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

OVERALL PERFORMANCE

Turnover

Turnover for the six months ended 30 June 2005 was RMB383.2 million (US$46.3 million) compared to RMB291.6 million (US$35.2 million) for the same period in 2004, representing an increase of 31.41%. Turnover comprises of three different segments: Retail, OEM and Other.

Retail Turnover

Retail turnover for the first half of 2005 was RMB284.0 million (US$34.3 million) compared to RMB222.5 million (US$26.9 million) for the same period in 2004, representing an increase of 27.64%. This increase was driven by increases in sales in existing stores, increases in unit volume sold as well as increases in selling price. The increase in unit volume sold reflects, in part, an increase in the number of the Company's retail outlets from 299 at the beginning of 2005 to 314 as at 30 June 2005. The increase in selling price reflects, in part, the strength of the PORTS brand in the Chinese market as a result of the Company's marketing activities and a greater knowledge and understanding of consumer preferences in the Chinese market.

The Company was pleased that the increase in the selling price of its products was greater than the rate of inflation in the PRC for the first half of 2005. The increases in sales in the months of January, February, and March were strong, compared with the same months last year. These sales increases however, were negatively impacted in April and May by the increase in export orders of BMW Lifestyle apparel placed with the production facility. The production of PORTS branded apparel was reduced to accommodate the BMW Lifestyle garments, which negatively impacted the PORTS retail sales in existing stores. With the new production capacity becoming available later in 2005, and based on current growth rates, management feels that demand will be easily satisfied for both the PORTS and BMW apparel manufacturing in the years to come. As a result of the above, turnover for the retail segment declined in its importance to the group in terms of overall turnover, declining from 76.32% in the first half of 2004 to 74.09% in the first half of 2005.

OEM Turnover

Turnover from the OEM segment increased 17.07% from RMB62.1 million (US$7.5 million) in the first half of 2004 to RMB72.7 million (US$8.8 million) in the first half of 2005. This increase was due to management's effort to better source and service its OEM customers. As a percentage of total turnover, OEM turnover declined from 21.30% in the first half of 2004 to 18.97% in the first half of 2005.

Other Turnover

Other turnover was RMB26.6 million (US$3.2 million) in the first half of 2005 compared to RMB6.9 million (US$0.8 million) in the first half of 2004, representing an increase of 285.51%. Other turnover comprised mainly of the export of BMW Lifestyle apparel to the global BMW dealer network as well as to BMW Lifestyle boutiques outside China. It also included wholesales to corporate customers and sales to retailers in smaller cities in China. The export of BMW Lifestyle products increased sharply during the first 6 months of 2005, far exceeding management's expectations. The increase in demand placed a strain on the Company's manufacturing facility, and was balanced by temporarily scaling back the production of PORTS branded merchandise. As a percentage of total turnover, the contribution from this segment continues to increase, from 2.38% in the first half of 2004 to

6.94% in the first half of 2005. The Board of Directors is, however, cautious that such strong growth in the BMW Lifestyle export market may not be sustainable in the near future due to limiting factors including the introduction of safeguard quotas by the U.S. and European Governments on garments exported from the PRC, which may negatively affect the export of BMW Lifestyle apparel to those countries in the short term.

Cost of sales

Cost of sales in the first half of 2005 was RMB134.1 million (US$16.2 million) compared to RMB106.1 million (US$12.8 million) in the first half of 2004, representing an increase of 26.39%. This increase in cost of sales was generally inline with the increase in turnover, but particularly due to the increase in BMW Lifestyle exports, which have a lower gross profit margin than the PORTS or BMW Lifestyle retail goods. The retail segment has a significantly higher gross profit margin than OEM and Other segments.

Gross profit

As a result of the factors discussed above, the Company's gross profit increased 34.29% from RMB185.4 million (US$22.4 million) in the first half of 2004 to RMB249.0 million (US$30.1 million) in the first half of 2005, and the Company's gross profit margin increased from 63.60% in the first half of 2004 to 65.00% in the first half of 2005. The increase in gross profit margin was driven, in part, by the improvement in the gross profit margin in the retail segment. The decision of the Company's management to raise the average unit retail selling price at the start of the 2005 Spring/Summer season was the primary reason for the improvement.

Gross margin profitability varied significantly between retail, OEM and other turnover reflecting the different business dynamics faced by each segment.

Retail Gross Profit

Retail gross profit increased 28.06%, from RMB173.6 million (US$21.0 million) in the first half of 2004 to RMB221.8 million (US$26.8 million) in the first half of 2005, while gross margin increased from 77.84% to 78.13% over the same period.

Of the Company's gross profit, retail contributed 89.07% of the total in the first half of 2005, compared to 93.40% in the first half of 2004, reflecting the impact of the increase in of the contribution from the BMW Lifestyle export business to the overall business of the Company.

OEM Gross Profit

Gross profit from the OEM segment was RMB12.8 million (US$1.6 million) in the first half of 2005, compared to RMB9.6 million (US$1.2 million) in the first half of 2004, representing an increase of 33.33%. Gross margin also improved, increasing from 15.44% in the first half of 2004 to 17.62% in the first half of 2005. The increase in gross margin was driven mainly by improved sourcing and efficiency within the OEM segment, and the introduction of minimum gross margin requirements for new orders.

Gross Profit of Other Turnover

Gross profit from other turnover more than quadrupled, increasing from RMB 2.6 million (US$ 0.3 million) in the first half of 2004 to RMB 14.4 million (US$ 1.7 million) in the first half of 2005. Gross margin also improved, increasing from 38.12% in the first half of 2004 to 54.20% in the first half of 2005. This increase in gross margin reflects the benefits of economy of scale derived from increased exports of BMW Lifestyle apparel products to BMW dealers and BMW Lifestyle boutiques worldwide. The management team feels that the strong global demand for BMW Lifestyle apparel products offers a significant growth opportunity and has, therefore, decided to focus its attention on the development of this business in the coming years. However, in the near term, uncertainties regarding the introduction of safeguard quotas on garments exported from the PRC may temporarily disrupt the normal operation of this business segment.

Other operating income

Other operating income increased 113.63% from RMB2.2 million (US$0.3 million) in the first half of 2004 to RMB4.7 million (US$0.6 million) in the first half of 2005. Other operating income consists mainly of income from store design and decoration services provided to third parties, including department stores that contain new PORTS INTERNATIONAL concessions. The increase was mainly attributable to higher design and decoration income, which increased from RMB0.4 million (US$0.05 million) in the first half of 2004, to RMB2.1 million (US$0.3 million) in the first half of 2005, representing an increase of 425.00%. This increase in income was mainly due to an increased number of concessionaires using the Company's renovation services.

Profit from operations

As a result of the factors discussed above, the Company's profit from operations increased by 42.63% from RMB49.5 million (US$6.0 million) in the first half of 2004 to RMB70.6 million (US$8.5 million) in the first half of 2005. The Company's operating margin (profit from operations expressed as a percentage of turnover) increased from 16.98% to 18.41% over the same period. The increase in profitability is largely due to improved economies of scale derived from the growth in sales in the retail segment and exports of BMW Lifestyle apparel.

Operating Expenses

Operating expenses increased to RMB183.2 million (US$22.1 million) in the first half of 2005 from RMB138.1 million (US$16.7 million) for the same period last year, an increase of 32.66%. Operating expenses consisted of distribution expenses, administrative expenses and other operating expenses. The changes in various components are summarized in the following paragraphs.

Distribution expenses

Distribution expenses increased 34.44% from RMB111.8 million (US$13.5 million) in the first half of 2004 to RMB150.3 million (US$18.2 million) in the first half of 2005. This increase was principally due to increases in rent and salaries and benefits. Rent expense for retail outlets increased 30.74% from RMB56.6 million (US$6.8 million) in the first half of 2004 to RMB74.0 million (US$8.9 million) in the first half of 2005. This increase was mainly due to an increase in the number of retail outlets and the increase in sales commissions, as the occupancy cost of a concession store is charged at a percentage of the monthly sales made through that concession. Salaries and benefit expenses increased 26.36% from RMB22.0 million (US$2.7 million) in the first half of 2004 to RMB27.8 million (US$3.4 million) in the first half of 2005. This increase reflects the increase in investments made by the Company in human capital, specifically in design talent and the corresponding support staff.

Other components of distribution expenses also experienced increases. Depreciation expenses increased 50.85% from RMB5.9 million (US$0.7 million) in the first half of 2004 to RMB8.9 million (US$1.1 million) in the first half of 2005, driven principally by higher capital expenditure relating to the expansion of the Company's production and distribution facilities, and the introduction of flagship retail stores. Transportation costs increased 267.65% from RMB3.4 million (US$0.4 million) in the first half of 2004 to RMB9.1 million (US$1.1 million) in the first half of 2005, due mainly to an increase in fuel costs and increased shipping charges for exports of the BMW Lifestyle apparel. Store and mall expenses also increased

50.00% from RMB5.6 million (US$0.7 million) in the first half of 2004 to RMB8.4 million (US$1.0 million) in the first half of 2005, due mainly to renovations to upgrade existing mall locations. Advertising costs remained consistent with historical levels at 4.40% of retail turnover.

Administrative expenses

Administrative expenses increased 34.34% from RMB13.7 million (US$1.7 million) in the first half of 2004 to RMB18.4 million (US$2.2 million) in the first half of 2005. This was due mainly to an increase in administrative salaries and benefits, the largest category of administrative expense, which increased by 47.09% to RMB7.2 million (US$0.9 million) in the first half of 2005, as a result of salary increases, and an increase in the number of middle management personnel to support the continued expansion of the Company's operations. Other administrative expenses, such as travel and general office expenses, increased by 45.59% reflecting the increased administrative functions. For instance, increased travel in support of the BMW Lifestyle initiative and investor relations activities.

Other operating expenses

Other operating expenses increased 15.21% from RMB12.7 million (US$1.5 million) in the first half of 2004 to RMB14.6 million (US$1.8 million) in the first half of 2005.

Income Tax

The Company's effective income tax rate decreased from 14.03% of profit before tax in the first half of 2004 to 2.88% of profit before tax in the first half of 2005. This decrease is the result of a tax refund of RMB7.0 million (US$0.8 million) during the first half of 2005.

Profit attributable to shareholders

The Company's profit attributable to shareholders increased 53.10% from RMB43.5 million (US$5.3 million) in the first half of 2004 to RMB66.6 million (US$8.0 million) in the first half of 2005. The Company's net profit margin increased from 14.90% in the first half of 2004 to 17.38% in the first half of 2005.

Financial Position, Liquidity and Gearing Ratio

The Group continues to be in a very strong financial position, with significant cash and cash equivalents and no bank borrowings. As at 30 June 2005, the Group had approximately RMB346.9 million (US$41.9 million) in cash and cash equivalents and time deposits with major banks compared with RMB375.1 million (US$45.3 million) as at 31 December 2004. The Group also had access to significant bank loans and overdraft facilities, although these were not utilized. The Group currently has no outstanding bank borrowings. As at 30 June 2005, the Group's gearing ratio was zero, based on no bank debt outstanding and total assets of approximately RMB809.3 million (US$97.8 million). The Group's gearing ratio was zero as at 31 December 2004. As at 30 June 2005, the current ratio was 6.13, based on current assets of RMB684.5 million (US$82.7 million) and current liabilities of RMB111.7 million (US$13.5 million).

Acquisitions & Disposals of Subsidiaries & Associated Companies

The Group did not engage in any material acquisitions or disposals of any subsidiaries or associated companies in the six months ended 30 June 2005.

Currency Risk Management

The Group's cash balances, from normal business operations and the proceeds from the company's initial public offering in 2003 ("IPO"), are mainly deposited in Hong Kong dollars ("HK$"), United States dollars ("US$"), the European Union common currency ("Euro"), and RMB with major international banks in Hong Kong and China.

The Group does not engage in any currency hedging, but considers its risk exposure to currency fluctuations to be acceptable. The Group's cost base is mainly denominated in RMB with some Euro exposure from raw materials purchased in Europe. Exposure to fluctuations in the Euro are increasing however, as increased revenue from exports of BMW Lifestyle apparel to BMW AG in Germany results in increased cash in Euro. The increase in BMW Lifestyle exports and the depreciation of the Euro against the RMB during the first 6 months of 2005 resulted in an exchange loss of RMB4.9 million. Revenue from operations is denominated mainly in RMB with some Euro and US$ exposure. In the future, the Company plans to increase the RMB component of cash holdings, thus minimizing the exposure to foreign currency fluctuations.

Capital Commitments & Contingent Liabilities

As at 30 June 2005, the Group had capital commitments of RMB12.3 million (US$1.5 million) which had been contracted for, and capital commitments of RMB73.0 million (US$8.8 million), which had been authorized but not contracted for. The Group had no contingent liabilities as at 30 June 2005.

Capital Structure of the Group

The Group requires working capital to support manufacturing, Retail, OEM and Other operations. In the past, the Group financed its working capital needs principally through net cash inflows from operating activities and from short-term interest-bearing loans. The IPO of the Company's shares on 31 October 2003 has provided an additional source of working capital. As at 30 June 2005, the Group had cash and cash equivalents and time deposits of RMB346.9 million (US$41.9 million), denominated principally in HK$, US$, Euro, and RMB, a decrease of 8.13% from 31 December 2004. Net cash inflows from operating activities increased 26.80% to RMB49.2 million (US$5.9 million) in the first half of 2005, as compared to RMB38.8 million (US$4.7 million) for the same period in 2004. The Group currently has no outstanding interest-bearing debt obligations.

Charges on Assets

As at 30 June 2005, the Group had not charged any of its assets.

Human Resources

As at 30 June 2005, the Group had approximately 4,000 employees. Total personnel expenses, comprising wages, salaries and benefits, was RMB61.6 million (US$7.4 million) in the first half of 2005, compared to RMB45.3 million (US$5.5 million) for the same period in 2004.

Post-Balance Sheet Date Developments

After the balance sheet date, the directors declared an interim dividend of RMB0.075 per share, totaling RMB40.7 million (US$4.9 million) on 31 August 2005, payable to shareholders of record on 30 September 2005.

Significant Events

There were no significant events in the first half of 2005.

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

During the six months ended 30 June 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; Rodney Cone, Valarie Fong, and Lara Lai, has reviewed the interim financial report of the Company and the auditors' independent review report for the six months ended 30 June 2005 and submitted its views to the Board of Directors. The Audit Committee has also endorsed the accounting treatment adopted by the Company.

The interim financial report for the six months ended 30 June 2005 is unaudited, but has been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports," issued by the Hong Kong Society of Accountants, by KPMG, whose unmodified review report is included in the interim report to be sent to shareholders.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited ("the Listing Rules") throughout the first half of 2005.

The Company has adopted the Model Code for securities transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific inquiry of all directors regarding non-compliance with the Model Code for the period ended 30 June 2005, and they have all confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' security transactions.