

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 2006.

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 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 357 PORTS INTERNATIONAL, PORTS 1961 and BMW LIFESTYLE retail outlets as at 31 December 2006.

Major Customers & Suppliers

An overview of the Group's major customers and suppliers is set out on page 12.

Financial Results & Appropriations

The results of the Group for FY2006 are set out in the consolidated profit and loss account on page 39.

An interim dividend of RMB0.11 per share, amounting to RMB60.25 million in total, was paid to shareholders during FY2006. The Board recommends the payment of a final dividend of RMB0.17 per share, amounting to approximately RMB93.30 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 RMB153.55 million in total. The remaining profits for FY2006 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 RMB23.35 million from its profit attributable to shareholders before dividends to its reserves in FY2006, compared with RMB17.39 million in FY2005. Details of transfers to reserves are outlined on pages 70 to 72.

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 69.

Fixed Assets

During FY2006, the Group acquired fixed assets of approximately RMB53.17 million, compared with RMB76.12 million during FY2005. Details of the fixed the asset acquisitions are outlined on page 64.

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

Ms. Julie Ann Enfield

Independent Non-Executive Directors

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

All Directors shall retire by rotation in the forthcoming annual general meeting and all, being eligible, offer themselves for re-election.

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 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 Officer's Interests

As at 31 December 2006, 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) Shares of the Company of HK\$0.0025 each ("Shares")

	Personal Interest	Corporate Interest ³	Total interest ³	Percentage of total issued shares
Mr. Edward Han Kiat Tan (Note 1)	0	223,600,000 (L) 22,000,000 (S)	223,600,000 (L) 22,000,000 (S)	40.74% (L) 4.01% (S)
Mr. Alfred Kai Tai Chan (Note 1)	0	223,600,000 (L) 22,000,000 (S)	223,600,000 (L) 22,000,000 (S)	40.74% (L) 4.01% (S)
Mr. Pierre Frank Bourque	260,000 (L) ²	0	260,000 (L)	0.04% (L)
Ms. Julie Ann Entfield	0	0	0	0
Mr. Rodney Ray Cone	60,000 (L) ²	0	0	0.01% (L)
Ms. Valarie Fong Wei Lynn	60,000 (L) ²	0	0	0.01% (L)
Ms. Lara Magno Lai	0	0	0	0

Notes:

1. A long position of 600,000 Shares are owned by Ports International Enterprise Limited ("PIEL"), the issued share capital of which is owned as to 50% by Mr. Tan and Mr. Chan respectively. PIEL also holds a short position of 22,000,000 shares. 223,000,000 Shares are owned by CFS International Inc., a direct subsidiary of PIEL. Mr. Tan and Mr. Chan are deemed to be interested in 40.74% of the issued share capital of the Company by virtue of their respective interests in PIEL pursuant to Part XV of the SFO.
2. These interests represent interests in options granted by the Company under its share option scheme.
3. (L) - Long Position, (S) - Short Position.

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 22 March 2007, the maximum number of Shares available for issue under the Scheme was 24,324,000 representing approximately 4.4% 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. For options granted on 3 November 2003, a nominal consideration of HK\$10.00 was payable on acceptance of the grant of an option. For options granted on 1 September 2006, a nominal consideration of HK\$11.68 was 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 options granted on 3 November 2003 under the Scheme shall be valid and effective for a period of 10 years commencing on 3 November 2003. The options granted on 1 September 2006 under the Scheme shall be valid and effective for a period of 10 years commencing on 1 September 2006.

Details of the share options outstanding as at 31 December 2006 under the Scheme were as follows:

Share options granted on 3 November 2003

	Options held at 1/1/2006	Options granted during the period	Options exercised during the period	Options lapsed during the period	Exercise Price per option (HK\$) ⁽¹⁾	Options held at 31/12/2006	Exercisable from	Exercisable until
Mr. Edward Han Kiat Tan	0	0	0	0	N/A	0	N/A	N/A
Mr. Alfred Kai Tai Chan	0	0	0	0	N/A	0	N/A	N/A
Mr. Pierre Frank Bourque	180,000	0	0	0	2.625	180,000	Nov-3-2003	Nov-2-2013
Ms. Julie Ann Enfield	0	0	0	0	2.625	0	N/A	N/A
Mr. Rodney Ray Cone	60,000	0	0	0	2.625	60,000	Nov-3-2003	Nov-2-2013
Ms. Valarie Fong	60,000	0	0	0	2.625	60,000	Nov-3-2003	Nov-2-2013
Ms. Lara Lai	0	0	0	0	2.625	0	N/A	N/A
Continuous contract employees	12,153,339 ⁽²⁾	0	4,331,200 ⁽³⁾	83,899	2.625	7,738,240	Nov-3-2003	Nov-2-2013

Share options granted on 1 September 2006

	Options held at 1/1/2006	Options granted during the period	Options exercised during the period	Options lapsed during the period	Exercise Price per option (HK\$)	Options held at 31/12/2006	Exercisable from	Exercisable until
Mr. Edward Han Kiat Tan	0	0	0	0	11.68	0	N/A	N/A
Mr. Alfred Kai Tai Chan	0	0	0	0	11.68	0	N/A	N/A
Mr. Pierre Frank Bourque	0	80,000 ⁽¹⁾	0	0	11.68	80,000	Sep-1-2006	Oct-31-2016
Ms. Julie Ann Enfield	0	0	0	0	11.68	0	N/A	N/A
Mr. Rodney Ray Cone	0	0	0	0	11.68	0	N/A	N/A
Ms. Valarie Fong	0	0	0	0	11.68	0	N/A	N/A
Ms. Lara Lai	0	0	0	0	11.68	0	N/A	N/A
Continuous contract employees	0	15,920,000 ⁽²⁾	0	0	11.68	15,920,000	Sep-1-2006	Oct-31-2016

Notes:

- The exercise price for each share granted in November 2003 was originally fixed at HK\$10.50, but was adjusted to HK\$2.625 following the 4 for 1 share split in November 2004.
- The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$ 11.66.
- The closing price of the shares immediately before the date on which the options were granted was HK\$ 12.02.

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.

Substantial Shareholders

The Company has been notified that, as at 31 December 2006, 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:

*Notes:

(L) Long Position in Shares

(S) Short Position 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	223,000,000(L)	223,000,000(L)	40.637%(L)
Parts International Enterprises Limited ¹	Beneficial Owner	600,000		
	Interest of Controlled Corporation	223,000,000(L) 22,000,000(S)	223,600,000(L) 22,000,000(S)	40.74%(L) 4.01%(S)

(b) Other persons

Baring Asset Management Limited	Investment Manager	52,548,096	52,548,096	9.57%
Lloyd George Investment Management (Bermuda) Ltd.	Investment Manager	37,094,000	37,094,000	6.76%
Northern Trust Fiduciary Services (Ireland) Limited	Investment Manager	27,469,180	27,469,180	5.00%

Notes:

- PIEL is deemed to be interested in the 223,000,000 Shares held by CFS by virtue of PIEL's 100.00% interest in CFS. Please also see Note 1 to "Directors' and Chief Executives Officer's Interests" above.

Saved 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 2006 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 FY2006.

Purchase, Sale or Redemption of Group's Listed Securities

During FY2006, 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 64.

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

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 ("PORTS Products") 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 PORTS products to PIRC on a contract basis, with each contract specifying the quantity to be sold, the price and the date of delivery ("the Sales Transactions"). Pursuant to Rule 14A.35 of the Listing Rules, the Company and PIRC on 1 November 2006 entered into an agreement for the supply of PORTS Products to PIRC and its affiliated companies ("the Master Agreement"). The Master Agreement commenced on 1 November 2006 and ends on 31 December 2008.

The Directors originally estimated that the aggregate annual value of sales under the Master Agreement would not exceed RMB 18,067,404, RMB19,589,697 and RMB20,441,423 for each of the three financial years ending 31 December 2008. During FY2006, the total value of the Sales Transactions and other items was RMB18,617,852, due to higher than expected sales.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions made during FY2006 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, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, 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.

Details of the transactions between the Group and any related parties can be found on pages 62 to 63.

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 22 March 2007, based on the information publicly available to the Company and within the knowledge of the Directors, 59.26% of the Shares were publicly held.



On Behalf of the Board
Edward Tan Han Kiat
Chairman

22 March 2007
Xiamen, China

