

REPORT OF THE DIRECTORS

The Directors submit their annual report together with the audited financial results of PORTS DESIGN LIMITED ("PORTS" or the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2005.

Principal Activities

The Group is a vertically integrated, international fashion and luxury goods company with its own design, manufacturing, marketing, distribution and retail capabilities. The Group is primarily engaged in the design, manufacture and retail distribution of ladies' and men's fashion garments and the sale of accessories such as shoes, handbags, scarves and fragrances in the PRC and more recently in Hong Kong, under the brand names PORTS INTERNATIONAL, PORTS 1961 and BMW LIFESTYLE. The Group is one of the leading international fashion companies in the PRC with 325 PORTS INTERNATIONAL, PORTS 1961 and BMW LIFESTYLE retail outlets as at 31 December 2005.

Major Customers & Suppliers

An overview of the Group's major customers and suppliers is set out on page 13.

Financial Results & Appropriations

The results of the Group for FY2005 are set out in the consolidated profit and loss account on page 39.

An interim dividend of RMB0.075 per share, amounting to RMB40.746 million in total, was paid to shareholders during FY2005. The Board recommends the payment of a final dividend of RMB0.0875 per share, amounting to approximately RMB59.896 million in total, to be paid to shareholders on the register of members (pending shareholders approval at the forthcoming annual general meeting). This final dividend, together with the interim dividend payment, amounts to approximately RMB100.643 million in total. The remaining profits for FY2005 were retained by the Group.

The Board has carried out a review of the Group's business strategy, the macro-economic environment, the Group's medium-term capital requirements and financial position and has determined that the Company, upon payment of this final dividend, will be solvent and able to meet all of its obligations as they become due.

Transfer to Reserves

The Group transferred approximately RMB17.4 million from its profit attributable to shareholders before dividends to its reserves in FY2005, compared with RMB12.2 million in FY2004. Details of transfers to reserves are outlined on pages 74 to 76.

Group Financial Summary

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 2.

Share Capital

Details of the movements in share capital of the Company are set out on page 73.

Fixed Assets

During FY2005, the Group acquired fixed assets of approximately RMB75.8 million, compared with RMB41.0 million during FY2004. Details of fixed the asset acquisitions are outlined on page 68.

Directors

The Directors of PORTS during the year were:

Executive Directors

Mr. Edward Tan Han Kiat
Mr. Alfred Chan Kai Tai
Mr. Pierre Frank Bourque

Non-Executive Directors

Mr. Kunnasagaran Chinniah*
Ms. Julie Ann Enfield**

* Mr. Kunnasagaran Chinniah retired as a Non-executive director of the Company on 10 February 2006

**Ms. Julie Enfield was appointed as a Non-executive director of the Company on 12 September 2005

Independent Non-Executive Directors

Mr. Rodney Ray Cone
Ms. Valarie Fong Wei Lynn
Ms. Lara Magno Lai

Pursuant to bye-law 99 of the bye-laws of the Company, Edward Han Kiat Tan, Alfred Kai Tai Chan, Pierre Frank Bourque, Kunnasagaran Chinniah, Julie Enfield, Rodney Ray Cone, Valarie Wei Lynn Fong and Lara Magno Lai shall retire by rotation in the forthcoming annual general meeting and all, being eligible, offer themselves for re-election. Mr Kunnasagaran Chinniah retired from the Board on 10 February 2006, and will therefore not be offering himself for re-election. Ms. Janine Tran, who was a non-executive director of the Company during FY2004, did not offer herself for re-election during the 2005 annual general meeting, and therefore was not a member of board of directors of the Company during FY2005.

The Company has received from each of its independent non-executive Directors an annual confirmation of his or her independence and accordingly, the Company considers all its independent non-executive Directors to be independent.

A brief biography of each Director and each member of senior management of the Company can be found on pages 33 to 35.

Directors' Service Contracts

None of the Directors who were proposed for re-election at the forthcoming annual general meeting has a service contract with the Group that is not determinable within one year without payment of compensation other than statutory compensation.

Directors' and Chief Executives' Interests and Short Positions

As at 31 December 2005, the interests or short positions of each Director or chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(i) Long positions in shares of the Company of HK\$0.0025 each ("Shares")

Name of Director	Capacity	Number of shares held	Percentage of total issued shares
Executive Directors			
Mr. Edward Han Kiat Tan ¹	Interest of controlled corporations	251,091,276	46.11%
Mr. Alfred Kai Tai Chan ¹	Interest of controlled corporations	251,091,276	46.11%
Mr. Pierre Frank Bourque	Person having a security interest in shares ²	180,000	0.03%
Independent Non-executive Directors			
Mr. Rodney Ray Cone	Person having a security interest in shares ²	60,000	0.01%
Ms. Valarie Fong Wei Lynn	Person having a security interest in shares ²	60,000	0.01%

Notes:

1. Mr. Tan and Mr. Chan are deemed to be interested in the same block of 251,091,276 Shares pursuant to Part XV of the SFO. These Shares were held in the following capacity: (a) 247,600,000 Shares were held by CFS International Inc. ("CFS"), which is in turn a 82.77% owned subsidiary of Ports International Enterprise Limited ("PIEL"); (b) 3,491,276 Shares were held directly by PIEL. PIEL is owned as to 50% by Mr. Tan and Mr. Chan, respectively and is therefore deemed to be a controlled corporation of Mr. Tan and Mr. Chan pursuant to Part XV of the SFO.
2. These interests represent interests in unlisted [cash] settled options granted by the Company under its share option scheme.



Save as disclosed herein, as at 31 December 2005, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Options Scheme

The Company adopted a share option scheme (the "Scheme") pursuant to the resolutions of the shareholders of the Company passed on 14 October 2003:

1. The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contributions to the Group.
2. The participants of the Scheme are (i) any employee of the Company, any of its subsidiaries or any entity in which any member of the Group holds an equity interest ("Invested Entity"), including any executive director of the Company (but excluding Mr. Chan, Kai Tai Alfred and Mr. Tan, Han Kiat Edward and each of their respective associates, any of its subsidiaries or any Invested Entity; (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; and (v) any person or entity that provides research, development or technological support to any member of the Group or any Invested Entity.
3. As at 28 March 2006, the maximum number of Shares available for issue under the Scheme was 40,324,000 representing approximately 7.4% of the issued share capital of the Company.
4. Unless otherwise approved by shareholders in general meeting, the total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time.
5. An option may be exercised in whole or in part in accordance with the terms of the Scheme at any time during a period to be notified by the Directors to each grantee. The period for exercise may commence on the date upon which the offer for grant of options is made ("Offer Date") but shall expire on the day immediately preceding the tenth anniversary of the Offer Date.
6. An option may be accepted by a participant within 28 days from the date of the offer of grant of the option. A nominal consideration of HK\$10 is payable on acceptance of the grant of an option.
7. The subscription price for Shares under the Scheme, subject to any adjustment stipulated therein, shall be a price determined by the Directors, but shall be at least the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations on the Offer Date; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of the Shares.
8. The Scheme shall be valid and effective for a period of 10 years commencing on 3 November 2003.

Details of the share options outstanding as at 31 December 2005 under the Scheme were as follows:

	Options held at 1/1/2005	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options Price per option (HK\$)	Exercise Grant Date	Exercisable from	Exercisable until
Mr. Edward Han Kiat Tan	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Alfred Kai Tai Chan	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Pierre Frank Bourque	45,000	0	0	0	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013
Mr. Kunnasagaran Chinniah	0	0	0	0	10.50	N/A	N/A	N/A
Ms. Julie Ann Enfield	0	0	0	0	10.50	N/A	N/A	N/A
Mr. Rodney Ray Cone	15,000	0	0	0	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013
Ms. Valarie Fong	15,000	0	0	0	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013
Ms. Lara Lai	0	0	0	0	10.50	N/A	N/A	N/A
Continuous contract employees	3,410,200	0	318,274	53,591	10.50	Nov-3-2003	Nov-3-2003	Nov-2-2013

Notes: On and subject to the terms of the Share Option Scheme (terms and conditions contained in this letter shall prevail in case of any inconsistencies), the Options shall only be exercisable in respect of such part thereof that has been vested in accordance with the following manner:

Fraction of the shares covered under the option	Vesting date
1/3	First anniversary of the offer date
1/3	Second anniversary of the offer date
1/3	Third anniversary of the offer date

The Board of Directors may in its absolute discretion relax or accelerate all or any of the above vesting periods in such manner as it may deem fit. The exercise price for each share is was originally fixed at HK\$10.50, but was adjusted to HK\$2.625 following the 4 for 1 share split in November 2004.

Substantial Shareholders

The Company has been notified that, as at 31 December 2005, persons (other than directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Names of shareholders	Capacity	Number of shares	Total number of shares held	Percentage of issued share capital
(a) Substantial shareholders				
CFS International Inc. ¹	Beneficial Owner	247,600,000	247,600,000	45.47%
Parts International Enterprises Limited ¹	Beneficial Owner	3,491,276		
	Interest of Controlled Corporation	247,600,000	251,091,276	46.11%
(b) Other persons				
Arisaig Greater China Fund Limited	Beneficial Owner	39,818,000	39,818,000	7.31%
Lindsay William Earnest Cooper ²	Interest of Controlled Corporation	37,922,500	37,922,500	6.96%
Arisaig Greater China Fund Limited ²	Beneficial Owner	37,922,500	37,922,500	6.96%
Arisaig Partners (Mauritius) Limited	Investment Manager	37,922,500	37,922,500	6.96%
Lloyd George Investment Management (Bermuda) Ltd.	Investment Manager	38,724,000	38,724,000	7.11%
Baring Asset Management Limited	Investment Manager	30,654,400	30,654,400	5.63%

Notes:

- PIEL is deemed to be interested in the 247,600,000 Shares held by CFS by virtue of PIEL's 82.77% interest in CFS.
- These Shares are held by Arisaig Greater China Fund Limited. Lindsay William Ernest Cooper is indirectly interested in 33% of Arisaig Partners (Mauritius) Limited, the fund manager of Arisaig Greater China Fund Limited. Accordingly, Lindsay William Ernest Cooper, Arisaig Greater China Fund Limited and Arisaig Partners (Mauritius) Limited are deemed to be interested in the same block of 37,922,500 Shares pursuant to Part XV of the SFO.

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares or underlying shares of the Company as at 31 December 2005 as recorded in the register required to be kept under section 336 of the SFO.

Directors' Interest in Contracts of Significance

There were no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, during FY2005.

Purchase, Sale or Redemption of Group's Listed Securities

During FY2005, the Company did not redeem, and neither the Company nor any of its subsidiaries purchased or sold, any of the Company's listed securities.

Pre-emptive Rights

There is no provision regarding pre-emptive rights under the bye-laws of the Company and the laws of Bermuda.

Properties

Details of the major properties and property interests of the Group are outlined on page 68.

Retirement Scheme

The Group participates in the Pension Plan benefit scheme mandated by the PRC government for its employees based in the PRC, and the Mandatory Provident Plan mandated by the Hong Kong Government for its employees in Hong Kong.

Continuing Connected Transactions

14A-35, 14A-35 Since 2002 the Group has sold ladies and men's fashion garments and accessories and other merchandise or products branded with the PORTS INTERNATIONAL and PORTS 1961 brands to Ports International Retail Corporation ("PIRC"), a wholly-owned subsidiary of CFS International Inc., which resells them in Europe and North America. These transactions constitute "Continuing Connected Transactions" for the purpose of the Listing Rules. The Group supplies its products to PIRC on a contract basis, with each contract specifying the quantity to be sold, the price and the date of delivery. During FY2005, the Group's total sales to PIRC was RMB9,250,511, representing approximately 1.23% of the Group's then consolidated net tangible assets.

The independent non-executive Directors of the Company have reviewed the Continuing Connected Transactions made during FY2005 and have confirmed that:

- (a) the Continuing Connected Transactions had been entered into in the ordinary and usual course of business of the Group;
- (b) the Continuing Connected Transactions had been entered into either on normal commercial terms or on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties;
- (c) the Continuing Connected Transactions had been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (d) the aggregate amount of the Continuing Connected Transactions did not exceed the higher of HK\$10 million and 3% of the latest published consolidated net tangible assets of the Group.

The auditors of the Company had also confirmed to the Board of Directors of the Company that:

- (a) the Connected Transactions entered into between the Group and its connected parties during the year ended 31 December 2005 had been approved by the Directors of the Company;
- (b) nothing came to their attention that caused them to believe that the Connected Transactions entered into between the Group and its connected parties during the year ended 31 December 2005 were not in accordance with either the terms of the relevant agreements where there are such agreements or, if there are no such agreements, on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties; and
- (c) nothing came to their attention that caused them to believe that the aggregate amount of the Connected Transactions have exceeded the higher of HK\$10 million and 3% of the consolidated net tangible assets of the Group as at 31 December 2005.

Details of the transactions between the Group and any related parties can be found on page 66.

Pledging of shares by controlling shareholders

The controlling shareholder of the Company has not pledged any of its interests in shares of the Group to any third-party.

Corporate Governance

The Group's principal corporate governance practices are outlined on pages 17 to 21.

Use of Proceeds

There has been no change to the proposed application of proceeds raised from the IPO on 31 October 2003.

Auditors

A resolution for the re-appointment of KPMG as auditors of the Group is to be proposed at the upcoming annual general meeting.

Statement of Sufficiency of Public Interest

As at 28 March 2006, based on the information publicly available to the Company and within the knowledge of the Directors, 44.04% of the Shares were publicly held.



On Behalf of the Board
Edward Tan Han Kiat
Chairman

28 March 2006
Xiamen, China

