global sources

Annual Report 2004

www.globalsources.com

Creating and facilitating global trade between buyers and suppliers

Global Sources is a leading business-to-business (B2B) media company that facilitates global trade, with a particular focus on the China market, by providing information to international buyers and integrated marketing services to suppliers.

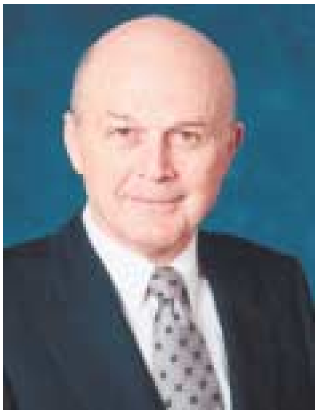
We deliver content to our communities through our leading network of nine vertical marketplaces and 13 geographic portals, and through magazines, private catalogs, as well as China Sourcing Fairs and technical events. Our flagship marketplace, *Global Sources Online* (www.globalsources.com), hosts more marketing and sourcing activity than any other global merchandise trade marketplace.

FINANCIAL HIGHLIGHTS

(In Thousands of U.S. Dollars, Except Per Share Amounts and Earnings Per Share)	**Year Ended December 31**	**Year Ended December 31**	
RESULTS OF OPERATIONS	**2004**	**2003**	**% Change**
Revenues	$105,846	$91,669	15
Sales costs	29,956	30,113	1
Event production	3,774	930	(306)
Community	16,967	12,331	(38)
General and administrative	31,252	28,682	(9)
Online services development	4,232	4,960	15
Non-cash compensation & amortization	3,597	5,872	39
Income from operations	16,068	8,781	83
Income tax provision	651	668	3
Net income	$15,769	$7,334	115
FINANCIAL POSITION			
Cash and cash equivalents	$41,195	$26,227	57
Available-for-sale securities	10,172	35,140	(71)
Total assets	92,525	82,541	12
Total liabilities	47,002	54,561	14
Shareholders' equity	$45,523	$27,980	63
OTHER INFORMATION			
Net cash provided by operating activities	$21,197	$25,323	(16)
Capital expenditures	21,111	2,307	(815)
Stock price	12.54 (1)	7.05 (1)	78
Basic earnings per share	$0.50 (2)	$0.23 (2)	117

(1) Stock price is based on last trading day of the year.

(2) All common shares and per share amounts have been retroactively adjusted to reflect the one for ten bonus share issue.



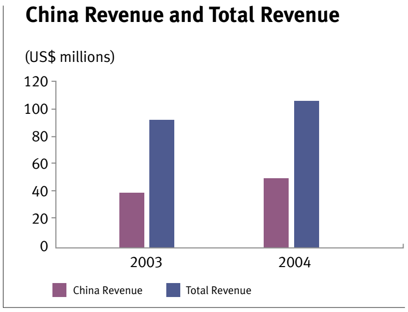
Merle A. Hinrichs
Chairman and
Chief Executive Officer

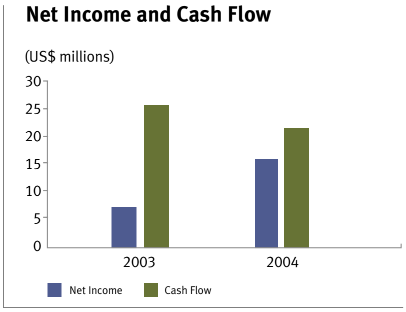
Dear Shareholders,

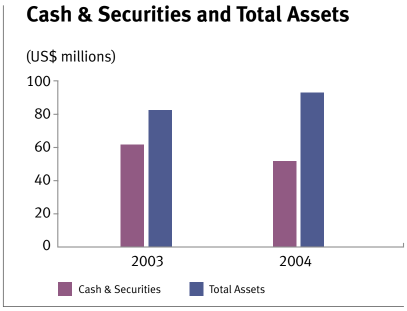
Global Sources had an excellent year in 2004, with our strong financial results demonstrating the success of our strategy to expand in China and serve markets with online, print and trade-show media. Following a brief review of 2004, I'll elaborate on our market positioning, growth strategy and some of our new initiatives.

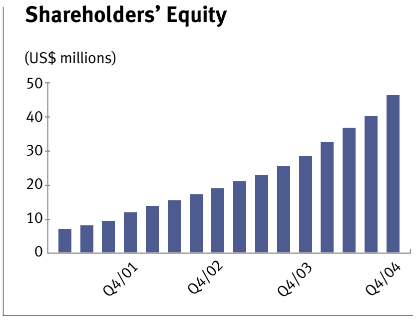
2004 Highlights:

- Revenue of $105.8 million, an increase of 15 percent versus 2003
- Revenue from China of $50 million, up 26 percent versus 2003
- Net income of $15.8 million, up 115 percent versus 2003









We also saw continued growth in our buyer community, which increased by five percent to more than 423,000 active buyers in 230 countries and territories. This number is independently certified with Ernst & Young to provide suppliers with verification of the community they are reaching through Global Sources media. In addition, Requests for Information from buyers to suppliers through *Global Sources Online* reached 4.25 million, an 11 percent increase from the prior year.

While 2004 was a year of growth, it was also a year of transition as we developed the company's infrastructure and the sales and marketing capabilities necessary to operate a much larger trade-show business. Trade shows are now a very robust arm of our business and represent the third essential component to our strategy of providing online, print and trade-show media. Accordingly, we are very well positioned to leverage the synergies of our three primary media for the benefit of buyers, suppliers and Global Sources.

What We Do

Global Sources helps buyers source more effectively by enabling them to identify and evaluate products and suppliers. We help suppliers introduce new products, develop new markets, enhance their image, and generate valuable sales contacts that lead to profitable orders.

The company serves a diverse range of growth markets – from the Asian export sectors for electronics, garments, hardware, gifts and home products – to high-tech imports into Asia. We derive 99 percent of our revenue from suppliers for advertising and marketing services. Geographically, more than 85 percent of revenue comes from suppliers in Greater China. By type of media, 50 percent of revenue is derived from online media, 37 percent from print, and 12 percent from trade shows.

Our objective is to be an essential and preferred "partner" for buyers by providing the most reliable, relevant and accurate sourcing information – which will in turn, attract the most valuable buyer community for suppliers'advertising and marketing campaigns. Our primary strategy for doing this is to connect buyers and suppliers with the most comprehensive range of services utilizing online, print, and trade-show media.

Why Online, Print and Trade Shows

For buyers and suppliers, each media format plays a different, yet complementary role in the buying process. For example, print advertising contributes greatly to making buyers aware that a company is a potential supplier. It allows a company to powerfully differentiate itself from its competitors and often stimulates the buyer to make an inquiry or visit its Web site. The Web site enables the supplier to present buyers with far more information on their products and manufacturing capabilities than it could with a magazine advertisement. Trade shows, on the other hand, facilitate face-to-face meetings and ordering – activities that cannot be accomplished by print or online media.

Consumer Electronics is an example of one vertical where Global Sources serves the market with online, print, and a trade show. The magazine was launched in 1974, the online site in 1995 and the show in 2003.

An integrated marketing campaign using our online, print and trade-show media also gives suppliers the opportunity to reach a much greater percentage of their potential customers than they would reach using one, or even two types of media. Integrated campaigns that "surround" a supplier's prospective customers from various touch points will increase buyers' awareness and interest, enhance the company's brand or image, and increase the likelihood of the buyer making an inquiry.

For Global Sources, there are also many benefits from our strategy of serving markets with online, print and trade shows. First, we are able to cross-market our various individual media to both buyers and suppliers. Second, we have much more frequent contact with buyers and suppliers, which enables us to keep our databases up-to-date, and therefore more valuable to customers. Finally, we believe our "total solution" of media gives us a competitive advantage over companies who only offer online media or trade shows.

Looking to the future, we have several initiatives underway to more tightly integrate our media in order to create even greater synergies. These include redesigned magazines that point buyers to areas on *Global Sources*

Online where they can get more detailed information on a specific product, company or editorial report. Another example of media integration is the increasingly strong relationship between our online and trade-show media. Buyers register for our China Sourcing Fairs on our online marketplace – where they can make inquiries to suppliers, view exhibitors' products in advance of the show, and schedule meetings with exhibitors at the show.

Why Customers Choose Global Sources

We provide buyers with the most reliable sourcing information and the most extensive range of media and services of any of our competitors. We give buyers their choice of format – whether that be online, print, trade shows or a combination thereof – and, we complement traditional content with other information and services that are either unmatched, or not offered by anyone else. These include proprietary news and editorial reports, in-depth market intelligence reports, private sourcing events and data synchronization services.

For suppliers, we offer a large, proven community of serious volume buyers, and the most extensive range of media and export marketing services. In addition to our three primary forms of media, we have supplementary services that are superior to, or not offered by competitors. These include content production, advertising creative services, introductions to very large buyers at Private Sourcing Events and data synchronization services. And, tying much of this together, we are uniquely capable of helping suppliers create and deliver integrated export marketing campaigns online, in print, and at trade shows.

Our Growth Strategy

Our growth strategy has five key components:

1. Continue to expand in China.
2. Expand our trade show business.
3. Add new customers for existing services.
4. Cross-sell our services to existing customers.
5. Seek acquisitions, joint ventures and alliances.

Regarding China, we are steadily building upon our presence which today consists of some 1,100 team members in 44 locations. Our new 100,000 square foot China headquarters in Shenzhen is a prime example of our continuing investment in infrastructure. Other key priorities are increasing our sales representation and investing in sales training. We expect to grow our core business of English language export promotion media and our Chinese language publishing activities.

Concerning trade shows, our six China Sourcing Fairs in Shanghai in 2004 were attended by more than 75,000 buyers; had a total of 4,114 booths; and generated $10.4 million in revenue. During 2005, we plan to combine some events and host four China Sourcing Fairs – two in the spring and two in the fall in Shanghai. We are also continuing to invest in infrastructure, sales, and marketing for new China Sourcing Fairs beginning in 2006 at the AsiaWorld-Expo in Hong Kong, where we have secured capacity for as many as 16,000 booths annually. We believe the Hong Kong location will attract new exhibitors from Taiwan, Hong Kong, Southern China and the Pearl River Delta – a substantially different group of suppliers from those who exhibit at our Shanghai shows.

New Initiatives

The following are some exciting new and developing initiatives:

- Launching *Garments & Textiles*: We will launch *Global Sources Garments & Textiles* Web site and magazine in April and June respectively, to address the rapid expansion of China manufacturing now that quotas have been removed.
- Hosting Private Sourcing Events: We will expand the number of Private Sourcing Events in 2005. These offer qualified suppliers with the opportunity to meet one-on-one with some of the largest buyers in the world.
- Extending *Chief Executive China*: In 2004, the publication retained its position as the leading management magazine in China, as measured by annual revenue and audited circulation, which exceeded 150,000. Advertisers included BMW, IBM and Rolex, the magazine's companion Web site has more than 300,000 registered users; and last fall we launched *Career Sources China* to offer print and online classifieds.
- Providing Data Synchronization: The UCCnet and the WorldWide Retail Exchange have certified our data synchronization solution which enables buyers and suppliers to share data more effectively. With Wal-Mart, Carrefour and other large retailers steadily requiring more and more of their suppliers to comply with this standard, we expect this to become a future revenue stream from suppliers.
- Publishing Market Intelligence Reports: During 2004, we published 56 reports, including titles such as DVD Players, Stuffed Plush Toys, and T-Shirts & Polo Shirts. Each report provides extremely detailed information on suppliers and supply market conditions throughout Greater China that is based on factory visits, face-to-face interviews and detailed questionnaires. Revenue is derived from sales to buyers.

Some of Global Sources' new initiatives include the launch of *Garments & Textiles'* Web site and magazine, the extension of *Chief Executive China* Web site and magazine, and the expanded publishing program for Market Intelligence Reports.

The China Opportunity

The growing importance of China as "the factory for the world," as well as its emergence as a massive importer and consumption market is the primary driver of our future opportunities. To put it in perspective, China now has a gross domestic product comparable to the United Kingdom, it may soon pass Germany and Japan, and if current trends hold, it could surpass the United States in 2040. Underlying this trend are several factors relevant to our business:

- China's inclusion in the World Trade Organization and events such as the removal of garment and textile quotas have enhanced China's position as a critical global supply market for a very wide range of consumer products including everything from toys to semiconductors.
- Many companies all over the world are realizing the competitive necessity of increasing their production and sourcing activities in Asia, and more

Board of Directors, October 2000 to present: (seated, left to right) Merle Hinrichs, Sarah Benecke, Eddie Heng; (standing, left to right) Lynn Hazlett*, Jeffrey Steiner*, Roderick Chalmers*, David Jones*, James Watkins* (appointed February 2005, not shown in picture). Note: * indicates independent director

specifically, in China. This is evidenced by China's high export growth rates, the continuation of massive foreign direct investment in China, and the fact that more than half of China's exports are from companies with some foreign investment.

- Although its low cost production is widely known, China continues to make impressive improvements in product quality and in meeting overseas buyers' requirements for quick and accurate delivery.
- China's general merchandise exports are flowing not only to the large markets of North America and Western Europe, but also to fast developing growth markets in areas such as Asia, Eastern Europe, the Middle East, South America and Asia.
- With the rapidly growing trade, buyers are seeking better and faster ways to communicate and source – and are expecting much greater quality and depth of information in a variety of formats appropriate to their needs.

Global Sources Shares – A Proxy For Trade With China

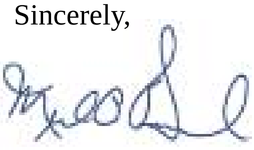
With online, print, and trade-show media, Global Sources has the most comprehensive range of media and services for export marketing and for sourcing. Moreover, as we look ahead, we see greater than ever potential to leverage the synergies of the three media.

We believe that Global Sources represents an attractive, high quality investment – and one that can be regarded as a conservative proxy for investing in the growth of global trade with China. We have an extensive infrastructure in the region, a 34-year track record, and we serve a wide range of growth industries with English and Chinese language media. All of this is supported by a very experienced management team, strong relationships with our buyer and supplier communities and one of the most respected brands in our business.

We are very confident about the near and long-term prospects for Global Sources and feel we are particularly well positioned to capitalize on the underlying strengths and assets of the business – and the opportunity presented by China.

In closing, we want to take this opportunity to recognize the exceptional efforts and commitment shown by our team members and board of directors during the past year. We thank everyone at Global Sources for their determination and contributions, which were so instrumental in achieving our objectives in 2004. Finally, we thank the Global Sources shareholders for their continued support.

Sincerely,



Merle A. Hinrichs
Chairman and CEO

March 31, 2005

GLOBAL SOURCES LTD. AND SUBSIDIARIES

Index to Consolidated Financial Statements
December 31, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
Global Sources Ltd.

We have audited the accompanying consolidated balance sheets of Global Sources Ltd. (a company incorporated under the laws of Bermuda) and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Global Sources Ltd. and its subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ ERNST & YOUNG

Singapore
March 15, 2005

GLOBAL SOURCES LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

	At December 31 2003	At December 31 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 26,227	$ 41,195
Available-for-sale securities	35,140	10,172
Accounts receivable, net	4,507	5,147
Receivables from sales representatives	3,883	3,407
Inventory of paper	703	750
Prepaid expenses and other current assets	1,883	2,926
Total Current Assets	**72,343**	**63,597**
Property and equipment, net	7,870	24,902
Long term investments	100	100
Bonds held to maturity, at amortized cost	992	666
Other assets	1,236	3,260
Total Assets	**$ 82,541**	**$ 92,525**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 4,432	$ 4,798
Deferred income and customer prepayments	27,454	28,775
Accrued liabilities	5,803	5,921
Income taxes payable	804	384
Total Current Liabilities	**38,493**	**39,878**
Liabilities for incentive and bonus plans	682	467
Deferred income and customers prepayments – long term	-	1,420
Amount due to a shareholder	11,404	-
Minority interest	3,684	4,910
Deferred tax liability	298	327
Total Liabilities	**54,561**	**47,002**
Shareholders' Equity:		
Common shares, US$0.01 par value; 50,000,000 shares authorized; 31,847,414 (2003: 31,841,364) shares issued and outstanding	318	319
Additional paid in capital	81,896	86,373
Retained deficit	(50,346)	(34,577)
Less: Unearned compensation	(4,563)	(6,831)
Accumulated other comprehensive income	675	239
Total Shareholders' Equity	**27,980**	**45,523**
Total Liabilities and Shareholders' Equity	**$ 82,541**	**$ 92,525**

The accompanying notes are an integral part of these financial statements.

GLOBAL SOURCES LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

	Year Ended December 31,		
	2002	**2003**	**2004**
Revenue:			
Online and other media services	$ 84,400	$ 87,685	$ 92,325
Exhibitions	2,455	3,327	13,010
Miscellaneous	631	657	511
	87,486	**91,669**	**105,846**
Operating Expenses:			
Sales	28,659	30,113	29,956
Event production	933	930	3,774
Community	12,481	12,331	16,967
General and administrative	28,885	28,682	31,252
Online services development	5,378	4,960	4,232
Non-cash compensation expense (Note a)	2,564	1,419	2,117
Amortization of intangibles/software costs	3,740	4,453	1,480
Total Operating Expenses	**82,640**	**82,888**	**89,778**
Income from Operations	**4,846**	**8,781**	**16,068**
Interest income	439	122	219
Gain (loss) on sale of available-for-sale securities	-	(40)	1,120
Foreign exchange gains (losses), net	50	-	240
Income before Income Taxes	**5,335**	**8,863**	**17,647**
Income Tax Provision	**(720)**	**(668)**	**(651)**
Net Income before Minority Interest	**$ 4,615**	**$ 8,195**	**$ 16,996**
Minority interest	(308)	(861)	(1,227)
Net Income	**$ 4,307**	**$ 7,334**	**$ 15,769**
Basic net income per share	**$ 0.14**	**$ 0.23**	**$ 0.50**
Shares used in basic net income per share calculations (Note 2(u))	**31,834,353**	**31,840,403**	**31,846,439**
Diluted net income per share	**$ 0.14**	**$ 0.23**	**$ 0.49**
Shares used in diluted net income per share calculations (Note 2(u))	**31,834,353**	**31,861,780**	**31,934,079**

Note: a. Reflects the non-cash compensation expenses associated with the employee equity compensation plans. Approximately $626 (2003: $323, 2002: $623) represents sales expenses, $93 (2003: $96, 2002: $238) represents community, $1,066 (2003: $691, 2002: $1,179) represents general and administrative and $332 (2003: $309, 2002: $524) represents online services development expenses.

The accompanying notes are an integral part of these financial statements.

GLOBAL SOURCES LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In U.S. Dollars Thousands)

	Year Ended December 31,		
	2002	**2003**	**2004**
Cash flows from operating activities:			
Net income	$ 4,307	$ 7,334	$ 15,769
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,989	8,509	4,052
Profit on sale of property and equipment	(1)	(7)	(1)
Accretion of U.S. Treasury strips zero % coupon	(99)	(74)	(57)
(Gain) loss on sale of available-for-sale securities	-	40	(1,120)
Interest income on available-for-sale securities	-	-	(92)
Bad debt expense	670	202	(716)
Non-cash compensation expense	2,564	1,419	2,117
Income attributable to minority shareholder	308	861	1,227
Property and equipment written off	153	12	26
	16,891	18,296	21,205
Changes in assets and liabilities:			
Accounts receivables	871	(540)	76
Receivables from sales representatives	(2,223)	(951)	476
Receivables from related party sales representatives	2,900	-	-
Inventory of paper	311	(158)	(47)
Prepaid expenses and other current assets	(25)	(742)	(1,108)
Long term assets	118	(155)	(2,024)
Accounts payable	659	148	366
Accrued liabilities and liabilities for incentive and bonus plans	(175)	99	(97)
Deferred income and customer prepayments	1,137	9,195	2,741
Tax liability	198	131	(391)
Net cash provided by operating activities	**20,662**	**25,323**	**21,197**
Cash flows from investing activities:			
Purchase of property and equipment	(4,193)	(2,307)	(21,111)
Proceeds from sales of property and equipment	3	32	2
Proceeds from matured bonds	450	440	383
Purchase of available-for-sale securities	(26,199)	(19,300)	(131,444)
Proceeds from sale of available-for-sale securities	-	11,000	157,253
Net cash generated from (used for) investing activities	**(29,939)**	**(10,135)**	**5,083**
Cash flows from financing activities:			
Repayment of amount due to a shareholder	-	-	(11,404)
Amount received towards directors purchase plan	50	30	92
Net cash (used for) generated from financing activities	**50**	**30**	**(11,312)**
Net increase (decrease) in cash and cash equivalents	(9,227)	15,218	14,968
Cash and cash equivalents, beginning of the year	20,236	11,009	26,227
Cash and cash equivalents, end of the year	**$ 11,009**	**$ 26,227**	**$ 41,195**
Supplemental cash flow disclosures:			
Income tax paid	$ 522	$ 537	$ 1,042

The accompanying notes are an integral part of these financial statements.

GLOBAL SOURCES LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In U.S. Dollars Thousands, Except Number of Shares)

	Common shares						
	Number of shares	Amounts	Additional paid in capital	Retained deficit	Unearned compensation	Accumulated other comprehensive income	Total shareholders' equity
Balance at December 31, 2001.....	**31,829,264**	**$ 318**	**$ 80,141**	**$ (61,987)**	**$ (6,871)**	**-**	**$ 11,601**
Net income.......................................	-	-	-	4,307	-	-	$ 4,307
Non-cash compensation expense.....	-	-	240	-	-	-	$ 240
Unearned compensation..................	-	-	-	-	2,324	-	$ 2,324
Amount received towards directors - purchase plan.................................	-	-	50	-	-	-	$ 50
Issuance of shares under directors - purchase plan..............................	6,050	-	-	-	-	-	-
Balance at December 31, 2002.....	**31,835,314**	**$ 318**	**$ 80,431**	**$ (57,680)**	**$ (4,547)**	**-**	**$ 18,522**
Net income.......................................	-	-	-	7,334	-	-	$ 7,334
Non-cash compensation expense.....	-	-	1,435	-	-	-	$ 1,435
Unearned compensation..................	-	-	-	-	(16)	-	$ (16)
Amount received towards directors - purchase plan..............................	-	-	30	-	-	-	$ 30
Issuance of shares under directors - purchase plan................................	6,050	-	-	-	-	-	-
Loss realized on sale of available-for-sale securities, net of income tax of $NIL...	-	-	-	-	-	40	$ 40
Unrealized gain on available-for-sale securities, net of income tax of $NIL...	-	-	-	-	-	635	$ 635
Balance at December 31, 2003.....	**31,841,364**	**$ 318**	**$ 81,896**	**$ (50,346)**	**$ (4,563)**	**$ 675**	**$ 27,980**
Net income.......................................	-	-	-	15,769	-	-	$ 15,769
Non-cash compensation expense.....	-	-	4,386	-	-	-	$ 4,386
Unearned compensation..................	-	-	-	-	(2,268)	-	$ (2,268)
Amount received towards directors - purchase plan................................	-	-	92	-	-	-	$ 92
Issuance of shares under directors - purchase plan.................................	6,050	1	(1)	-	-	-	-
Gain, interest income realized on sale of available-for-sale securities, net of income tax of $NIL................	-	-	-	-	-	(1,212)	$ (1,212)
Unrealized gain on available-for-sale securities, net of income tax of $NIL...	-	-	-	-	-	776	$ 776
Balance at December 31, 2004.....	**31,847,414**	**$ 319**	**$ 86,373**	**$ (34,577)**	**$ (6,831)**	**$ 239**	**$ 45,523**

The accompanying notes are an integral part of these financial statements.

GLOBAL SOURCES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

1. The Company

The Company's principal business is to provide services that allow global buyers to identify suppliers and products, and enable suppliers to market their products to a large number of buyers. The Company's primary online service is creating and hosting marketing websites that present suppliers' product and company information in a consistent, easily searchable manner on Global Sources Online. The Company also offers electronic cataloguing services for buyers and suppliers. My Catalogs enable buyers to maintain customized information on suppliers. Private Supplier Catalogs are password-protected online environments where suppliers can develop and maintain their own product and company data. Complementing these services are various trade magazines and CD-ROMs. The Company launched China Sourcing Fairs exhibitions in 2003. These offer international buyers direct access to China and other Asian manufacturers. The Company's businesses are conducted primarily through Trade Media Limited, its wholly owned subsidiary, which was incorporated in October 1984 under the laws of Cayman Islands. Through certain other wholly owned subsidiaries, the Company also organizes China Sourcing Fairs exhibitions, conferences and exhibitions on technology related issues and licenses Asian Sources / Global Sources Online and catalog services.

2. Summary of Significant Accounting Policies

(a) Basis of Consolidation and Presentation

(i) The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and comprise the financial statements of the Company, its majority owned subsidiaries and those owned through nominee shareholders. All significant intercompany transactions and balances have been eliminated on consolidation.

(ii) The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective dates of acquisition or up to the effective dates of disposal.

(iii) The functional currency of the Company and certain subsidiaries is the United States dollar. The functional currencies of other subsidiaries are their respective local currencies. United States dollars are used as the reporting currency as the Company's operations are global.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

(d) Available-for-sale Securities

Short-term investments in marketable securities are classified as available-for-sale securities. Investments classified as available-for-sale securities are carried at market value with any unrealized holding gains and losses, net of related tax effect if any, presented under shareholders' equity as accumulated other comprehensive income.

Realized gains and losses and declines in values judged to be other-than-temporary on available-for-sale securities are included in the statement of income. Other-than-temporary is determined through the assessment of the Company's ability and intent to hold the investment, extent and duration of the impairment, and the forecasted recovery of fair value. The cost of securities sold is based on the average cost method.

(e) Inventory of Paper

Inventory of paper is stated at the lower of cost or market value. Cost is determined on the first-in, first-out basis.

(f) Property and Equipment

(i) Property and equipment are stated at cost less accumulated depreciation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

(ii) Depreciation on property and equipment is calculated to amortize their cost on a straight-line basis over their estimated useful lives as follows:

Fixtures, fittings and office equipment	5 years
Leasehold improvements	5 years
Motor vehicles	5 years
Computer equipment and software	3 years

(iii) Effective January 1, 1999, the Company adopted Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," to account for the costs incurred to develop computer software for internal use. Costs incurred in the preliminary project stage with respect to the development of software for internal use are expensed as incurred; costs incurred during the application development stage are capitalized and are amortized over the estimated useful life of three years upon the commissioning of service of the software. Training and maintenance costs are expensed as incurred. To account for the development costs related to the products to be sold, leased or otherwise marketed, the Company adopted SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Development costs incurred subsequent to the establishment of the technological feasibility of the product are capitalized. The capitalization ends when the product is available for general release to customers.

The Company expensed $64, $38 and $241 during the years ended December 31, 2002, 2003 and 2004, respectively, for the costs incurred prior to the establishment of the technological feasibility with respect to the development of products to be sold, leased or otherwise marketed.

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

(g) Intangible Assets

Prior to the adoption of SFAS No. 142 effective on January 1, 2002, copyrights were amortized on a straight-line basis over a period of ten years and goodwill, was amortized on a straight-line basis over twenty years.

Intangible Assets, net:	At December 31, 2003	At December 31, 2004
Goodwill	$ 654	$ 654
Copyrights	3,706	3,706
	4,360	4,360
Less: Accumulated amortization	(4,360)	(4,360)
	$ -	$ -

(h) Long Term Investments

Long term investments for business and strategic purposes in privately-held companies where such investments are less than 20% of the equity capital of the investees, with no significant influence over the investees, are stated at cost.

Long term investments in companies where such investments are in the range of 20% to 50% of the equity capital of the investees and over whom the Company exercises significant influence, are accounted under the equity method.

Interests in subsidiaries with more than 50% ownership are consolidated and the ownership interests of minority investors are recorded as minority interest.

Long term investments in U.S. Treasury strips zero % coupon, held to maturity are stated at amortized cost. The interest income from investments in U.S. Treasury strips zero % coupon is recognized as it accrues, taking into account the effective yield on the asset.

(i) Impairment of Long-lived Assets

The Company reviews the carrying value of its long-lived assets based upon a cash flow basis and will recognize an impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. The impairment loss is measured based on the difference between the carrying amount of the asset and its fair value. There was no impairment of the Company’s property and equipment as of December 31, 2004.

(j) Revenue Recognition

The Company derives its revenues from advertising fees in its published trade magazines and websites, sales of trade magazines, fees from licensing its trade and service marks, service fees from the provision of software maintenance service, and organizing exhibitions and business seminars.

Revenues from advertising in trade magazines and websites are recognized ratably over the period in which the advertisement is displayed. Advertising contracts do not exceed one year. Revenue from sales of trade magazines is recognized upon delivery of the magazine. Magazine subscriptions received in advance are deferred and recognized as revenue upon delivery of the magazine. Revenue from the provision of maintenance service is deferred and recognized ratably over the maintenance service period. Revenue from organizing exhibitions and business seminars is recognized at the conclusion of the event and the related direct event production costs are deferred and recognized as expenses upon conclusion of the event.

The Company receives license fees and royalties from licensing its trade and service marks. Revenue from license fees is recognized ratably over the term of the license, currently four to five years. Royalties from license arrangements are earned ratably over the period in which the advertisement is displayed by the licensee.

(k) Transactions with Sales Representatives and Related Party Sales Representatives

The Company utilizes sales representatives and in the past utilized related party sales representatives in various territories to promote the Company's products and services. Under these arrangements, these sales representatives are entitled to commissions as well as marketing fees. Commissions expense is recorded when owed to these sales representatives and is included in sales expenses.

These sales representatives, which are mainly corporate entities, handle collections from clients on behalf of the Company. Included in receivables from these sales representatives are amounts collected on behalf of the Company as well as cash advances made to these sales representatives.

As of December 31, 2001, the boards of directors of eight of these sales representative companies each included a director nominated by the Company to monitor the receivables collected from the Company's clients by these related party sales representatives, and to monitor any changes to the authorized signatories of the depository bank accounts. The nominated directors were employees of the Company. The Company and the nominated directors did not have any interest in the share capital of these related party sales representatives companies. However as of December 31, 2002, 2003 and 2004, the Company does not have any nominated directors on the board of directors of any of the Company's sales representative companies. Approximately $9,986, $NIL and $NIL of the commissions and marketing fees expense was associated with these related party sales representative companies for 2002, 2003 and 2004, respectively.

(l) Advertising Expenses

Advertising expenses are expensed as incurred. The Company recorded advertising expenses of $161, $244 and $1,551 during the years ended December 31, 2002, 2003 and 2004, respectively.

(m) Operating Leases

The Company leases certain office facilities under cancelable and non-cancelable operating leases. Rentals under operating leases are expensed on a straight-line basis over the life of the leases.

(n) Liabilities for Bonus Plan

Before the commencement of the Equity Compensation Plans as described in Note 23, the Company rewarded its senior management staff based on their performance through long term discretionary bonus awards. These awards were payable in cash generally at the end of five or ten years from the date of the award, even in the event of termination of employment unless certain non-compete provisions had been violated. These awards were expensed in the period to which the performance bonus relates.

(o) Retirement Contributions

The Company operates a number of defined contribution retirement plans. Contributions are based on a percentage of each eligible employee's salary and are expensed as the related salaries are incurred.

(p) Income Taxes

The Company accounts for deferred income taxes using the liability method, under which the expected future tax consequences of temporary differences between the financial reporting and tax basis of its assets and liabilities are recognized as deferred tax assets and liabilities. A valuation allowance is established for any deferred tax asset when it is more likely than not that the deferred tax asset will not be recovered.

(q) Minority Interest

In 2000, the Company entered into an agreement with CMP Media Inc., through United Professional Media B.V. (previously known as United Business Media B.V.), a subsidiary of United News and Media plc. (CMP) to set-up a corporation (eMedia Asia Ltd.) to provide new technology content, media and e-commerce services to the electronics technology market in Asia. The Company holds a 60.1% controlling equity interest in eMedia Asia Ltd. and consolidates the results of operations. As part of obtaining its 39.9% interest, CMP has committed to pay $6,000 and interest thereon to the Company upon the payment of specified future dividends of eMedia Asia Ltd. Pursuant to an internal restructuring within the CMP group, United Professional Media B.V.'s 39.9% interest in eMedia Asia Ltd. and associated obligations were novated and assigned to UBM Asia B.V. (another subsidiary within the CMP group) in October 2003. Due to the contingent nature of the payment, the Company did not record in its balance sheet the promissory note receivable of $ 6,000 due from CMP and no interest income was accrued as at December 31, 2004, 2003 and 2002. The minority interest liability of $4,910 and $3,684 at December 31, 2004 and 2003, respectively, reflects CMP's proportionate interest of the net book value of eMedia Asia Ltd.

(r) Foreign Currencies

Transactions in currencies other than the functional currency are measured and recorded in the functional currency using the exchange rate in effect on the date of the transaction. As of the balance sheet date, monetary assets and liabilities that are denominated in currencies other than the functional currency are remeasured using the exchange rate at the balance sheet date. All gains and losses arising from foreign currency transactions and remeasurement of foreign currency denominated accounts are included in the determination of net income in the year in which they occur.

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

The financial statements of the subsidiaries reporting in their respective local currencies are translated into U.S. dollars for consolidation as follows: assets and liabilities at the exchange rate as of the balance sheet date, shareholders' equity at the historical rates of exchange, and income and expense amounts at the average monthly exchange rates. The cumulative translation differences were not material as of December 31, 2003 and 2004.

(s) Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" requires that companies report separately, in the financial statements, certain financial and descriptive information about operating segment profit or loss, certain specific revenue and expense items, and segment assets. Additionally, companies are required to report information about the revenues derived from their products and services groups, about geographic areas in which the Company earns revenues and holds assets, and about major customers.

The Company identifies its operating segments based on business activities, management responsibility and geographic location. The Company has two reportable segments: online and other media services and exhibitions.

(t) Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investment by owners and distribution to owners.

Accumulated other comprehensive income consists of the following:

	Year Ended December 31,		
	2002	2003	2004
Unrealized gain on available-for-sale securities, net of income tax of $NIL.................................	$ -	$ 635	$ 1,451
(Gain) loss realized on sale of available-for-sale securities, net of income tax of $NIL................	$ -	$ 40	$ (1,212)
Accumulated other comprehensive income............	$ -	$ 675	$ 239

(u) Basic and Diluted Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of shares of common shares outstanding during the period. Diluted net income per share is calculated using the weighted average number of outstanding common shares, plus other dilutive potential common shares.

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

The following table reconciles the number of shares utilized in the net income per share calculations:

	Year Ended December 31,		
	2002	2003	2004
Net income	$ 4,307	$ 7,334	$ 15,769
Basic net income per share	$ 0.14	$ 0.23	$ 0.50
Diluted net income per share	$ 0.14	$ 0.23	$ 0.49
Weighted average common shares outstanding, used in basic net income per share calculation	31,834,353	31,840,403	31,846,439
Effect of dilutive shares	-	21,377	87,640
Weighted average common shares outstanding, used in diluted net income per share calculation	31,834,353	31,861,780	31,934,079
Antidilutive share options	96,000	10,500	-

Antidilutive share options had exercise prices greater than the average market price during the year.

(v) Stock Based Compensation

The Company has adopted the disclosure only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company accounts for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost of stock options is measured as the excess, if any, of the fair value of the Company's stock at the date of the grant over the option exercise price and is charged to operations over the vesting period.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods and Services." All transactions in which services are received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty's performance is complete or the date on which it is probable that performance will occur.

A majority of the Company's employee stock compensation plans are share grants without any exercise price or exercise period. Therefore the fair value of the share grants at the date of grant approximates the intrinsic value. As a result, the impact of fair value based accounting under SFAS No.123 is not significantly different from the intrinsic value method under APB No. 25.

(w) Allowance for Doubtful Debts

The Company estimates the collectibility of the accounts receivable based on the analysis of accounts receivable, historical bad debts, customer credit-worthiness and current economic trends and maintains adequate allowance for doubtful debts.

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

(x) Recent Accounting Pronouncements

In January 2003, FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN 46 requires a beneficiary to consolidate a variable interest entity ("VIE") if it is the primary beneficiary of that entity. The primary beneficiary is defined as having a variable interest in a VIE that will absorb a majority of the entity's expected losses if they occur, receives a majority of the entity's expected residual returns if they occur, or both. In December 2003, FASB completed deliberations of proposed modifications to FIN 46 ("Revised Interpretations") resulting in multiple effective dates based on the nature as well as the creation date of the VIE. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretations. However, the Revised Interpretations must be applied no later than the Company's first quarter of fiscal 2004. VIEs created after December 31, 2003 must be accounted for under the Revised Interpretations. Special Purpose Entities ("SPEs") created prior to February 1, 2003, may be accounted for under the original or revised interpretation's provisions no later than the first period ended after December 15, 2003. Non-SPEs created prior to February 1, 2003, should be accounted for under the revised interpretation's provisions no later than the Company's first quarter of fiscal 2004. We believe that the adoption of FIN 46 did not have a material impact on the Company's financial statements of position, results of operations, or cash flows.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. The provisions of EITF 03-1 will be effective for interim or annual reporting periods beginning after June 15, 2004 and will be applied prospectively to all current and future investments. Quantitative and qualitative disclosures for investments accounted for under SFAS No. 115 are effective for the first annual reporting period after December 15, 2003. In September, 2004, FASB issued FSP EITF Issue"03-1-1", "Effective Date of Paragraphs 10-20 of EITF 03-1, The Meaning of Other Than Temporary Impairment", delaying the effective date for the recognition and measurement guidance of EITF 03-1, as contained in paragraphs 10-20, until certain implementation issues are addressed and a final FSP providing implementation guidance is issued. The disclosure requirements of the consensus remain in effect. The Company does not expect the adoption of EITF 03-1 to have a material effect on its results of operations and financial condition.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS 123R requires, among other things, measurement of all employee stock-based compensation awards using a fair value method and recording such expense in the consolidated financial statements. The provisions of SFAS 123R are effective for the first interim or annual reporting period that begins after June 15, 2005. We are currently evaluating the effect, if any, that the adoption of SFAS 123R will have on our financial statements of position, results of operations or cash flows.

3. Available-for-sale Securities:

	At December 31, 2003	At December 31, 2004
Cost	$ 34,465	$ 9,933
Unrealized holding gain	675	239
Fair value	$ 35,140	$ 10,172

GLOBAL SOURCES LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

4. Current Assets:

	At December 31, 2003	At December 31, 2004
Accounts receivable:		
Gross trade receivables	$ 6,604	$ 6,175
Less: Allowance for doubtful debts	(2,097)	(1,028)
	$ 4,507	$ 5,147

Movements in allowance for doubtful debts:

	Year Ended December 31, 2002	2003	2004
Balance at beginning of year	$ 2,132	$ 1,966	$ 2,097
Charged to bad debt expenses	670	202	-
Allowance for doubtful debts written-back	-	-	(716)
Write-off of bad debts	(836)	(71)	(353)
Balance at end of year	$ 1,966	$ 2,097	$ 1,028

	At December 31, 2003	2004
Prepaid expenses and other current assets:		
Unsecured employee loans and other debtors	$ 73	$ 60
Prepaid expenses	324	410
Deferred expenses	535	895
Other current assets	951	1,561
	$ 1,883	$ 2,926

5. Property and Equipment, net:

	At December 31, 2003	2004
Capital work-in-progress	$ -	$ 19,213
Leasehold improvements	6,936	6,951
Motor vehicles	191	191
Computers, fixtures, fittings and office equipment	22,866	24,111
Software development costs	15,664	4,474
Property and equipment, at cost	45,657	54,940
Less: Accumulated depreciation	(37,787)	(30,038)
	$ 7,870	$ 24,902

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

Depreciation expense for the years ended December 31, 2002, 2003 and 2004 was $5,249, $4,056 and $2,572 respectively and the amortization of Software development cost for the years ended December 31, 2002, 2003 and 2004 was $3,737, $4,453 and $1,480 respectively.

During 2004, the Company entered into an agreement to purchase approximately 9,000 sq meters of office space in a commercial building under construction in Shenzhen, China at purchase price of $19,027 which has been fully paid during 2004 and is included under capital work-in-progress as at December 31, 2004. The construction is expected to be completed before end of March 2005. Depreciation of the property will only commence upon completion of the construction and the property is ready to be put to use.

6. Long-term Investments and Bonds Held to Maturity:

(i) As at December 31, 2004, the Company holds equity instruments carried at $100 in a privately held unaffiliated electronic commerce company for business and strategic purposes. The investment is accounted for under the cost method since the ownership is less than 20% and the Company does not have the ability to exercise significant influence over the investee. The investment is shown under long term investments in the consolidated balance sheets.

The Company's policy is to regularly review the carrying values of the non-quoted investments and to identify and provide for when circumstances indicate impairment other than a temporary decline in the carrying values of such assets has occurred.

The net carrying value of the long term investment as at December 31, 2003 and 2004 was $100. The Company will continue to evaluate this investment for impairment.

(ii) U.S. Treasury strips zero % coupon

	At December 31,			
	2003		2004	
The amortized cost classified by date of contractual maturity is as follows:				
Due within one year	$	364	$	229
Due after one year through five years		628		437
	$	992	$	666

	At December 31,			
	2003		2004	
The fair value based on the market price, classified by date of contractual maturity is as follows:				
Due within one year	$	380	$	235
Due after one year through five years		691		466
	$	1,071	$	701

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

	At December 31, 2003	At December 31, 2004
Gross unrealized holding gains	$ 79	$ 35

7. Other Assets:

	At December 31, 2003	At December 31, 2004
Employee housing loans	$ 231	$ 191
Club memberships	514	418
Deferred expenses – long term	-	296
Rental, utility and other deposits	491	2,355
	$ 1,236	$ 3,260

8. Current Liabilities:

	At December 31, 2003	At December 31, 2004
Deferred income and customer prepayments:		
Advertising	$ 19,475	$ 20,612
Exhibitions, subscription and others	7,979	8,163
	$ 27,454	$ 28,775

	At December 31, 2003	At December 31, 2004
Accrued liabilities:		
Salaries, wages and commissions	$ 1,239	$ 1,181
Retirement contribution plans	548	696
Current portion of liabilities for incentive and bonus plans	1,106	1,075
Others	2,910	2,969
	$ 5,803	$ 5,921

9. Liabilities for Incentive and Bonus Plans

	At December 31, 2003	At December 31, 2004
Liability for long term discretionary bonus plan	$ 682	$ 467

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

10. Deferred Income and Customer Prepayments – Long Term

	At December 31,	
	2003	2004
Exhibitions	$ -	$ 1,420

11. Related Party Transactions

The Company has extended loans to some of its employees to finance their purchase or lease of residences. The loans for the purchase of a residence are secured by the subject residence, bear interest at a rate of LIBOR plus 2% to 3%, generally have a term of ten years and become due and payable immediately under certain circumstances, including their termination of employment with the Company. The loans for the lease of a residence are unsecured, interest free and are repayable in equal monthly installments over the period of the lease, typically less than or equal to twelve months. Loans due from employees for purchase of residences were $231 and $191 as of December 31, 2003 and 2004 respectively. Loans due from employees for lease of residences were $61 and $55 as of December 31, 2003 and 2004, respectively. There were no other loans due from the Company's directors and executive officers as at December 31, 2003 and 2004. Other temporary advances to staff, which are generally repayable within twelve months, were $14 and $5 as of December 31, 2003 and 2004, respectively.

The Company leases certain office facilities from subsidiaries of the Former Parent Company under cancelable and non-cancelable operating leases that include both rental and building maintenance services. During the years ended December 31, 2002, 2003 and 2004, the Company incurred rental and building management services expenses of $1,048, $756 and $NIL respectively, with respect to these leases. These leases were no longer related party transactions during the year 2004.

The Company also receives legal, treasury management consultancy services and investment consultancy services from subsidiaries of the Former Parent Company. During the year ended December 31, 2002, 2003 and 2004, the Company incurred such legal, secretarial and treasury management consultancy services expenses of $275, $259 and $NIL respectively with respect to such services. These services were no longer related party transactions during the year 2004.

The Company had $11,404 and $NIL due to the Former Parent Company as of December 31, 2003 and 2004, respectively. Due to the disposal of the shares by the Former Parent Company to the Company's chairman and chief executive officer discussed in Note 1, this liability as at December 31, 2003 was reclassified and disclosed as "Amount due to a shareholder" in the Company's consolidated balance sheet as at December 31, 2003. The amount due to the Former Parent Company was unsecured. This amount has been fully repaid during the year 2004.

In addition to the transactions with related party sales representatives discussed in Note 2(k), the Company provided technical services to these sales representatives for a fee. During the year ended December 31, 2002, 2003 and 2004, the Company derived such service fees of $156, $NIL and $NIL respectively. During the years ended December 31, 2002, 2003 and 2004, the Company has incurred costs of $47, $NIL and $NIL respectively with respect to the incentive awards discussed in Note 12, relating to the related party sales representatives.

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

12. Liabilities for Incentive and Bonus Plans

Before the commencement of the Equity Compensation Plans the Company rewarded its senior management staff based on their current performance through long term discretionary bonus awards. These awards are payable approximately at the end of five or ten years from the date of the award, even in the event of termination of employment unless certain non-compete provisions have been violated. The Company did not incur any expenses related to these awards during the years ended December 31, 2002, 2003 and 2004. The required funds were set aside for payment of the discretionary bonuses by purchasing U.S. Treasury strips zero % coupons maturing in either five or ten years. These investments are held until maturity and the proceeds are used for payment of the discretionary bonuses.

Certain sales representatives of the Company are eligible for incentive awards under plans administered by the Company. Costs incurred related to incentive awards under plans administered by the Company for the years ended December 31, 2002, 2003 and 2004 were $128, $116 and $164 respectively.

13. Retirement Contribution Plans

The Company operates a number of defined contribution retirement plans. Employees working in a jurisdiction where there is no statutory provision for retirement contributions are covered by the Company's plans.

The two principal defined contribution plans are plans where employees are not required to make contributions. One of these two plans is separately administered by an independent trustee and the plan assets are held independent of the Company. The other one is not independently administered and is currently unfunded. The Company's liabilities under this unfunded plan as of December 31, 2003 and 2004 were $520 and $664, respectively.

The Company incurred costs of $1,101, $1,102 and $1,099 with respect to the retirement plans in the years ended December 31, 2002, 2003 and 2004, respectively.

14. Income Taxes

The Company and certain of its subsidiaries operate in the Cayman Islands and other jurisdictions where there are no taxes imposed on companies (collectively referred to as "Cayman Islands"). Certain of the Company's subsidiaries operate in Hong Kong SAR and Singapore and are subject to income taxes in their respective jurisdictions. Also, the Company is subject to withholding taxes for revenues earned in certain other countries.

Income before income taxes consists of:

	Year Ended December 31,		
	2002	**2003**	**2004**
Cayman Islands	$ 3,587	$ 5,420	$ 12,746
Foreign	1,748	3,443	4,901
	$ 5,335	$ 8,863	$ 17,647

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

The provision for income taxes consists of:

	Year Ended December 31, 2002	2003	2004
Current tax expense:			
Cayman Islands	$ -	$ -	$ -
Foreign	726	974	622
Deferred tax expense:			
Cayman Islands	-	-	-
Foreign	(6)	(306)	29
Total provision	$ 720	$ 668	$ 651

The provision for income taxes for the years ended December 31, 2002, 2003 and 2004 differed from the amount computed by applying the statutory income tax rate of 0% as follows:

	Year Ended December 31, 2002	2003	2004
Income taxes at statutory rate	$ -	$ -	$ -
Foreign income and revenues taxed at higher rates	720	668	651
Total	$ 720	$ 668	$ 651
Effective tax rate	13.50%	7.54%	3.69%

Deferred tax assets consist of the following:

	At December 31, 2003	2004
Net operating loss carry forwards	$ 7,462	$ 7,410
Less: valuation allowance	(7,462)	(7,410)
Deferred tax assets	$ -	$ -

The Company recorded a full valuation allowance for the deferred tax assets due to the uncertainty as to their ultimate realization. The net change in valuation allowance for the years ended December 31, 2002, 2003 and 2004 was an increase/(decrease) of approximately $26, $2 and $(52), respectively, resulting primarily from net operating losses incurred and profits made by some of the subsidiaries during the respective years.

As of December 31, 2004 and 2003, a United States subsidiary has net operating loss carry forwards of approximately $17,188 and $17,250 respectively. These losses which expire in year 2020 can be utilized to reduce future taxable income of the subsidiary subject to compliance with the taxation legislation and regulations in the relevant jurisdiction.

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

The Company recognized a deferred tax liability of $298 and $327 as at December 31, 2003 and 2004, respectively, which primarily arose from the temporary differences between the financial reporting and the tax bases of property and equipment in one of the subsidiaries of the Company.

15. Share Capital

On February 28, 2002, 2003 and 2004, the Company issued 6,050, 6,050 and 6,050 common shares, respectively, under the Directors Purchase Plan. The authorized share capital of the Company as at December 31, 2003 and 2004 is 50,000,000 common shares of $0.01 par value. As at December 31, 2003 and at December 31, 2004, the Company has 31,841,364 and 31,847,414 common shares issued and outstanding, respectively.

16. Fair Value of Financial Instruments

The carrying amounts of the Company’s cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. The fair value of available-for-sale securities is disclosed in Note 3. The carrying amount and market value of long term investments are discussed in Note 6.

17. Concentration of Credit Risk and Other Risks

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of investment in checking and money market accounts, available-for-sale securities, investment in U.S. Treasury strips zero % coupon, accounts receivable and receivables from sales representatives. The Company maintains checking, money market accounts and available-for-sale securities with high quality institutions. The Company has a large number of customers, operates in different geographic areas and generally does not require collateral on accounts receivable or receivables from sales representatives. In addition, the Company is continuously monitoring the credit transactions and maintains reserves for credit losses where necessary. No customer accounted for more than 10% of the Company’s revenues for each of the years ended December 31, 2002, 2003 and 2004. No customer accounted for more than 10% of the accounts receivable as of December 31, 2003 and 2004.

In 2004, the Company derived approximately 92% of its revenue from customers in Asia. The Company expects that a majority of its future revenue will continue to be generated from customers in this region. Future political or economic instability in Asia could negatively impact the business.

18. Operating Leases

The Company leases office facilities under cancelable and non-cancelable operating leases. During the years ended December 31, 2002, 2003 and 2004, the Company’s operating lease rental and building management services expenses were $1,872, $1,484 and $1,275 respectively. The estimated future minimum lease rental payments under non-cancelable operating leases as of December 31, 2004 are as follows:

Year Ending December 31,	Operating Leases
2005..	31
2006 onwards...	-
	$ 31

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

19. Segment and Geographic Information

The Company has two reportable segments: online and other media services and exhibitions. Certain prior year items have been reclassified to conform to the current presentation. Revenues by geographic location are based on the location of the customer.

(a) Segment Information

	Year Ended December 31,		
	2002	2003	2004
Revenues:			
Online and other media services (Note (a))	$ 84,400	$ 87,685	$ 92,325
Exhibitions	2,455	3,327	13,010
Miscellaneous	631	657	511
Consolidated	$ 87,486	$ 91,669	$ 105,846

	Year Ended December 31,		
	2002	2003	2004
Income/(Loss) from Operations:			
Online and other media services	$ 4,859	$ 9,390	$ 17,700
Exhibitions	(315)	(1,215)	(2,133)
Miscellaneous	302	606	501
Consolidated	$ 4,846	$ 8,781	$ 16,068

	At December 31,	
	2003	2004
Identifiable Assets:		
Online and other media services	$ 79,122	$ 79,894
Exhibitions	2,855	12,103
Miscellaneous	564	528
Consolidated	$ 82,541	$ 92,525

Note: (a) Online and other media services consists of:

	Year Ended December 31,		
	2002	2003	2004
Online Services	$ 51,268	$ 51,367	$ 52,106
Print Services	33,132	36,318	40,219
	$ 84,400	$ 87,685	$ 92,325

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

(b) Foreign Operations

	Year Ended December 31,		
	2002	2003	2004
Revenues:			
Asia	$ 81,456	$ 84,856	$ 97,876
United States	4,986	5,970	6,573
Europe	525	437	597
Others	519	406	800
Consolidated	$ 87,486	$ 91,669	$ 105,846

	At December 31,	
	2003	2004
Long-Lived Assets:		
Asia	$ 9,206	$ 28,257
United States	-	5
Consolidated	$ 9,206	$ 28,262

20. Contingencies

From time to time the Company is involved in litigation in the normal course of business. While the results of such litigation and claims cannot be predicted with certainty, the Company believes that the probability is remote that the outcome of the outstanding litigation and claims as of the current date will have a material adverse effect on the Company’s consolidated financial position and results of operations.

21. Capital Commitments

The commitments as at December 31, 2004 for the purchase and commissioning of software amounted to $31. The capital commitments as at December 31, 2003 were $160 for the purchase and commissioning of software.

22. Restricted Share Award Plan

On February 4, 2000, the Company established a restricted share award plan for the benefit of its chairman and chief executive officer in recognition of services to the Company. In conjunction with the restricted share award plan, the Former Parent Company assigned 4,849,949 common shares of the Company, representing a 16% equity interest in the Company to the Company. The Company then awarded these shares to its chairman and chief executive officer. The chairman and chief executive officer’s entitlement to 606,245 of these shares is subject to an employment agreement with one of the Company’s United States subsidiaries and entitlement to such shares vested immediately. The chairman and chief executive officer’s entitlement to the remaining 4,243,704 shares is subject to employment, non-compete and vesting terms under an employment agreement with one of the Company’s United States subsidiaries. The 4,243,704 shares were to vest ratably over 10 years, 10% each year on each anniversary date from the grant date. However, effective August 30, 2000, the Company’s Board of Directors approved the accelerated vesting of all the restricted shares granted to the chairman and chief executive officer resulting in immediate vesting of all the shares. The Company recorded total $64,000 non-cash compensation expense associated with these awards in the year ended December 31, 2000. At the modification date and subsequently the Company, based on historical evidence and the Company’s forecast of future employee separations, estimated that the chairman and chief executive officer will not terminate employment and appointment as director prior to the date that vesting in the shares would have occurred absent the modification. Therefore, the Company has estimated that additional compensation expense to be recognized as a result of the modification is nil. Should actual results differ from this estimate, adjustment in future reporting periods will be required.

23. Equity Compensation Plans

On December 30, 1999, the Company established The Global Sources Employee Equity Compensation Trust (the "Trust") for the purpose of administering monies and other assets to be contributed by the Company to the Trust for the establishment of equity compensation and other benefit plans. The Trust is administered by Harrington Trust Limited (the "Bermuda Trustee"). The Bermuda Trustee in the exercise of its power under the Declaration of Trust may be directed by the plan committee, including the voting of securities held in the Trust. The Board of Directors of the Company will select the members of the plan committee.

On February 4, 2000, in conjunction with the establishment of the Trust and the Share Exchange, the Former Parent Company assigned 3,031,218 common shares of the Company at a historical cost of less than $1, representing a 10% equity interest in the Company, for the establishment of share option plans and/or share award plans, known as ECP I, ECP II and ECP III. Subsequently, share option plans and/or share award plans, known as ECP IV, ECP V, ECP VI and ECP VII were established.

Eligible employees, directors and consultants under ECP I are entitled to purchase common shares of Global Sources Ltd. at a price determined by the plan committee at the time of the grant. The exercise price of these options may be below the fair market value of the Company's common shares. The plan committee determines who will receive, and the terms of, the options.

Optionees may pay for common shares purchased upon exercise of options in the manner determined by the plan committee at the time of grant.

Eligible employees, directors and consultants under ECP II were entitled to purchase common shares of Global Sources Ltd. at an exercise price determined by the plan committee at the time of the grant. There are two types of options under this plan. The exercise price of both of these options were below the fair market value of the Company's common shares at that time. The plan committee determines who will receive, and the terms of, the options. Employees could decide whether to take up the options for a period of 95 days ending June 29, 2000. All the options granted were exercised. Optionees were able to pay for common shares purchased upon exercise of options by check to the Trust. Payment has been made to the Trust. Entitlement of the employees, directors and consultants to these common shares is subject to employment and vesting terms.

Eligible employees, directors and consultants under ECP III were awarded a defined amount of compensation payable in Global Sources Ltd. common shares, the number of which were determined by dividing the amount of compensation awarded by an amount determined by the plan committee prior to the Share Exchange.

Entitlement of the employees to these common shares is subject to employment and vesting terms.

The non-cash compensation expense associated with awards in accordance with APB No. 25 and SFAS No. 123, under ECP II and ECP III of approximately $2,904 and $2,357, respectively, were recognized ratably over the three year vesting term from the respective award dates.

Eligible employees, directors and consultants under ECP IV are awarded a defined amount of compensation payable in Global Sources Ltd. common shares, the number of which are determined by the plan committee periodically.

Entitlement of the employees, directors and consultants to these common shares is subject to employment and vesting terms.

Eligible employees, directors and consultants under ECP V were awarded a one-time grant of shares, the number of which were determined by the plan committee.

Entitlement of the employees to these common shares is subject to employment and vesting terms.

The Equity Compensation Plan committee approved the awards of common shares under ECP IV and ECP V on January 23, 2001. The Equity Compensation Plan committee approved additional awards of common shares under ECP IV on April 1, 2001, July 1, 2001 and August 29, 2001 and under ECP V on August 29, 2001, January 1, 2002 and January 2, 2004.

The non-cash compensation expenses associated with the above awards in accordance with APB No. 25 and SFAS No. 123, under ECP IV and ECP V of approximately $3,232 and $2,273, respectively, are recognized over the five year vesting term from the respective award dates.

Eligible employees, directors and consultants under ECP VI are awarded a one-time grant of Global Sources Ltd. common shares, the number of which are determined by the plan committee.

Entitlement of the employees, directors and consultants to these common shares is subject to non-compete and vesting terms.

The Equity Compensation Plan committee approved ECP VI on March 13, 2001 and made awards of common shares under plan on various dates during the year 2001, 2002 and on July 28, 2004.

The non-cash compensation expenses associated with the awards in accordance with APB No. 25 and SFAS No. 123, under ECP VI totaling to approximately $1,002, are recognized over the five year vesting term from the respective award dates.

Eligible employees, directors and consultants under ECP VII are awarded a grant of defined number of Global Sources Ltd. common shares, the number of which are determined by the plan committee periodically.

The Equity Compensation Plan committee approved the awards of common shares under ECP VII on January 1, 2002 and made further awards on March 31, 2003, on June 19, 2003 and on January 2, 2004. The non-cash compensation expenses associated with the above awards in accordance with APB No. 25 and SFAS No. 123, under ECP VII of approximately $5,352 are recognized over the six years vesting term from the respective award dates.

Entitlement of the employees, directors and consultants to these common shares is subject to employment and vesting terms.

The Company expensed $2,564, $1,419 and $2,117 in non-cash compensation costs associated with the awards under the above ECP plans in the years ended December 31, 2002, 2003 and 2004, respectively.

(In U.S. Dollars Thousands, Except Number of Shares and Per Share Data)

	ECP II		ECP III	ECP IV	ECP V	ECP VI	ECP VII
	Purchase Plan	**Gift Plan**	**Grant Plan**	**Grant Plan**	**Grant Plan**	**Grant Plan**	**Grant Plan**
Plan Inception	**March, 2000**	**March, 2000**	**March, 2000**	**January, 2001**	**January, 2001**	**March, 2001**	**January, 2002**
Number of Shares: At December 31, 2000................	97,874	243,313	124,449	-	-	-	-
Original restricted shares granted in year 2001................	-	-	-	632,049	366,630	94,743	-
Shares forfeited to beneficial trustee......................................	-	(29,607)	(24,006)	(106,284)	(110,715)	-	-
Balance at December 31, 2001..	97,874	213,706	100,443	525,765	255,915	94,743	-
Original restricted shares granted in year 2002................	-	-	-	-	36,300	12,100	162,682
Shares forfeited to beneficial trustee.....................................	-	(11,961)	(2,758)	(46,851)	(34,364)	-	(11,124)
Balance at December 31, 2002..	97,874	201,745	97,685	478,914	257,851	106,843	151,558
Original restricted shares granted in year 2003...........................	-	-	-	-	-	-	347,665
Shares forfeited to beneficial trustee....................................	-	(1,583)	-	(14,879)	(4,356)	-	(13,676)
Balance at December 31, 2003...	97,874	200,162	97,685	464,035	253,495	106,843	485,547
Original restricted shares granted in year 2004	-	-	-	-	36,300	11,000	354,393
Shares forfeited to beneficial trustee....................................	-	-	-	(28,124)	(5,203)	-	(34,386)
Balance at December 31, 2004...	97,874	200,162	97,685	435,911	284,592	117,843	805,554
Grant Price Per Share..................	$ 19.84	$ NIL	$ NIL	$ NIL	$ NIL	$ NIL	$ NIL
Weighted average fair value of the shares granted...................	$ 2.06	$ 21.9	$ 21.9	$ 7.16	$ 6.91	$ 4.79	$ 4.48

Weighted average fair value of the shares granted is estimated to be the average market value of the shares at the time of the grant.

24. Directors Purchase Plan

A 2000 Non-Employee Directors Share Option Plan was approved on October 26, 2000 by the shareholders of the Company. Each eligible Director on the date of the first board meeting of each calendar year, commencing in 2001, would receive the grant of an option to purchase 24,200 common shares on that date. The Options granted are subject to such terms and conditions as determined by the Board of Directors at the grant.

The option price, per share, payable before the end of each February, is determined by the Board of Directors for each such grant of options. The non-employee Directors may decline all or part of the award, which is non-transferable.

The Board granted the first awards under the above plan in 2001. The option price was fifteen percent less than the average closing price of the shares for the last five trading days of the previous calendar year. The award vests over four years with one quarter of the shares vesting each year. Full payment must be made upon exercising the option. Upon resignation of an eligible Director, all unvested shares are forfeited and the option price received for the forfeited unvested shares is refunded. Only one Director accepted the offer on February 10, 2001 for the 24,200 shares granted under option. The $164 received as proceeds of this plan was included in additional paid-in capital. On February 28, 2002, 2003 and 2004, the Company issued to the Director the 6,050, 6,050 and 6,050 common shares, respectively, that vested on those dates, adjusted to reflect the shares split discussed in Note 27 and Note 29.

As per the terms of the plan, the Board granted options to all eligible Directors again in February 2002. These awards will vest after four years. Optionees must pay 15% of the option price, which is the average closing price of the shares for the last five trading days of year 2001, at the time of exercising the option. The balance of 85% must be paid on or before the vesting date. The resignation of a Director following his or her exercise of the Grant of Options and payment of the Option Price shall not cause a forfeiture of the unvested shares. All the eligible non-employee Directors accepted the offer before February 28, 2002. The $50 received towards the 15% of the option price was included in additional paid in capital.

The Board granted options to all eligible directors again in February 2003. These awards will vest after four years. Optionees must pay 10% of the option price, which is the average closing price of the shares for the last five trading days of year 2002, at the time of exercising the option. The balance of 90% must be paid on or before the vesting date. The resignation of a Director following his or her exercise of the grant of options and payment of the option price shall not cause a forfeiture of the unvested shares. Three eligible directors accepted the offer before February 28, 2003. The $30 received towards the 10% of the option price was included in the additional paid in capital.

On May 8, 2003, shareholders approved the amendments to the 2000 Non-Employee Directors Share Option Plan to allow both employee and non-employee Directors to participate in the plan. The plan was renamed as Directors Purchase Plan by the Board of Directors on August 14, 2003.

Directors purchasing the shares under the plan pay 10% of the purchase price which is the average closing price of the shares for the last five trading days of year 2003, on or before February 28, 2004. The balance of 90% is paid by February 28, 2008 and the shares will be issued thereafter. The resignation of a Director following his or her purchase of the shares and payment of the 10% initial installment shall not cause a forfeiture of the purchased shares. Six directors opted to purchase 24,200 shares each and one director opted to purchase part of the 24,200 shares. The amount of $92 received towards the 10% of the purchase price was included in the additional paid in capital.

As per the terms of the Directors Purchase Plan, Directors purchasing the shares under the plan in year 2005, pay 10% of the purchase price which is the average closing price of the shares for the last five trading days of the year 2004, on or before February 28, 2005. The balance of 90% is paid by February 28, 2009 and the shares will be issued thereafter. The resignation of a Director following his or her purchase of the shares and payment of the

10% initial installment shall not cause a forfeiture of the purchased shares. Five directors opted to purchase 22,000 shares each. The amount of $118 received towards the 10% of the purchase price will be included in the additional paid in capital.

25. Credit Facilities

The Company holds a Documentary Credit facility with the Hongkong and Shanghai Banking Corporation Limited, for providing documentary credits to the Company's suppliers. This facility has a maximum limit of $577. As at December 31, 2004, the unutilized amount under this facility was approximately $350. Hongkong and Shanghai Banking Corporation Limited has also provided guarantees on behalf of the Company to the Company's suppliers. As at December 31, 2004, such guarantees amounted to $3.

26. Other Commitments

The Company has entered into a number of licence agreements during the year for its exhibition events amounting to $29,730 in payments over five (5) years. The agreements are cancelable under Force Majeure conditions, and with the consent of the other party but may be subject to a payment penalty. As of December 31, 2004 the amount paid under these agreements was $1,924. The amount paid will be expensed when the related events are held.

The Company also entered into several agreements for the event specific promotion of our exhibition events amounting to $3,043 in payments over four years. The amount paid under these agreements as of December 31, 2004 was $571.

27. Bonus Shares

On February 16, 2004, the Company announced a one for ten bonus share issue on the Company's outstanding common shares. Shareholders of record on March 1, 2004 will receive one additional common share for every ten common shares held, of face value of $0.01 each. The bonus share issue was distributed in April 2004. All common shares and per-share amounts in the consolidated financial statements and related notes have been retroactively adjusted to reflect the one for ten bonus share issue for all periods presented. In addition, the Company has reclassified $26 and $26 from additional paid in capital to common share capital as of December 31, 2003 and 2004, respectively.

28. Reclassification

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

29. Post Balance Sheet Events

On March 1, 2005, the Company announced a one for ten bonus share issue on the Company's outstanding common shares. Shareholders of record on March 4, 2005 will receive one additional common share for every ten common shares held, of face value of $0.01 each. The bonus share issue will be distributed on or about April 1, 2005. All common shares and per-share amounts in the consolidated financial statements and related notes have been retroactively adjusted to reflect the one for ten bonus share issue for all periods presented. In addition, the Company has reclassified $29 and $29 from additional paid in capital to common share capital as of December 31, 2003 and 2004, respectively.

Global Sources' strong on-the-ground presence throughout China

Global Sources' new China headquarters is in the International Chamber of Commerce Tower in Shenzhen. Occupying four floors and with a total floor area of 100,000 square feet, it is adjacent to the new metro line and the Shenzhen Convention and Exhibition Center.

Global Sources offers extensive export marketing services throughout Greater China and other leading supply markets through 65 offices worldwide. In mainland China, we have 23 years on-the-ground presence, supported by more than 1,100 team members in 44 locations.

Global Sources' objective is to be the preferred provider of essential information and integrated marketing solutions for the markets we serve. Our primary business strategy to achieve this is to serve our markets with online, print and trade-show media.

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