

## CHAIRMAN'S STATEMENT

2006 marked a milestone for PORTS and its subsidiaries (the "Group"), with annual Turnover for the Group exceeding the RMB1 billion threshold for the first time in its history to RMB1.055 billion for FY2006. The Group's strong financial performance in FY2006 was driven mainly by the operating results of the retail segment, which consists of PORTS and BMW LIFESTYLE retail outlets operating in Hong Kong and the PRC. We are very pleased that the continued hard work and dedication of our staff has contributed to PORTS maintaining its position as a leading high end fashion brand in China. The 2006 China Fashion Index Survey Report initiated by China National Research Association and VOGUE China and organized by China Indexes Co., Ltd. placed PORTS as the 3rd most fashionable ladies wear brand according to Chinese women – behind Louis Vuitton and Chanel, but ahead of many other top international labels such as Gucci, Prada, and Dior. The same report also placed BMW as the most fashionable car brand among the Chinese public. This latest ranking of China's leading brands is a testament to the continuing strength of Ports in the minds of Chinese consumers – and is directly attributable to the dedication of our staff, and the quality of our designs and marketing efforts. This year, celebrities photographed wearing PORTS included: 2006 include Oscar-winner Helen Mirren in Vanity Fair, Zhang Ziyi in the 20th Anniversary issue of Harpers Bazaar China, and Heidi Klum, host of the hit television show Project Runway - seen wearing PORTS on The Tonight Show with Jay Leno. These and more are adding to the growing list of celebrities seen wearing PORTS in magazines, on television, and on the red carpet. The Company's sponsorship of the 20th Century FOX movie "The Devil wears Prada" has also drawn widespread media attention, and the Company continues to enjoy the benefits of the film's popularity.

The retail segment continued to build on its trend of strong turnover and same-store sales growth throughout FY2006. Total retail turnover increased 30.34%, from RMB643.5 million in FY2005 to RMB838.8 million in FY2006. Sales slowed for a brief period in the second half of FY2006, due to unseasonably warm temperatures in October and November. The cold weather resumed in December however, as did same-store sales growth - more than 40% in December 2006 over December 2005. The retail segment also continues to benefit from the brand strength of both PORTS and BMW LIFESTYLE retail concepts, allowing the Company to increase average unit selling prices by approximately 7% for both labels and also enhancing our leverage while negotiating lease rates for our retail store network. In FY2004, FY2005 and FY2006, total rental expenses as a percentage of retail turnover have decreased slightly, at 26.07%, 25.90% and 25.06% of total retail turnover, respectively. Furthermore, through the increasing benefits of economies of scale driven by the continued expansion of the retail store network and annual unit volume increases, the retail segment's operating margin continues to increase, from 21.83% in FY2005 to 26.54% in FY2006.

FY2006 also represented a return to normality for the Company's export-driven OEM and Other ("ODM") segments, which were negatively affected by the imposition of European and American safeguard quotas in the second half of FY2005 and the first quarter of FY2006. Although the impact of the safeguard quotas continued to be felt in the first quarter of 2006, annual turnover growth for these segments has resumed, although slowly, with OEM segment turnover increasing 1.81% from RMB156.9 million in FY2005 to RMB159.8 million in FY2006, and "Other" turnover increasing 9.97% from RMB51.2 million in FY2005 to RMB56.3 million in FY2006.

The strong increases in turnover experienced by the Company's higher-margin retail segment, paired with slower than normal growth of the lower-margin export-driven segments, resulted in a significant jump in the Company's net profit margin to 24.08% in FY2006 - a 24.24% increase over FY2005's net profit margin of 19.38%. Profit attributable to shareholders increased 53.88%, from RMB165.1 million in FY2005 to RMB254.0 million in FY2006.

The Directors believe that the Group continues to be in a strong financial position to take advantage of future business opportunities. As at 31 December 2006, the Group had approximately RMB412.7 million in cash, cash equivalents and time deposits, as compared to RMB346.7 million for FY2005, representing an increase of RMB66.0 million, with no bank debt or borrowing. Dividends paid to equity shareholders of the Company during FY2006 increased 36.45%, from RMB88.3 million in FY2005 to RMB120.5 million in FY2006.

### Looking forward to 2007

Going forward, the Group is committed to building on its solid history of financial performance and operational excellence. The Company's strong earnings growth, cash flow, and growing cash reserves are leading us towards further investments in retail opportunities in China which would leverage our core business expertise and enhance shareholders return on equity. 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.

The Group will continue to build upon and solidify the leading position of PORTS within the PRC market and will continue to seek opportunities to expand to other countries in the Asia Pacific region. The increase in traffic at the PORTS showroom in New York City from Asian customers seeking to represent the Ports 1961 line in their respective countries is providing expansion opportunities to other countries. This type of wholesale business allows the PORTS brand to expand internationally at a controlled pace and with minimum financial exposure to the Group. 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, and the continuation of advertising and promotional activities (such as the sponsorship of high-profile events). In 2007 and beyond, the Company plans to continually expand PORTS product lines to include those items which customers have come to expect from a leading fashion brand including jewellery, fragrance, handbags and shoes. In the near term, the Company plans to expand its garment and leather manufacturing capabilities. In support of this growth, the local Xiamen government has offered incentives for the Company to move its facilities to a nearby location in Jimai, whereby the company's head-office, sample-making, and manufacturing operations may be consolidated into a single facility.

The Group will also 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 management team continues to tailor the BMW Lifestyle store experience and merchandise to more closely reflect our growing understanding of the BMW Lifestyle brand and consumer. Discussions with BMW AG in Munich will define the roll-out schedule of this new concept, which may temporarily affect the opening of BMW Lifestyle stores in 2007.

Given the continuing favorable overall macroeconomic environment in the PRC, the Directors feel cautiously upbeat about the strength of the Group's business and the growth opportunities available.



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22 March 2007  
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