562,801)	-	4,043,247	-	-	-	3,480,446
Share issue expenses	-	-	(1,110)	-	-	-	(1,110)
Equity settled share-based transactions	3,217,693	-	-	-	-	-	3,217,693
Profit for the year	-	-	-	-	-	165,059,957	165,059,957
Transfer to reserve	-	-	-	17,393,698	-	(17,393,698)	-
Balance at 31 December 2005	6,817,880	63,159,023	319,456,274	64,798,942	9,867,952	294,708,709	758,808,780

(1) Certain amounts of share premium are reclassified into capital reserve at the consolidated balance sheet so that the Group's share premium account only reflect the share premium in relation to the shares of the Company.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

26. Reserves (continued)

(a) The Group (continued)

Shares issued under share option scheme:

In 2005, options were exercised to subscribe for 1,273,096 ordinary shares of HK\$0.0025 each of the Company at a total consideration of HK\$ 3,341,877 (equivalent to RMB 3,483,764), of which HK\$ 3,183 (equivalent to RMB 3,318) was credited to share capital. The excess of the consideration over the nominal value of the shares, less direct expenses totalling RMB 1,110 incurred for the issue of shares, amounting to RMB 3,479,336 was credited to the share premium account. RMB 562,801 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1 (k) (ii).

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

(b) The Company

	Capital reserve- staff share options issued (undistributable)	Share premium	Contributed surplus	Retained earnings	Total
Balance at 1 January 2004					
-as previously reported	-	315,414,137	151,259,151	12,034	466,685,322
-prior period adjustments arising from changes in accounting policies	577,921	-	-	(11,558)	566,363
-as restated	577,921	315,414,137	151,259,151	476	467,251,685
Dividend declared	-	-	-	(52,965,900)	(52,965,900)
Equity settled share-based transactions	3,585,067	-	-	-	3,585,067
Net profit for the year	-	-	-	53,737,200	53,737,200
Balance at 31 December 2004					
(as restated)	4,162,988	315,414,137	151,259,151	771,776	471,608,052
Balance at 1 January 2005					
(as restated)	4,162,988	315,414,137	151,259,151	771,776	471,608,052
Dividend declared	-	-	-	(88,279,936)	(88,279,936)
Shares issued under share option scheme	(562,801)	4,043,247	-	-	3,480,446
Share issue expenses	-	(1,110)	-	-	(1,110)
Equity settled share-based transactions	3,217,693	-	-	-	3,217,693
Net profit for the year	-	-	-	82,623,081	82,623,081
Balance at 31 December 2005	6,817,880	319,456,274	151,259,151	(4,885,079)	472,648,226

(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

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 2005 was RMB 146,374,072 (2004(restated): RMB 152,030,927).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

27. Equity settled share-based transactions

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 of the Group 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.

Movement in shares involved in the options are as follows:

	2005 Weighted average exercise price	Number of shares involved in the options	2004 Weighted average exercise price	Number of shares involved in the options
At beginning of year	HK\$2.625	13,940,800	HK\$10.50	3,500,000
Granted	-	-	-	-
Adjustment *	-	-	-	10,500,000
Exercised	HK\$2.625	(1,273,096)	-	-
Cancelled	HK\$2.625	(214,365)	HK\$2.625	(59,200)
At end of year	HK\$2.625	12,453,339	HK\$2.625	13,940,800
Options vested at end of year	HK\$2.625	7,921,406	HK\$2.625	4,646,933

* Adjustment for the effect of share split during the year ended 31 December 2004

No option had been granted to the directors of the Company and employees of the Group during the year ended 31 December 2005 (2004: nil). Share options involving a total number of 214,365 ordinary shares (2004: 59,200) previously granted to certain employees of the Company were cancelled during the year.

During the year ended 31 December 2005, the employees of the Group exercised options relating to the two-thirds fraction which vested on 3 November 2004 and 3 November 2005 to subscribe for 1,273,096 ordinary shares (2004: nil) of the Company. None of the directors of the Company exercised options during the year (2004: nil).

Details of share options exercised during the year ended 31 December 2005 are as follows:

Grant date	Exercise price	Weighted average closing price per share of the share options exercised	Proceeds received	Number of shares involved in the options
3 November 2003	HK\$2.625	HK\$8.21	HK\$3,341,877	1,273,096

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

27. Equity settled share-based transactions (continued)

Fair value of shares involved in the options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the binomial model as required by IFRS 2. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the model.

Fair value of shares involved in the options and assumptions

Fair value at grant date	HK\$12,400,000
Share price	HK\$3.45
Exercise price	HK\$2.625
Expected volatility	32%
Option life	10 years
Expected dividends	2.66%
Risk-free interest rate (based on Hongkong Exchange Fund Notes Rate)	3.885%

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

Share price, exercise price and number of shares involved in the options have been retrospectively adjusted for the effect of share split during the year ended 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

28. Investments in subsidiaries

	The Company	
	2005	2004 (restated)
Unlisted shares, at cost	152,387,923	152,387,931
Cumulative fair value of share options granted to employees of subsidiaries	7,233,067	4,079,728
	<u>159,620,990</u>	<u>156,467,659</u>

The following list contains only the particulars of subsidiaries which principally affect 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 1(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		Issued and fully paid-up share/ authorised capital (in thousands)	Paid-up/ registered capital (in thousands)	Principal activities
		Direct %	Indirect %			
Ports Asia Holdings Limited	British Virgin Islands	100	-	USD11/ USD50	-	Sales of garments and investment holding
Ports International Marketing Ltd.	British Virgin Islands	100	-	USD0.1/ USD0.1	-	Sales of garments
Smythe Trading Company Limited	Samoa Islands	99.9	0.1	USD1/ USD1,000	-	Sales of garments
Ports Retail (H.K.) Limited	Hong Kong	-	99.9	HK\$1/ HK\$10	-	Sales of garments
Etac Fashion (Xiamen) Ltd. (i)	PRC	-	100	-	HK\$237,000/ HK\$237,000	Manufacturing and sales of garments
Xiamen Xiangyu Ports Trading Co., Ltd. (i)	PRC	-	100	-	USD2,020/ USD2,020	Sales of garments
Ports International (Beijing) Co., Ltd. (i)	PRC	-	100	-	USD1,850/ USD1,850	Manufacturing and sales of garments
Ports International Marketing (Xiamen) Ltd. (i)	PRC	-	100	-	USD14,100/ USD14,100	Manufacturing and sales of garments

Note:

- (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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

29. Financial instruments

Financial assets of the Group include cash and cash equivalents, deposits with banks, and trade and other receivables. Financial liabilities of the Group include trade and other payables. The Group does not hold or issue financial instruments for trading purposes. Exposure to credit 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 concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) 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 authorised 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.

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros, United States Dollars, and Hong Kong Dollars.

(c) Fair value

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2005 and 2004 as these assets and liabilities have short maturities.

30. 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 year ended 31 December 2005 and the consolidated balance sheet as at 31 December 2005 are translated from Renminbi Yuan at RMB8.0702=US\$1.00, the rate ruling at 31 December 2005. The consolidated income statement for the year ended 31 December 2004 and the consolidated balance sheet as at 31 December 2004 are translated from Renminbi Yuan at RMB8.2765=US\$1.00, the rate ruling at 31 December 2004. These translations should not be construed as representations that the Renminbi amounts could actually be converted into U.S. dollars at such rate or at all.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

31. Operating leases commitments

Non-cancellable operating lease rentals are payable as follows:

	The Group	
	2005	2004
Less than one year	53,770,854	54,621,821
Between one and five years	36,816,141	49,732,624
More than five years	192,065	-
	90,779,060	104,354,445

The leases run for an initial period of one to five 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 in respect of purchase of property, plant and equipment outstanding at 31 December 2005 and 2004 but not provided for in the consolidated financial statements were as follows:

	The Group	
	2005	2004
Contracted for	3,133,066	11,866,208
Authorised but not contracted for	81,000,000	98,000,000
	84,133,066	109,866,208

33. Subsequent events

After the balance sheet date, the directors proposed a final dividend on 28 March, 2006. Further details are disclosed in note 11.

34. Ultimate holding company

The directors consider the ultimate holding company at 31 December 2005 to be CFS International Incorporated, which is incorporated in Canada.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan)

35. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2005

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements.

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's accounts for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that:

- IFRS 7, "Financial instruments: disclosures", requires more detailed qualitative and quantitative disclosure primarily on fair value information and risk management, thus it would only affect the level of details in the disclosure of the financial information, and would not have financial impact nor result in a change in the Group's accounting policies. IFRS 7 will be effective for accounting periods beginning 1 January 2007.
- The adoption of IFRS 6, IFRIC 5, IFRIC 6 and IFRIC 7 and the amendments to IAS 1, IAS 19 and IFRS 1 made as a result of the Hong Kong Companies (Amendment) Ordinance 2005 are not applicable to any of the Group's operations and that the adoption of the rest of them is unlikely to have a significant impact on the Group's results of operations and financial position.



