

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.

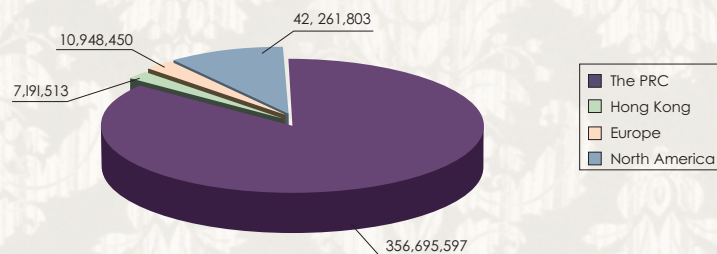
The Group markets and sells its PORTS branded products in the PRC through concessions in major department stores, retail stores located in shopping centres, and stand-alone flagship retail stores. These retail outlets are located in over 54 cities in China, including, among others, Beijing, Shanghai, 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.

Management was also pleased with new developments with regards to the Company's disposition of ageing inventory in 1H 2006. Recently, the company has sold its ageing finished goods inventory exclusively via special discount sales offered to customers at various five-star hotels throughout China. These sales ("Product Shows") rotate from city to city within China, and in the past have been offered mainly from February to June for the Spring/Summer clearance season, and September to December for the Fall/Winter clearance season, with approximately 3 to 4 shows per month. In 1H 2006, Management decided to even-out the schedule and offer fewer Product Shows per month, but spread them more evenly throughout the entire year. Under this new schedule, Product Show staff have been able to increase the quality of execution and service at these events, thereby increasing sales volumes. During the months of July and August 2006, retail sales from Product Shows totaled approximately RMB15.9 million, compared with RMB2.1 million for the same two month period in 2005. Another encouraging development is the opening of factory outlet malls for high-end brands in China. In North America and Europe, factory outlet malls are popular venues for companies to sell previous season merchandise. Although the retail outlet mall concept has been tried in China in the past, in the opinion of Ports management, it has never been properly executed. In May 2006 however, the Company opened the first PORTS and BMW Lifestyle outlet stores at a leading factory outlet mall in Shanghai, which more closely follows the proven North American outlet mall concepts. In July and August 2006, each outlet store has recorded monthly sales over RMB1 million, which is significantly higher than the average sales of regular PORTS and BMW Lifestyle retail stores. Management foresees that the success of this factory outlet will lead to additional factory outlet malls to be opened throughout China, thus providing a traditional and proven channel for the Company to sell its ageing inventory.

The first half of 2006 also saw BMW Lifestyle exports to BMW and OEM exports resume after the imposition of safeguard quotas by the U.S. and European governments in the second half of 2005 ("2H 2005"). The safeguard quotas imposed in 2005 negatively impacted sales in 1H 2006 due to the time delay that exists between the receipt of an order and the shipment of that order, which is approximately 3 months. As a result of this delay, the Company only recorded 3 months of OEM and BMW Lifestyle exports during 1H 2006 rather than the full 6 months, resulting in decreases in turnover for both the OEM and the other segments. Turnover for the OEM segment decreased from RMB72.7 million in 1H 2005 to RMB40.1 million in 1H 2006, a decrease of 44.84%. Turnover for the other segments decreased from RMB26.6 million in 1H 2005 to RMB13.1 million in 1H 2006, a decrease of 50.75%.

Management was also pleased with the recognition and coverage the PORTS brand has received internationally during 1H 2006. New celebrity endorsements and additional coverage from top fashion publications has generated interest from consumers, boutiques and high-end department stores. Articles from influential fashion editors, such as Fashion Television's Jeanne Becker and appearances of celebrities wearing PORTS such as Reese Witherspoon, Celine Dion and Kelly Preston, have lead to increased visits from buyers around the world to the PORTS showroom in New York City. The Company's sponsorship of the 20th Century FOX movie "The Devil wears Prada" has also drawn widespread media attention, and the Company has plans to further leverage its participation via special promotional events in China and Hong Kong.

A Look Forward to Second Half of 2006

The Company is cautiously optimistic about its business prospects for the second half of 2006. The positive trend in the retail business in the first half of 2006 has continued into July and August 2006. The Company intends to continue its new store opening program, with a targeted net increase of approximately 20 additional PORTS retail stores during the second half of 2006. During the months of July and August 2006, the Company had a net increase of 7 new PORTS stores. In anticipation of the continued favorable retail environment in China during the second half of 2006, the Company is also gearing-up raw material and work in process inventory levels. This higher-than-normal increase in inventory is required to service the anticipated increase in retail turnover. The Company expects that the relative success of the factory outlet mall in Shanghai will cause similar factory outlet malls to be opened in other cities throughout China, allowing for additional PORTS and BMW Lifestyle discount retail locations to be opened, thus increasing the rate and efficiency at which the Company can dispose of its ageing inventory.

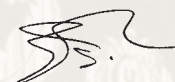
The BMW Lifestyle retail concept is currently undergoing a shift in direction, as sales and marketing efforts have further profiled the BMW Lifestyle consumer as being increasingly interested in the sportier and technical image of the BMW brand. As a result, Management has designed a new BMW Lifestyle store and merchandise to more accurately project this image. Discussions with BMW in Munich will define the roll-out schedule of this new concept which may affect the planned opening BMW Lifestyle stores in the second half of 2006. It is not expected however, that this new direction will affect existing BMW Lifestyle retail store sales in the second half of 2006.

Although OEM and BMW Lifestyle export volumes are lower in 1H 2006 than in 1H 2005, it is expected that export sales from these segments for the entire 2006 financial year will be similar to export sales for the 2005 financial year. Barring further limitations due to safeguard quotas or other unforeseen circumstances in the second half of 2006, export orders for BMW Lifestyle merchandise are expected to increase as BMW Lifestyle goods are once again made available to BMW car dealerships around the world. OEM export orders to customers in the U.S. are also expected to resume to normal levels in the second half of 2006.

During 1H 2006, the Company continued to invest in the manufacturing facility. A new production management system, which is currently undergoing trials in Xiamen, China has the potential to shorten response time to market conditions and decrease inventory levels for the company's retail and BMW Lifestyle export businesses. Initial indications suggest the new production management program is feasible for implementation into the Company's manufacturing processes. Management is looking forward to further trials in the second half of 2006 with the hope of eventually implementing the new management program across all production lines.

As I submit this report to our shareholders, I would also like to remark on the performance and dedication of our staff in their efforts to seek new modes of operation through innovation, to build on past success and find ways to further improve our operation. For the first time in our Company's history, our net profit margin has surpassed the 20% mark - a landmark that is worth celebrating, and which sets a new standard for operating efficiency in our operation.

Edward Tan Han Kiat
Chairman



31th August 2006
Xiamen, China