

ABOUT PORTS

PORTS DESIGN LIMITED ("PORTS" or the "Company") and its subsidiaries (together with the Company, the "Group") is a vertically integrated international fashion and luxury goods company with its own design, manufacturing, marketing, distribution and retail capabilities. It 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 China and Hong Kong, under the PORTS brand name. The Group currently focuses most of its business activities on the PRC market and is one of the leading international fashion companies in China with over 297 retail outlets. The Group also holds the rights to wholesale and retail PORTS products to boutiques and department stores in Asia and Australia. The business outside of Asia and Australia is handled by Ports 1961 New York Inc. A subsidiary of CFS International Inc, the ultimate holding company of Ports.

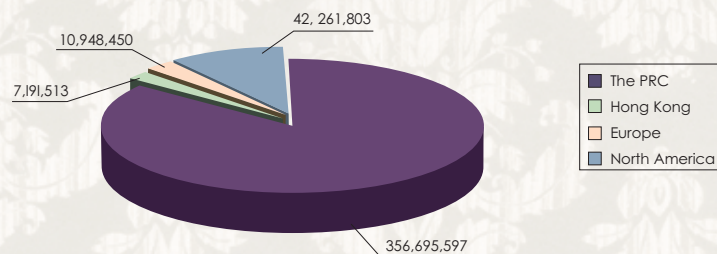
The Group markets and sells its PORTS branded products in the PRC through concessions in major department stores, retail stores located in shopping centres, and stand-alone flagship retail stores. These retail outlets are located in over 54 cities in China, including, among others, Beijing, Shanghai, Chongqing, Shenzhen, Wuhan, Xi'an and Dalian. As at 30 June 2006, the Group also operated seven retail outlets in Hong Kong, located in the shopping arcade of The Peninsula hotel, Seibu Department Store in Pacific Place, One Hysan Avenue, The Landmark in Central and Sogo Department Store TsimShaTsui.

The Group also sells BMW Lifestyle products in dedicated retail outlets operated by the Group in the PRC. The Group has entered into a licensing arrangement with Bayerische Motoren Werke AG ("BMW") whereby BMW has granted the Group the right to use the BMW trade mark and BMW logo on BMW Lifestyle products that are manufactured by the Group. All non-apparel products sold in BMW Lifestyle retail outlets are sourced from BMW. The licence is for a term of three years ending on 31st December, 2007 but is subject to renewal with mutual consent. The right to market BMW Lifestyle products in China, other than in BMW car dealer showrooms, is exclusive to the Group during the term of the licence. As at 30 June 2006, the Group operated 32 BMW Lifestyle retail outlets selling BMW Lifestyle products, which include ladies' and men's clothing and accessories.

In addition to its retail operations, the Group also has an OEM business which exports merchandise to major retailers in North America and Europe. As part of its OEM business, the Group provides design input if requested by the customer, sources and purchases the raw materials and coordinates the shipment of finished goods to the customer. Currently, the manufacture of almost all OEM merchandise is outsourced. OEM products are branded under brands requested by OEM customers.

The Group separates the above businesses into three segments; "Retail", which comprises the PORTS and BMW Lifestyle retail business, "OEM", which comprises exports to North America and Europe, and "Other" which comprises mainly of exports of BMW Lifestyle goods to North America and Europe, and the wholesale of PORTS goods.

Turnover by region (RMB):



CHAIRMAN'S STATEMENT

The first half of 2006 saw the financial results and operating performance for the Company maintain the momentum set in previous years. Increases in retail turnover and economies of scale, particularly from the Company's Retail segment, contributed to continued growth in revenue and even stronger net profit growth in the first half of 2006. The U.S. and European government safeguard quota issues encountered in 2005 continued to have a residual negative impact on the turnover from the OEM and Other segments during the first half of 2006, as sales took time to gear up following the resolution of the quota disputes, resulting in the season being effectively truncated to 3 months rather than the usual 6 months.

Accordingly, the growth in turnover for the Company was lower than usual in the first six months of 2006. Turnover for the Company continued to increase, largely due to the strength of the Company's retail operations, which had increased from RMB383.2 million for the six months ended 30 June 2005 ("1H 2005") to RMB417.1 million for the six months ended 30 June 2006 ("1H 2006"), representing an increase of 8.85%. Profit from ordinary activities before taxation increased from RMB68.6 million in 1H 2005 to RMB107.6 million in 1H 2006, representing an increase of 56.85%. Profit attributable to shareholders increased from RMB66.6 million in 1H 2005 to RMB100.8 million in 1H 2006, representing an increase of 51.35%. This record increase in profitability in light of slower-than-normal turnover growth highlights the operating leverage and effectiveness of the Company's PRC cost base and the benefits of growing economies of scale of the retail business.

We are pleased with the continued performance of the Ports International and BMW Lifestyle retail concepts, and the growing popularity of both brands in China. The Retail segment has been consistently increasing in its importance to the Group, both in terms of percentage of total turnover, and contribution to the bottom line of the whole Group. In 1H 2006, the Company's Retail, OEM, and Other segments contributed 87.24%, 9.61%, and 3.15% of total turnover of the Group, respectively, compared to 74.09%, 18.97%, and 6.94%, respectively, in 1H 2005. Similarly, in 1H 2006 the Company's Retail, OEM, and Other segments contributed 95.76%, 2.48%, and 1.77% of the total gross profit for the Group, respectively, compared to 89.07%, 5.14%, and 5.79% respectively in 1H 2005. Given the favorable economic climate in China, the management remains cautiously optimistic of the future outlook of the Company's Retail segment. The Company's balance sheet continues to be strong, and the Company was in a strong cash position as at 30 June 2006. The Company's stated dividend policy as at 30 June 2006 remains at 60% of net earnings. Management continues to explore and evaluate possible avenues for investment into new licensing, distribution, and ownership agreements for additional retail businesses in China to complement our existing retail brands.

Highlights for the Period Ended 30 June 2006

The Company's retail segment, which operates the PORTS and the BMW branded line of merchandise ("BMW Lifestyle") stores in China and in Hong Kong, achieved record turnover and profitability during 1H 2006. Retail turnover increased from RMB283.9 million in 1H2005 to RMB363.9 million in 1H 2006, representing an increase of 28.18%. Similarly, the retail division's gross profit contribution increased from RMB221.8 million in 1H 2005 to RMB297.2 million in 1H 2006, representing an increase of 33.99%. The retail segment's performance was driven by increases in number of units/ pieces sold, and Management's decision to raise the average unit selling price for the 2006 Spring/Summer collection.

The Company continued to invest into growing and upgrading its retail store network during 1H 2006. For PORTS stores, Management prioritized the upgrading of older stores to meet with the standards of the 5th generation store design and the closing of the less desirable stores alongside opening of new stores, resulting in a net decrease of one PORTS store from 298 stores as at 31 December 2005 to 297 stores as at 30 June 2006. The Company opened 5 new BMW Lifestyle stores in 1H 2006 resulting in a total of 32 BMW Lifestyle stores as at 30 June 2006, compared with 27 BMW Lifestyle stores at 31 December 2005. Overall, the Company's retail store network expanded to a total of 329 stores as at 30 June 2006, compared with a total of 325 stores as at 31 December 2005. The conditions of the retail market in China are changing rapidly, and the Company continues to commit to upgrade the older stores in the network to reflect the current image of the brand.