MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Turnover

Turnover increased from RMB714.1 million in FY2004 to RMB851.7 million in FY2005, representing an increase of 19.27%. Turnover comprises of three different segments: retail, OEM, and other turnover. In FY2005, the retail segment grew in importance in terms of overall turnover, seeing an increase from 68.84% of the total Group turnover in FY2004, to 75.56% of the total Group turnover in FY2005.

Retail

Retail turnover increased from RMB491.6 million in FY2004 to RMB643.5 million in FY2005, representing an increase of 30.90%. The increase was driven by an increase in unit volume sold, growth in sales in existing stores, sales from new stores, and an increase in the average selling price. The increase in unit volume sold is due to, among other factors, the increase in the number of PORTS and BMW LIFESTYLE retail outlets from 299 as at 31 December 2004 to 325 as at 31 December 2005. The number of new PORTS stores opened during FY2005 was slightly lower than in previous years. Previously, the Group's plan was to increase the size of its PORTS retail store network by approximately 9% each year. In 2005 however, the Directors decided to slow the expansion rate of the PORTS retail store network to improve the exclusivity of the PORTS retail locations, and to drive traffic to, and thereby increasing the profitability of the existing PORTS stores. In light of the strong performance of BMW LIFESTYLE stores during the first half of 2005, the Directors decided to increase the size of the BMW LIFESTYLE retail store network by approximately 58.82% in FY2005. The increase in average selling price for both PORTS and BMW LIFESTYLE products reflects, in part, the increasing strength of the PORTS and BMW LIFESTYLE brands, and the effectiveness of the Group's marketing program. The Directors believe that the increase in retail turnover is also partially attributable to the continued growth in the average annual household income in urban cities in the PRC, where most of the Group's retail outlets are located. The increase in household income enables more PRC consumers to purchase the Group's products.

During FY2005, turnover from concessions represented 73.9% of the total retail turnover while turnover from retail stores represented 26.1% of the total retail turnover. Accordingly, sales from concessions in department stores still represented the majority of the Group's retail turnover. However, the Directors believe that retail stores located in upscale shopping malls will become increasingly important to the positioning of the PORTS and BMW LIFESTYLE brands.

As at 31 December 2005, turnover from the retail segment represented a larger percentage of the overall turnover of the Group than in previous years, seeing and increase from 68.84% of the total Group turnover in FY2004, to 75.56% of the total Group turnover in FY2005.

OEM

Turnover from the OEM segment decreased from RMB157.2 million in FY2004 to RMB156.9 million in FY2005, representing a slight decrease of 0.18%. Turnover of the OEM segment declined from 22.02% of the total turnover in FY2004 to 18.43% of the total turnover in FY2005, which shows a decline in importance to the Group in terms of its contribution to the total turnover. This decline was mainly due to the negative effect on turnover resulting from the safeguard quotas imposed by the EEC and the USA. The Directors anticipate that the contribution of OEM turnover to the Group's total turnover will continue to decline in 2006.

Other

Other turnover decreased by approximately 21.53%, from RMB65.3 million in FY2004 to RMB51.2 million in FY2005. This decrease was mainly the result of the imposition of the safeguard quotas by the EEC governments in December 2005, which affected the export of BMW LIFESTYLE products to Europe. Although the growth in BMW LIFESTYLE apparel exports from PORTS to BMW AG in Germany was particularly robust during the first half of FY2005, exports from PORTS to BMW AG were seriously affected during the second half of FY2005. The Directors anticipate that the growth of exports of BMW LIFESTYLE products will resume in 2006, and will continue to grow through 2008, when quotas are anticipated to be eliminated in accordance with the terms of China's ascension into the World Trade Organization ("WTO").

Cost of sales

Cost of sales increased from RMB278.8 million in FY2004 to RMB295.8 million in FY2005, representing an increase of 6.13%. The increase in cost of sales was directly related to the increase in the Group's turnover during FY2005, although the percentage increase in cost of sales is significantly less than the percentage increase in the total turnover and volume of sales.

Gross profit

Gross profit increased from RMB435.4 million in FY2004 to RMB555.9 million in FY2005, representing an increase of 27.68%. Gross profit margin also increased from 60.97% in FY2004 to 65.27% in FY2005. The improvement in gross profit margin was driven predominantly by the increasing contribution of gross profit generated by the retail segment.

Retail

Gross Profit for the retail segment increased from RMB378.1 million in FY2004 to RMB504.9 million in FY2005, representing an increase of 33.50%. Gross profit margin for the retail segment also improved from 76.90% in FY2004 to 78.46% in FY2005. The Directors believe that the gross profit margin enjoyed by the retail segment is in line with the profit margin level achieved by other international high-end fashion and luxury brands. In FY2005, the retail segment accounted for 90.88% of the Group's total gross profit, up from 86.67% of the Group's total gross profit in FY2004. This increase, in part, reflects the growing importance of the retail segment to the Group.

OEM

Gross profit from the OEM segment increased from RMB25.6 million in FY2004 to RMB27.0 million in FY2005, representing an increase of 5.47%. Gross profit margin also improved from 16.30% in FY2004 to 17.20% in FY2005. The increase in gross profit margin is partly the result of the controls imposed by the Group in refusing orders with unacceptable gross profit margin. The Directors are very pleased with the improvement of the gross profit margin. However, as OEM is a very competitive business, the Directors do not expect any further significant improvement in the performance of the OEM segment going forward.

Other

Gross profit from the Other segment decreased from RMB32.4 million in FY2004 to RMB23.7 million in FY2005, representing a decrease of 26.87%. Gross profit margin declined from 49.67% in FY2004 to 45.68% in FY2005. As a result of the European safeguard quotas imposed in the second half of 2005, production for pending orders from BMW AG was shifted to countries outside the PRC. As a result of this shift, higher production costs, shipping charges and quota charges for the BMW LIFESTYLE business negatively impacted gross profit for this segment. The Other segment was further impacted in FY2005 by the imposition of the safeguard quotas by the EEC governments. As a result of the safeguard quotas, no BMW LIFESTYLE products were exported during the second half of 2005. BMW LIFESTYLE products however, have been well received by BMW dealers throughout the world, and the Directors anticipate growth in the export of BMW LIFESTYLE products to resume in 2006.

Other operating income

Other operating income increased from RMB4.8 million in FY2004 to RMB11.4 million in FY2005, representing an increase of 140.02%. This increase was due mainly to an increase in store design and decoration service income. The Directors anticipate that income from store design and decoration services will continue to increase during FY2006.

Operating Expenses

Operating expenses increased from RMB297.6 million in FY2004 to RMB381.3 million in FY2005, representing an increase of 28.14%. Operating expenses have generally increased in accordance with the growth of the business. Expenses consist of distribution expenses, administrative expenses and other operating expenses.

Distribution expenses

Distribution expenses increased from RMB243.9 million (restated) in FY2004 to RMB319.8 million in FY2005, representing an increase of 31.09%. The increase was principally due to increases in sales commissions, rental payments, transportation costs, and depreciation charges. Transportation costs increased from RMB8.5 million in FY2004 to RMB15.6 million in 2005, representing an increase of 83.53%, as a result of increased business and increased fuel prices. Depreciation charges increased from RMB14.4 million in FY2004 to RMB19.0 in FY2005, representing an increase of 31.94%, as a result of increased investments in manufacturing, distribution facilities and retail outlets. Advertising and promotional costs increased from RMB22.0 million in FY2004 to RMB27.3 million in FY2005, representing an increase of 24.09%, amounting to approximately 4.24% of FY2005 retail turnover.

Administrative expenses

Administrative expenses increased from RMB29.2 million (restated) in FY2004 to RMB33.5 million in FY2005, representing an increase of 14.80%. The increase was principally due to increases in salaries and benefits, and insurance expenses. Insurance expenses increased rom RMB5.1 million in FY2004 to RMB7.1 million in FY2005, representing an increase of 39.22%, as a result of increased investments in manufacturing, distribution, and retail outlets.

Other operating expenses

Other operating expenses increased from RMB24.5 million in FY2004 to RMB28.1 million in FY2005, representing an increase of 14.70%. This increase was due to an increase of RMB3.7 million in the provision for ageing inventory.

Profit from operations

As a result of the increase in turnover, and the economies of scale derived from the growth of the Group's operations, the Group's profit from operations increased from RMB142.5 million in FY2004 to RMB186.0 million in FY2005, representing an increase of 30.45%. The Group's operating margin (i.e. profit from operations expressed as a percentage of turnover), increased from 19.96% in FY2004 to 21.83% in FY2005.

Income tax expense

The Group's effective income tax rate increased from 8.50% of profit before tax in FY2004 to 8.93% of profit before tax in FY2005. The tax refund received by the Group increased from RMB5.0 million in FY2004 to RMB7.0 million in FY2005, representing an increase of 14%.

The majority of the Company's subsidiaries are located in the Xiamen Special Economic Zone, and thus enjoy a maximum income tax rate of 15%. The effective tax rate of the Group is reduced by tax refunds received each year pursuant to certain PRC tax laws and regulations relating to the re-investment of net profits by foreign owned companies. One of the Company's subsidiaries, Ports International Marketing (Xiamen) Ltd., which operates the BMW lifestyle business in the PRC, was enjoying the second year of its tax holiday during FY2005.

Profit attributable to shareholders

As a result of the factors discussed above, the Company's profit attributable to shareholders increased from 133.5 million in FY2004 to RMB165.1 million in FY2005, representing an increase of 23.61%. The Company's net profit margin also improved from 18.70% in FY2004 to 19.38% in FY2005.

Financial Position & Liquidity

The Group continues to enjoy a strong financial position, with significant cash reserves being generated from normal business operations. 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 as at 31 December 2004, representing a decrease of 7.55%. This was due mainly to the increased investments in fixed assets including investments in flagship stores and manufacturing and distribution facilities, from RMB41.0 million in FY2004 to RMB75.8 million in FY2005, representing an increase of 84.82%.The Group also had access to significant bank loans and overdraft facilities, although these were not utilized. The Group currently has no interest bearing loans with any commercial banks, and as at 31 December 2005, the Group's gearing ratio was zero. Cash inflow from operating activities decreased from RMB150.3 million in FY2004 to RMB126.7 million in FY2005, representing a decrease of 15.67%.

Acquisitions & Disposals of Subsidiaries & Associated Companies

The Group did not engage in any acquisitions or disposals of any subsidiaries or associated companies during FY2005.

Currency Risk Management

The Group's cash balances from normal business operations are mainly deposited in Renminbi ("RMB"), United States dollars ("US$"), Hong Kong dollars ("HK$") and the European Union common currency ("Euros"), with major banks in Hong Kong and the PRC. The Group considers its risk exposure to currency fluctuations to be minimal.

Capital Commitments & Contingent Liabilities

As at 31 December 2005, the Group had capital commitments of RMB84.1 million (compared to RMB109.9 million as at 31 December 2004), of which RMB81.0 million was authorized but not contracted for (compared to RMB98.0 million as at 31 December 2004), and RMB3.1 million was authorized and already contracted for (compared to RMB11.9 million as at 31 December 2004). These capital commitments were primarily attributable to planned and budgeted activities such as the opening of superstores, the expansion and renovation of retail outlets and the expansion of manufacturing and distribution facilities. As at 31 December 2005, the Group had no material contingent liabilities.

Capital Structure of the Group

The Group requires working capital to support its manufacturing, retail, OEM and other operations. As at 31 December 2004, the Group had cash, cash equivalents and time deposits of approximately RMB375.1 million, denominated principally in RMB, US$, HK$ and Euros. As at 31 December 2005, cash, cash equivalents and time deposits held by the Group decreased to approximately RMB346.7 million, denominated principally in RMB, US$, HK$ and Euros. The Directors believe that the cash balances and net cash inflow from operating activities are sufficient to support the operating activities of the Group.

Major Customers & Suppliers

During FY2005, the Group purchased approximately 19% and 34% of its goods and services from its largest supplier and its five largest suppliers, respectively. The percentages of turnover attributable to the Group's largest customer and its five largest customers combined were roughly 10% and 23%, respectively. None of the Directors, their associates or shareholders (which to the best knowledge of the Directors own more than 5% of the Company's share capital) were interested at any time in the year in the above suppliers or customers.

Charges on Assets

As at 31 December 2005, the Group had not charged any of its assets.

Human Resources

As at 31 December 2005, the Group had approximately 4,160 employees. Total personnel expenses, comprised of wages, salaries, and benefits, amounted to RMB99.4 million in FY2004, compared with RMB107.8 million in FY2005, representing an increase of 8.36%.

The Group is committed to fostering a safe and comfortable workplace and a corporate culture that emphasizes training and career development opportunities and rewards employees for performance. A competitive remuneration scheme, a safe and comfortable work environment, and a merit-based advancement program provide incentives for employees to excel in their areas of responsibility. In addition, share options were granted to Directors and eligible employees pursuant to the terms and conditions of the share option scheme adopted by the Company on 14 October 2003. No new share options were granted in FY2005.

Post-Balance Sheet Date Developments

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