PORTS INTERNATIONAL

PORTS DESIGN LIMITED

寶姿時裝有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 0589)

Final Results Announcement for the year ended 31 December 2005

The Board of Directors of PORTS DESIGN LIMITED ("PORTS" or the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2005.

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December			
	Note	*2005 (RMB)*	*2004 (RMB) (restated) (Note 2)*	*2005 (US$) (Unaudited) (Note 9)*	*2004 (US$) (Unaudited) (Note 9)*
Turnover	3	851,725,989	714,150,093	105,539,638	86,286,485
Cost of sales		(295,839,050)	(278,761,290)	(36,658,205)	(33,681,060)
Gross profit		555,886,939	435,388,803	68,881,433	52,605,425
Other operating income		11,421,814	4,758,771	1,415,307	574,974
Distribution expenses		(319,785,102)	(243,952,231)	(39,625,424)	(29,475,289)
Administrative expenses		(33,500,588)	(29,181,648)	(4,151,147)	(3,525,844)
Other operating expenses		(28,058,399)	(24,463,218)	(3,476,791)	(2,955,744)
Profit from operations		185,964,664	142,550,477	23,043,378	17,223,522
Net finance (costs)/income	4(i)	(4,726,416)	3,375,077	(585,663)	407,790
Profit before taxation	4	181,238,248	145,925,554	22,457,715	17,631,312
Income tax	5	(16,178,291)	(12,397,293)	(2,004,695)	(1,497,891)
Profit for the year - attributable to equity shareholders of the Company		165,059,957	133,528,261	20,453,019	16,133,421
Dividends payable to equity shareholders of the Company attributable to the year:					
- Interim dividend declared during the year		40,746,139	21,729,600	5,048,963	2,625,458
- Final dividend proposed after the balance sheet date		59,896,441	47,533,797	7,421,927	5,743,224
		100,642,580	69,263,397	12,470,890	8,368,682
Earnings per share					
-Basic	6(a)	0.30	0.25	0.04	0.03
-Diluted	6(b)	0.30	0.24	0.04	0.03

**for identification only*

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2005 (RMB)	2004 (RMB) (restated) (Note 2)	2005 (US$) (Unaudited) (Note 9)	2004 (US$) (Unaudited) (Note 9)
Non-current assets					
Lease prepayments		6,899,344	7,072,074	854,916	854,476
Property, plant and equipment		138,773,886	90,759,847	17,195,842	10,965,969
Intangible assets		-	538,050	-	65,009
Deferred tax assets		8,667,836	5,999,335	1,074,054	724,863
		154,341,066	104,369,306	19,124,812	12,610,317
Current assets					
Inventories		254,316,370	212,949,534	31,513,020	25,729,419
Trade and other receivables, deposits and prepayments	7	157,147,732	130,404,466	19,472,594	15,755,993
Fixed deposits with banks		130,641,527	66,382,500	16,188,140	8,020,600
Cash and cash equivalents		216,107,425	308,681,696	26,778,447	37,296,163
		758,213,054	718,418,196	93,952,201	86,802,175
Current liabilities					
Trade payables, other payables and accruals	8	141,317,996	135,962,976	17,511,089	16,427,592
Tax payable		10,981,841	10,050,611	1,360,789	1,214,355
		152,299,837	146,013,587	18,871,878	17,641,947
Net current assets		605,913,217	572,404,609	75,080,323	69,160,228
Total assets less current liabilities		760,254,283	676,773,915	94,205,135	81,770,545
Capital and reserves					
Share capital		1,445,503	1,442,185	179,116	174,251
Reserves		758,808,780	675,331,730	94,026,019	81,596,294
Total equity - attributable to equity shareholders of the Company		760,254,283	676,773,915	94,205,135	81,770,545

Notes:

1. Significant Accounting Policies

The Group's audited consolidated results have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Boards ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the IASB.

2. Changes in accounting policies

The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised IFRSs for the current and prior accounting periods has been reflected in the Group's audited consolidated results.

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in the audited consolidated results.

The Group has not applied any new standard or interpretation that is not yet effective to the current accounting period.

(a) Related party disclosures (IAS 24 "Related party disclosure")

The definition of related parties under IAS 24 has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or any entity that is a related party of the Group.

With effect from 1 January 2005, in order to comply with IAS 24, the Group has to make further disclosure of key management personnel compensation and contributions to post-retirement benefit plans in the Company's Annual Report for the year ended 31 December 2005.

(b) Employee share option scheme (IFRS 2 "Share-based payment")

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with IFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity.

Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

The new accounting policy has been applied retrospectively with comparatives restated in accordance with IFRS 2, except that the Group has taken advantage of the transitional provisions set out in IFRS 2 under which the new recognition and measurement policies have not been applied to all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The adjustments for each financial statement line affected for the years ended 31 December 2004 and 2005 are set out in notes (i) and (ii) below.

(i) Restatement of prior periods and opening balances resulting from the adoption of IFRS 2

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the IFRS 2 to each of the line items in the Group's audited consolidated results and other significant related disclosure items as previously reported for the year ended 31 December 2004.

Consolidated income statement for the year ended 31 December 2004

	2004 (as previously reported) (RMB)	Effect of new policy (decrease in profit for the year) (RMB)	2004 (as restated) (RMB)
Turnover	714,150,093	-	714,150,093
Cost of sales	(278,008,426)	(752,864)	(278,761,290)
Gross profit	436,141,667	(752,864)	435,388,803
Other operating income	4,758,771	-	4,758,771
Distribution expenses	(243,844,679)	(107,552)	(243,952,231)
Administrative expenses	(26,456,997)	(2,724,651)	(29,181,648)
Other operating expenses	(24,463,218)	-	(24,463,218)
Profit from operations	146,135,544	(3,585,067)	142,550,477
Net finance income	3,375,077	-	3,375,077
Profit before taxation	149,510,621	(3,585,067)	145,925,554
Income tax	(12,397,293)	-	(12,397,293)
Profit for the year – attributable to equity shareholders of the Company	137,113,328	(3,585,067)	133,528,261
Earnings per share			
- Basic	0.25	-	0.25
- Diluted	0.25	(0.01)	0.24
Other significant disclosure items in the annual report:			
Personnel expenses	95,867,128	3,585,067	99,452,195
Costs of inventories	301,825,984	752,864	302,578,848

2. Changes in accounting policies (continued)

(i) Restatement of prior periods and opening balances resulting from the adoption of IFRS 2 (continued)

Consolidated balance sheet of 31 December 2004

The adoption of the new accounting policies under IFRS 2 has resulted in a decrease in retained earnings as of 31 December 2004 by RMB 4,162,988 (1 January 2004: RMB 577,921) and increase in capital reserve as of that dates by the corresponding amounts. Except for the above, the adoption of the new accounting policies under IFRS 2 had no effect on the consolidated balance sheet as at 31 December 2004.

(ii) Estimated effect of changes in accounting policies resulting from the adoption of IFRS 2 on the current period

The following tables provide estimates of the extent to which each of the line items in the Group's audited consolidated results for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year.

Estimated effect on the consolidated income statement for the year ended 31 December 2005:

	Effect of new policy (decrease in profit for the year) (RMB)
Cost of sales	(675,715)
Gross profit	(675,715)
Distribution expenses	(96,531)
Administrative expenses	(2,445,447)
Profit for the year-attributable to equity shareholders of the Company	(3,217,693)

Estimated effect on the consolidated balance sheet at 31 December 2005:

The adoption of the new accounting policies under IFRS 2 has resulted in an increase in capital reserve and share premium as of 31 December 2005 by RMB 6,817,880 and RMB 562,801 respectively and decrease in retained earnings as of that date by RMB 7,380,681.

3.

Turnover and Segment Information ***(All Amounts Expressed in Renminbi Yuan)***

The principal activities of the Group are the manufacturing and sale of garments. Turnover represents income arising from the sale of garments net of value added tax.

Segment information is presented in respect of the Group's business and geographical segments. Business segment is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business Segments

The Group comprises two principal business segments, which are retail and original equipment manufacturer ("OEM") respectively.

	For the year ended 31 December	
	2005	*2004 (restated)*
Turnover:		
Retail	643,548,850	491,639,236
OEM	156,952,680	157,234,803
Unallocated	51,224,459	65,276,054
Total	851,725,989	714,150,093
Segment result:		
Retail	187,495,254	121,294,161
OEM	14,826,748	16,557,638
Total	202,322,002	137,851,799
Unallocated operating income and expenses	(16,357,338)	4,698,678
Profit from operations	185,964,664	142,550,477
Net financing (costs)/income	(4,726,416)	3,375,077
Income tax	(16,178,291)	(12,397,293)
Profit for the year	165,059,957	133,528,261
Depreciation and amortization:		
Retail	26,438,238	19,778,019
OEM	-	-
Unallocated	2,017,860	1,095,313
Total	28,456,098	20,873,332
Capital expenditure incurred:		
Retail	70,721,994	39,723,088
OEM	-	-
Unallocated	5,397,753	2,303,927
Total	76,119,747	42,027,015

Segment assets:		
Retail	458,316,017	383,816,651
OEM	22,753,320	24,013,255
Total	481,069,337	407,829,906
Unallocated assets	431,484,783	414,957,596
Total assets	912,554,120	822,787,502
Segment liabilities:		
Retail	114,703,805	112,680,268
OEM	16,031,196	23,282,737
Total	130,735,001	135,963,005
Unallocated liabilities	21,564,836	10,050,582
Total liabilities	152,299,837	146,013,587

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal geographical areas, the PRC (other than Hong Kong), North America, Hong Kong and Europe.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	For the year ended 31 December	
	2005	*2004*
Turnover:		
the PRC	636,982,918	502,348,520
North America	162,585,370	163,040,206
Hong Kong	13,431,616	12,329,965
Europe	38,726,085	36,431,402
Total	851,725,989	714,150,093
Segment assets:		
the PRC	794,464,764	614,156,803
North America	21,473,881	14,825,256
Hong Kong	84,959,788	166,348,016
Europe	11,655,687	27,457,427
Total	912,554,120	822,787,502
Capital expenditure incurred:		
the PRC	69,902,248	40,492,360
Hong Kong	6,217,499	1,534,655
Total	76,119,747	42,027,015

4. Profit before taxation *(All Amounts Expressed in Renminbi Yuan)*

Profit before taxation is arrived at after charging/(crediting):

	For the year ended 31 December 2005	2004
(i) Net financing costs/(income)		
Interest income	(6,771,395)	(3,874,311)
Interest expense on bank advances repayable within five years	120,679	-
Bank charges	1,216,741	1,498,653
Net foreign exchange loss/(gain)	10,160,391	(999,419)
Net finance cost/(income)	4,726,416	(3,375,077)

	For the year ended 31 December 2005	2004 (restated)
(ii) Other items		
Cost of inventories	323,359,399	302,578,848
Auditors' remuneration		
- audit services	1,636,418	1,754,966
Depreciation		
- owned fixed assets	27,473,548	19,708,338
- leased fixed assets	271,770	271,770
Amortisation		
- lease prepayments	172,730	247,564
- intangible assets	538,050	645,660
Operating leases charges in respect of properties		
- minimum lease payments	42,042,767	38,364,773
- contingent rents	124,615,235	89,813,282

5. Income tax expense *(All Amounts Expressed in Renminbi Yuan)*

Income tax expense represents:

	For the year ended 31 December 2005	2004
Current year expense	25,702,904	20,181,188
Under/(over) provision in prior years	154,570	(270,829)
Income tax refund	(7,010,682)	(5,016,960)
	18,846,792	14,893,399
Changes in deferred taxes	(2,668,501)	(2,496,106)
	16,178,291	12,397,293

Pursuant to the rules and regulations of Bermuda, the Company is not subject to any income tax in Bermuda. Also, certain subsidiaries located in foreign jurisdictions are not subject to any income tax in their local jurisdictions.

Provision for Hong Kong Profits tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits of a subsidiary in Hong Kong. No provision for Hong Kong Profits tax has been made during the year ended 31 December 2005 as that subsidiary did not earn any assessable income for Hong Kong Profits tax purposes.

The Group's applicable tax rate represented the preferential PRC enterprise income tax rate of 15% applicable to companies located within special economic zones in the PRC.

Pursuant to the income tax rules and regulations of the PRC, certain subsidiaries located in the PRC ("PRC subsidiaries") are entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, they are subject to PRC Enterprise income tax at 50% of the applicable income tax rate for the following three years.

The Group was granted a tax refund of RMB7,010,682 during the year ended 31 December 2005 (2004: RMB5,016,960), pursuant to the relevant PRC tax law and regulations applicable to re-investment of profits earned.

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB165,059,957 (2004(restated): RMB133,528,261) and the weighted average of 543,415,801 (2004: 543,240,000) ordinary shares in issue during the year.

(i) Weighted average number of ordinary shares

	2005 Number of shares	*2004 Number of shares*
Issued ordinary shares at 1 January	543,240,000	135,810,000
Shares sub-division	-	407,430,000
Effect of share options exercised	175,801	-
Weighted average number of ordinary shares at 31 December	543,415,801	543,240,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of RMB165,059,957 (2004(restated): RMB133,528,261) and the weighted average number of 550,856,263 (2004(restated): 545,728,687) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's share option scheme.

(c) Reconciliation

	2005 Number of shares	*2004 Number of shares (restated)*
Weighted average number of ordinary shares at 31 December	543,415,801	543,240,000
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	7,440,462	2,488,687
Weighted average number of ordinary shares (diluted) at 31 December	550,856,263	545,728,687

7. Trade and other receivables, deposits and prepayments (All Amounts Expressed in Renminbi Yuan)

Included in trade and other receivables, deposits and prepayments as at 31 December 2005 was an amount of RMB 100,589,405 (2004: RMB 89,898,515) relating to accounts receivable. An ageing analysis of accounts receivable (net of provisions for bad and doubtful debts) is as follows:

	2005	*2004*
Within 1 month	85,352,654	77,929,060
Over 1 month but less than 3 months	14,908,656	11,439,416
Over 3 months but less than 6 months	275,938	435,089
Over 6 months but less than 12 months	52,157	94,950
	100,589,405	89,898,515

Customers are normally granted credit terms of 0 to 60 days, depending on the credit worthiness of individual customers.

8. Trade payables, other payables and accruals (All Amounts Expressed in Renminbi Yuan)

Included in trade payables, other payables and accruals as at 31 December 2005 was an amount of RMB 61,654,010 (2004: 60,637,010) relating to accounts payable. An ageing analysis of accounts payable is as follows:

	2005	*2004*
Within 1 month or on demand	33,467,489	32,888,958
Over 1 month but less than 3 months	19,113,435	19,206,908
Over 3 months but less than 6 months	8,919,725	7,864,089
Over 6 months but less than 12 months	153,361	677,055
	61,654,010	60,637,010

9. United States Dollar amounts

The U.S. dollars figures shown in the consolidated income statements and the consolidated balance sheets are for information only. The consolidated income statement for the year ended 31 December 2005 and the consolidated balance sheet as at 31 December 2005 are translated from Renminbi Yuan at RMB8.0702=US$1.00, the rate ruling at 31 December 2005. The consolidated income statement for the year ended 31 December 2004 and the consolidated balance sheet as at 31 December 2004 are translated from Renminbi Yuan at RMB8.2765=US$1.00, the rate ruling at 31 December 2004. These translations should not be construed as representations that the Renminbi amounts could actually be converted into U.S. dollars at such rate or at all.

DIVIDENDS

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 RMB0.11 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.

MANAGEMENT DISCUSSION AND ANALYSIS

PORTS and its subsidiaries (the “Group”) continued its growth trend from previous years, with 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 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 performance to the PORTS retail concept in terms of sales per store and gross profit margin 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.

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 turnover

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 increase the profitability of the existing PORTS stores. In light of the strong performance from 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 an increase from 68.84% of the total Group turnover in FY2004, to 75.56% of the total Group turnover in FY2005.

OEM turnover

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 turnover

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 LIFESTLYE 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.

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%, and 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 from 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

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%.

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%.

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.

Acquisitions & Disposal of subsidiaries and associate companies

The Group did not engage in any acquisitions or disposals of any subsidiaries or associated companies during the 2005 Financial Year.

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.

Charges on Assets

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the twelve months ended 31 December 2005, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold, any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive Directors, has reviewed the financial statements of the Group and the auditors' report thereon and submitted its views to the Board of Directors.

The Audit Committee has also endorsed the accounting treatment adopted by the Group.

The Audit Committee has also reviewed the connected transactions and the internal control systems of the Group in accordance with the provisions of Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Group has complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the 2005 Financial Year.

ANNOUNCEMENT OF DETAILED RESULTS

The 2005 Annual Report of the Company, which contains the detailed results and other information of the Company required pursuant to Appendix 16 of the Listing Rules, will be dispatched to shareholders and published on the Stock Exchange's website within the prescribed period. This announcement can also be accessed on the Company's website: http://www.portsdesign.com.

By Order of the Board
Irene F.M. Wong
Company Secretary

Hong Kong, 28 March 2006

As at the date of this announcement, the Directors are:

Alfred Kai Tai CHAN, Chief Executive & Managing Director
Edward Han-Kiat TAN, Chairman
Pierre Frank BOURQUE, Executive Vice President
Rodney Ray CONE, Independent Non-executive Director
Valarie Wei Lynn FONG, Independent Non-Executive Director
Julie Ann ENFIELD, Non-executive Director
Lara Magno LAI, Independent Non-executive Director.

Please also refer to the published version of this announcement in The Standard