

CHAIRMAN'S STATEMENT

PORTS and its subsidiaries (the "Group") continued its growth trend from previous years, with a double-digit turnover increase year-over-year, and widening gross and net profit margins. The 2005 turnover growth was due mainly to an increase in business from the Company's retail segment, consisting of PORTS and BMW LIFESTYLE retail outlets. Driven by the strong results of the retail operation, the Group achieved strong growth in turnover and profits. The imposition of European and American safeguard quotas caused a serious disruption in turnover from the OEM and "Other" segments. In spite of this disruption, the 2005 Financial Year saw an increase in turnover of 19.27% to RMB851.7 million, and an increase in profit attributable to shareholders of 23.61% to RMB165.1 million, compared to FY2004.

The Group's financial position continued to be strong throughout FY2005. As at 31 December 2005, the Group had approximately RMB346.7 million in cash, cash equivalents and time deposits, as compared to RMB375.1 million for FY2004, representing a decrease of RMB28.4 million, with no bank debt or borrowing. This decrease is due mainly to investment required for the expansion of the Group's manufacturing and distribution facilities. The Directors believe that the Group continues to be in a strong financial position to take advantage of future business opportunities, and current facilities should be sufficient to support the growth of the business in the medium term.

The year in review

The Group's retail operation, consisting of PORTS and BMW LIFESTYLE retail outlets, continued to grow throughout 2005. As at 31 December 2005, the number of PORTS branded retail outlets had grown to 298 concession stores and freestanding retail stores. As part of the Company's efforts to maintain a presence in the most prominent retail locations in China and Hong Kong, two additional PORTS flagship locations were opened in high-profile locations within the People's Republic of China ("China" or "PRC") during 2005, namely; at Bund 18 in Shanghai and on Euro Street in Hangzhou. The strong result of the retail operation, and the increasing media coverage of PORTS and its products both inside and outside the PRC, is indicative of the growth in both the recognition and acceptance of the PORTS brand by PRC and international consumers alike.

After breaking even during the second half of FY2004, the BMW LIFESTYLE retail concept reached another milestone during the 2005 Financial Year. For the first time since its inception the BMW LIFESTYLE retail concept achieved similar sales per store and gross profit margin as the PORTS retail concept during FY2005. This milestone was an indication to the Directors that the BMW LIFESTYLE retail concept and merchandise had reached a tipping point, and the target BMW LIFESTYLE customer had been successfully profiled and reached. On this basis, the Company intends to maintain a higher rate of net new store openings for the BMW LIFESTYLE concept than for the PORTS retail concept as the BMW LIFESTYLE retail concept is growing from a smaller base. In addition to the retail operation, the export of BMW LIFESTYLE products to BMW dealers throughout the world experienced explosive growth during the first half of 2005. Turnover from the Company's "Other" segment, which consists mainly of exports to BMW in Germany, increased from RMB6.9 million in the first half of 2004 to RMB26.6 million in the first half of 2005, representing an increase of 285.51%. This indicates strong acceptance for BMW LIFESTYLE branded apparel in markets outside the PRC. The growth of the BMW LIFESTYLE export business was seriously disrupted in the second half of 2005 however, after the imposition of safeguard quotas by the USA and EEC governments.

The OEM segment experienced growth in gross profit margin during FY2005. The safeguard quotas imposed by the USA against certain exports from the PRC during the first half, negatively affected OEM orders to customers in the USA. However, most of the OEM segment's orders were shipped to customers in Canada. Orders to Canadian customers during FY2005 have beaten expectations, thus off-setting the negative impact of the USA safeguard quotas. In spite of these changes, impact on turnover of the OEM segment was limited, and gross profit from the OEM segment increased by 5.5%, from RMB25.6 million in FY2004, to RMB27.0 million in FY2005. Expressed as a percentage of total earnings however, the OEM segment continued to be of lesser importance to the Group.

A look forward to 2006 and beyond

Going forward, the Group is committed to continuing its tradition of performance and operational excellence.

Given the favorable overall macroeconomic environment, the Directors are cautiously optimistic about the business outlook for 2006. 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 in the significant increase in retail sales during the first two months of 2006. The increase in retail turnover during the first quarter of 2006 is indicative of a high quality retail business built on the goodwill of many consumers.

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, the upgrading of existing stores to our fifth generation store design, the development of complimentary luxury product lines, and the continuation of advertising and promotional activities (such as the sponsorship of high-profile events). The Group will continue to invest in the growth of the BMW LIFESTYLE business and the expansion of the store network to benefit from the economies of scale that the PORTS business currently enjoys. The Group expects the BMW LIFESTYLE business to make a significant contribution to the Group's retail segment in the medium term.

Management continues to evaluate opportunities to best utilize the proceeds from the IPO. The Group's aim is to make careful investments in licenses, partnerships, and/or assets which 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. Any investment which the management team may consider must be consistent with our overriding goal of prudent enhancement and management of shareholder value.

With the PRC economy continuing to experience strong growth, the management team feels cautiously upbeat about the strength of the Group's business and the growth opportunities available. The management believes that retail consumption in the PRC is still in the early stages of growth, and is capable of growing to a size comparable to those of the largest markets in the world, and that these conditions bode well for the long term prospects of the Group as a whole.



Edward Tan
Chairman
28 March 2006
Xiamen, China

