

3. CHAIRMAN'S STATEMENT

The 2004 Financial Year was another record performing year for PORTS and its subsidiaries (the "Group"). Driven by the strong results of the retail operation, the Group achieved strong growth in turnover and profits. As compared to the 2003 Financial Year, the 2004 Financial Year saw an increase in turnover of 22.2% to RMB714.2 million, an increase in net cash inflow from operating activities of 81.8% to RMB150.3 million and an increase in profit attributable to shareholders of 27.4% to RMB137.1 million.

3.1 The year in review

The Group's retail operation, consisting of PORTS and BMW LIFESTYLE retail outlets, continued to grow. The number of PORTS branded retail outlets had grown to 282 concession stores and freestanding retail stores, accounting for the majority of the Group's retail outlets, as at 31 December 2004. The strong results of the retail operation, and the increasing media coverage of PORTS promotional events, is indicative of the growth in both recognition and acceptance of the PORTS brand by PRC consumers. PORTS brand building efforts during the 2004 Financial Year continued with the same zeal and attention to detail as the previous year. In particular, the Group sponsored a number of high-profile events during the 2004 Financial Year including the Miss Universe China contest, the Elite Model Look contest, and the PORTS annual Canadian model tour. These events received wide spread media coverage, with coverage from the Miss Universe China and the Elite Model Look events reaching an audience in excess of hundreds of millions of people, both inside and outside of the PRC.

The BMW LIFESTYLE retail concept reached a milestone during the 2004 Financial Year, with the number of retail outlets reaching 17 as at 31 December 2004. Combined with a significant increase in turnover, the BMW Lifestyle business turned a small profit for the first time. On this basis, the Group intends to accelerate the number of store openings for the BMW LIFESTYLE brand in 2005. In addition to the retail operations, the Directors believe that the export of BMW Lifestyle products to BMW dealers throughout the world, which started in 2003, appears to have strong growth potential. Growing from RMB11.8 million in the 2003 Financial Year, total exports to BMW A.G. increased to RMB36.4 million in the 2004 Financial Year, an increase of 208.5%.

The OEM segment experienced a slight decline in turnover during the 2004 Financial Year, although gross profit margins increased slightly. The contribution from the OEM segment to the Group's net earnings during the 2004 Financial Year remained approximately the same as the previous year. Expressed as a percentage of total earnings, the OEM segment continued to be of lesser importance to the Group.

The financial position of the Group went from strength to strength. As at 31 December 2004, the Group had approximately RMB375.1 million in cash, cash equivalents and time deposits, as compared to RMB315.1 million for the 2003 Financial Year, with no bank debt or borrowing. The Directors believe that is in a strong financial position to take advantage of future business opportunities.

3.2 A look forward to 2005 and beyond

Going forward, the Group is committed to continuing its tradition of performance and operational excellence. Given the positive overall macroeconomic environment, the Directors are cautiously optimistic about the business outlook for 2005. With consumer spending boosted by a strong economy and modest inflation in the PRC, the business outlook appears to be favorable to the Group, as reflected by a significant increase in retail sales during the first two months of 2005.

The Group will continue to build upon and solidify the leading position of PORTS within the PRC market and will cautiously seek opportunities to expand to other countries in the Asia Pacific region. The Group will seek to strengthen the PORTS brand in the PRC market through a number of initiatives including the opening of more flagship stores, the expansion of our talented design team, upgrading existing locations to our fifth generation store design, developing complimentary luxury product lines, and continued advertising and promotional activities (such as the sponsorship of high-profile events). Although the BMW Lifestyle business remains in the early stages of growth, the management team strongly believes in the potential of this business. The Group will continue to invest in the growth of this business so as to realize the returns that the BMW Lifestyle business is capable of delivering to our shareholders.

In addition, management is evaluating opportunities to deploy the proceeds of the IPO. The Group's aim is to make careful investments in licenses, partnerships, and/or assets that are directly related to our core competence of high-end retailing in the PRC market, and which management believes have significant potential return on investment. Several opportunities are currently under consideration by the management team. Any investment that the management team may consider will be consistent with our overriding goal of prudently enhancing and managing shareholder value.

With the global economy appearing to continue its recovery and the PRC economy experiencing strong growth, the management team feels cautiously upbeat about the strength of the Group's business and the growth opportunities available. The PRC is the Group's core market, one in which we are highly experienced. Over the last decade, we have laid a solid foundation upon which we can build a strong business. We believe that the Group's efforts will deliver superior returns to our shareholders.

A handwritten signature in black ink, appearing to be 'ES.' followed by a flourish.

Edward Tan
Chairman

23 March 2005
Xiamen, China