PORTS INTERNATIONAL

PORTS DESIGN LIMITED
寶姿時裝有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 589)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

The Board of Directors of PORTS DESIGN LIMITED ("PORTS" or the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006:

UNAUDITED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2006

		Six months ended 30 June			
	Note	*2006 (RMB)*	*2005 (RMB)*	*2006 (US$) (Note 13)*	*2005 (US$) (Note 13)*
Turnover	2	417,097,363	383,151,535	52,165,862	46,293,909
Cost of sales		(106,679,014)	(134,117,145)	(13,342,215)	(16,204,573)
Gross profit		310,418,349	249,034,390	38,823,647	30,089,336
Other operating income		7,847,517	4,739,226	981,479	572,612
Distribution expenses		(179,695,963)	(150,257,204)	(22,474,356)	(18,154,679)
Administrative expenses		(16,483,150)	(18,367,459)	(2,061,528)	(2,219,230)
Other operating expenses		(16,827,823)	(14,595,031)	(2,104,635)	(1,763,430)
Profit from operations		105,258,930	70,553,922	13,164,607	8,524,609
Net finance income /(costs)	3(i)	2,302,366	(1,981,678)	287,954	(239,435)
Profit before taxation		107,561,296	68,572,244	13,452,561	8,285,174
Income tax	4	(6,717,470)	(1,977,029)	(840,146)	(238,872)
Profit for the period-attributable to equity shareholders of the Company		100,843,826	66,595,215	12,612,415	8,046,302
Dividends payable to equity shareholders of the Company:	5				
Interim dividend proposed after the balance sheet date		60,225,579	40,744,489	7,532,340	4,922,913
Earnings per share					
-Basic	6	0.18	0.12	0.02	0.01
-Diluted	6	0.18	0.12	0.02	0.01

UNAUDITED CONSOLIDATED BALANCE SHEET
at 30 June 2006

	Note	*At 30 June 2006 (RMB)*	*At 31 December 2005 (RMB) Audited*	*At 30 June 2006 (US$) (Note 13)*	*At 31 December 2005 (US$) (Note 13)*
Non-current assets					
Lease prepayments		6,812,979	6,899,344	852,091	854,916
Property, plant and equipment	7	144,561,977	138,773,886	18,080,192	17,195,842
Deferred tax assets		9,326,423	8,667,836	1,166,444	1,074,054
Total non-current assets		160,701,379	154,341,066	20,098,727	19,124,812
Current assets					
Inventories	8	307,910,205	254,316,370	38,509,956	31,513,020
Trade and other receivables, deposits and prepayments	9	146,267,854	157,147,732	18,293,543	19,472,594
Fixed deposits with banks		140,920,596	130,641,527	17,624,768	16,188,140
Cash and cash equivalents	10	189,890,999	216,107,425	23,749,437	26,778,447
Total current assets		784,989,654	758,213,054	98,177,704	93,952,201
Current liabilities					
Trade payables, other payables and accruals	11	122,869,265	141,317,996	15,367,111	17,511,089
Tax payable		13,098,906	10,981,841	1,638,264	1,360,789
Total current liabilities		135,968,171	152,299,837	17,005,375	18,871,878
Net current assets		649,021,483	605,913,217	81,172,329	75,080,323
Total assets less current liabilities		809,722,862	760,254,283	101,271,056	94,205,135
Capital and reserves					
Share capital	12	1,453,274	1,445,503	181,759	179,116
Reserves		808,269,588	758,808,780	101,089,297	94,026,019
Total equity		809,722,862	760,254,283	101,271,056	94,205,135

Approved and authorized for issue by the board of directors on 30 August 2006.

Edward Tan Han Kiat, ***Chairman***

30th August 2006

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
(Expressed in Renminbi Yuan)

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34 "Interim financial reporting" adopted by the International Accounting Standards Board ("IASB").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2006.

(Expressed in Renminbi Yuan)

2. Segment information

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 manufacture ("OEM") respectively.

	Six months ended 30 June	
	2006	*2005*
Turnover		
Retail	363,887,110	283,894,090
OEM	40,082,199	72,673,144
Unallocated	13,128,054	26,584,301
Total	417,097,363	383,151,535
Segment result		
Retail	114,208,124	72,939,096
OEM	2,256,648	6,614,262
Total	116,464,772	79,553,358
Unallocated operating income and expenses	(11,205,842)	(8,999,436)
Profit from operations	105,258,930	70,553,922
Net finance costs	2,302,366	(1,981,678)
Income tax	(6,717,470)	(1,977,029)
Profit for the period	100,843,826	66,595,215

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.

Turnover		
the PRC	356,695,597	278,068,440
North America	42,261,803	81,072,104
Europe	10,948,450	18,185,341
Hong Kong	7,191,513	5,825,650
Total	417,097,363	383,151,535

(Expressed in Renminbi Yuan)

3. Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2006	*2005*
(i) Net finance (income)/costs		
Interest income	(3,500,732)	(3,753,469)
Interest expense on bank advances repayable within five years	16,515	120,679
Bank charges	89,939	708,294
Net foreign exchange loss	1,091,912	4,906,174
Net finance (income)/costs	(2,302,366)	1,981,678
(ii) Other items		
Cost of inventories (note 8)	123,506,837	148,389,346
Auditors' remuneration-audit services	840,000	936,418
Loss on disposal of property, plant and equipment	6,325	-
Depreciation		
- owned fixed assets	16,620,944	13,075,460
- leased fixed assets	135,885	135,885
Amortisation		
- lease prepayments	86,365	86,365
- intangible assets	-	322,830
Operating leases charges in respect of properties		
- minimum lease payments	21,659,286	18,025,381
- contingent rents	76,289,274	55,983,095

(Expressed in Renminbi Yuan)

4. Income tax expense

Income tax expense represents:

	Six months ended 30 June	
	2006	*2005*
Current period expense	16,764,292	10,681,275
Under provision in prior periods	-	154,570
Income tax refund	(9,388,235)	(7,010,682)
	7,376,057	3,825,163
Changes in deferred taxes	(658,587)	(1,848,134)
	6,717,470	1,977,029

Pursuant to the rules and regulations of the 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 Profit Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits of a subsidiary in Hong Kong. No provision has been made for Hong Kong Profits Tax as there were no estimated Hong Kong assessable profits for the six months ended 30 June 2006 and 2005.

The Group's applicable tax rate represented the preferential PRC enterprise income tax 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 tax refund of RMB 9,388,235 during the six months ended 30 June 2006 (2005: RMB 7,010,682), pursuant to the relevant PRC tax law and regulations applicable to re-investment of profits earned.

(Expressed in Renminbi Yuan)

5. Dividends

(a) Dividends payable to the equity shareholders of the Company attributable to the period

	Six months ended 30 June	
	2006	*2005*
Interim dividend proposed after the balance sheet date of RMB0.11 per share (2005: RMB0.075 per share)	60,225,579	40,744,489

The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. The calculation of interim dividend per share is based on 547,505,262 ordinary shares in issue as at 30 June 2006 (2005: 543,259,856 ordinary shares).

(b) Dividends payable to the equity shareholders of the Company attributable to the previous financial year, approved during the period

	Six months ended 30 June	
	2006	*2005*
Final dividend in respect of the financial year ended 31 December 2005 and approved during the period, of RMB 0.11 per share (year ended 31 December 2004: RMB0.0875 per share)	60,211,644	47,533,797

(Expressed in Renminbi Yuan)

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the profit attributable to shareholders of RMB100,843,826 (2005: RMB66,595,215) and the weighted average number of 547,024,504 (2005: 543,242,833) ordinary shares in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2006 is based on the profit attributable to shareholders of RMB100,843,826 (2005: RMB66,595,215) and the weighted average number of 554,452,864 (2005: 549,115,773) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's share option scheme.

(c) Reconciliation

	Six months ended 30 June	
	2006	*2005*
	Number of shares	*Number of shares*
Weighted average number of ordinary shares at 30 June	547,024,504	543,242,833
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	7,428,360	5,872,940
Weighted average number of ordinary shares (diluted) at 30 June	554,452,864	549,115,773

(Expressed in Renminbi Yuan)

7. Property, plant and equipment

	2006	*2005* *(Audited)*
Cost:		
Balance at 1 January	205,370,106	136,968,487
Acquisitions for the period/year	22,741,115	76,119,747
Disposals for the period/year	(7,450,359)	(7,718,128)
Balance at 30 June/31 December	220,660,862	205,370,106
Depreciation:		
Balance at 1 January	66,596,220	46,208,640
Depreciation charge for the period/year	16,756,829	27,745,318
Disposals for the period/year	(7,254,164)	(7,357,738)
Balance at 30 June/31 December	76,098,885	66,596,220
Net book value:		
At 30 June/31 December	144,561,977	138,773,886

8. Inventories

Inventories comprise:

	30 June 2006	*31 December 2005* (Audited)
Raw materials	88,062,814	69,842,374
Work in progress	31,709,969	21,683,430
Finished goods	187,544,479	160,600,846
Goods in transit	592,943	2,189,720
	307,910,205	254,316,370

The analysis of the amount of inventories recognized as an expense is as follows:

	Six months ended 30 June	
	2006	*2005*
Cost of sales	106,679,014	134,117,145
Stock provision	16,827,823	14,272,201
	123,506,837	148,389,346

(Expressed in Renminbi Yuan)

9. Trade and other receivables, deposits and prepayments

	30 June 2006	*31 December 2005* (Audited)
Accounts receivable (note (i) below)	90,523,164	100,589,405
Amount due from a related company	602,677	9,869,350
Advances to suppliers	12,380,518	10,783,203
Other receivables, deposits and prepayments	42,761,495	35,905,774
	146,267,854	157,147,732

(i) An ageing analysis of accounts receivable (net of provisions for bad and doubtful debts) is as follows:

	30 June 2006	*31 December 2005* (Audited)
Invoice date:		
Within 1 month	71,481,805	85,352,654
Over 1 month but less than 3 months	16,271,953	14,908,656
Over 3 months but less than 6 months	2,769,406	275,938
Over 6 months but less than 12 months	-	52,157
	90,523,164	100,589,405

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

10. Cash and cash equivalents

An analysis of the balance of cash and cash equivalents is set out below:

	30 June 2006	*31 December 2005* (Audited)
Cash at bank and on hand	171,895,399	111,187,417
Time deposits with banks	17,995,600	104,920,008
	189,890,999	216,107,425

Fixed deposits with banks included in cash and cash equivalents are within three months of maturity at acquisition.

(Expressed in Renminbi Yuan)

11. Trade payables, other payables and accruals

	30 June 2006	*31 December 2005* (Audited)
Accounts payable (note (i) below)	62,998,862	61,654,010
Other creditors and accruals	59,870,403	72,657,452
Amounts due to related companies	-	7,006,534
	122,869,265	141,317,996

(i) An ageing analysis of accounts payable is as follows:

	30 June 2006	*31 December 2005* (Audited)
Within 1 month or on demand	36,058,094	33,467,489
Over 1 month but less than 3 months	18,276,128	19,113,435
Over 3 months but less than 6 months	8,242,564	8,919,725
Over 6 months but less than 12 months	422,076	153,361
	62,998,862	61,654,010

(Expressed in Renminbi Yuan)

12. Share capital

(i) Authorised and issued share capital

	30 June 2006		*31 December 2005*	
	Number of shares	*Amount HK$*	*Number of shares*	*Amount HK$ (Audited)*
Authorised:				
Ordinary shares of HK$0.0025 each	3,600,000,000	9,000,000	3,600,000,000	9,000,000
	3,600,000,000	9,000,000	3,600,000,000	9,000,000
Issued and fully paid:				
At beginning of the period/year	544,513,096	1,361,283	543,240,000	1,358,100
Shares issued under share option scheme	2,992,166	7,480	1,273,096	3,183
At the end of period/year	547,505,262	1,368,763	544,513,096	1,361,283
		RMB equivalent		*RMB equivalent*
		1,453,274		1,445,503

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company.

All ordinary shares, rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option scheme

In 2006, 2,992,166 ordinary shares of HK$0.0025 each of the Company were issued for a total cash consideration of HK$7,480 (equivalent to RMB7,771) before the related issue expenses as certain share options were exercised by the holders pursuant to the share option scheme adopted by the Company.

13. 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 six months ended 30 June 2006 and the consolidated balance sheet as at 30 June 2006 are translated from Renminbi Yuan at RMB 7.9956=US$1.00, the rate ruling at 30 June 2006. The consolidated income statement for the six months ended 30 June 2005 and the consolidated balance sheet as at 31 December 2005 are translated from Renminbi Yuan at RMB8.2765= US$1.00 and RMB8.0702=US$1.00, the rates ruling at 30 June 2005 and 31 December 2005, respectively. These translations should not be construed as representations that the Renminbi amounts could actually be converted into U.S. dollars at such rates or at all.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The earnings for the Group for the six months ended 30 June 2006 are RMB100.8 million. The Directors have declared an interim dividend of RMB0.11 per share for the six months ended 30 June 2006, totaling RMB60.2 million to be payable to shareholders registered as at 29 September 2006 (2005: 30 September 2005).

The interim dividend will be payable on 31 October 2006 to shareholders whose names appear on the register of members of the Company on 29 September 2006. The register of members will be closed from 26 September 2006 to 29 September 2006, both days inclusive, during which period no transfer of shares can be effected.

In order to qualify for the above dividend, all transfer of shares accompanied by the requisite share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on 25 September 2006.

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

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 the first half of 2006 ("1H 2006"). Retail turnover increased from RMB283.9 million in the first half of 2005 ("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, the 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.

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 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 August2006, 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.

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.

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 level in the second half of 2006.

OVERALL PERFORMANCE

Turnover

Turnover for the six months ended 30 June 2006 was RMB417.1 million compared to RMB383.2 million for the same period in 2005, representing an increase of 8.85%. Turnover comprises of three different segments: Retail, OEM and Other.

Retail Turnover

Retail turnover is generated from PORTS and BMW Lifestyle branded retail stores operating in China and Hong Kong. As at 30 June 2006, there were 297 PORTS stores in China and Hong Kong. The Company also operates 32 BMW Lifestyle stores in China as at 30 June 2006. Retail turnover generated by these stores in the first half of 2006 was RMB363.9 million, compared to RMB283.9 million for the same period in 2005, representing an increase of 28.18%. This increase was driven mainly by an increase in number of units sold in existing stores as well as an increase in average selling price.

The increase in selling price reflects, in part, the strength of the PORTS and BMW Lifestyle brands in the Chinese market. Management attributes this strength to the continued investment into building the brands via the Company's marketing activities, and the continued positive comments from independent editors and critics within the fashion industry.

OEM Turnover

OEM segment turnover in 1H 2006 continued to suffer from the effects of the U.S. and European safeguard quotas imposed in the second half of 2005. New orders for these markets resumed in 2006, but production lead-time resulted in shipments only during the last 3 months of the period, rather than the full 6 months, which effectively reduced the export volume to 50% of usual levels. Turnover for the OEM segment decreased from RMB72.7 million in 1H2005 to RMB40.1 million in 1H 2006, a decrease of 44.84%. Management expects that OEM exports will continue in the second half of 2006 and will resume to a level comparable to OEM turnover in the second half of 2004.

Other Turnover

Other turnover mainly comprises of turnover from the export of BMW Lifestyle apparel to the global BMW dealer network as well as to BMW Lifestyle boutiques outside China and a limited amount of wholesale sales to retailers inside and outside China. Other turnover amounted to RMB13.1 million in 1H 2006 compared to RMB26.6 million in 1H 2005, representing a decrease of 50.75%. With the resumption of export shipments to BMW dealers in the second half of 2006, management anticipates a significant increase compared with the second half of 2005.

Cost of sales

Cost of sales generally increases and decreases inline with changes in turnover, but also reflects changes in the business mix of the Company's turnover. Cost of sales in 1H 2006 amounted to RMB106.7 million, compared to RMB134.1 million in 1H 2005, representing a decrease of 20.43%. This decrease is mainly due to the shift in business mix away from the OEM and Other segments. The Company's retail segment enjoys a significantly higher gross profit margin than the OEM and Other segments. The decrease in turnover from the Company's OEM and Other segments, and the increase in turnover from the Company's retail segment contributed strongly to this decrease in cost of sales.

Gross profit

As a result of the factors discussed above, the Company's gross profit increased 24.66% from RMB249.0 million in 1H 2005 to RMB310.4 million in 1H 2006, and the Company's gross profit margin increased from 64.98% in 1H 2005 to 74.42% in 1H 2006. This increase in gross profit margin is mainly due to the shift in business mix away from the OEM and Other segments. The Company's retail segment enjoys a significantly higher gross profit margin than the OEM and Other segments. The decrease in turnover from the Company's OEM and Other segments, and the increase in turnover from the Company's retail segment contributed strongly to the increase in gross profit margin. Further to the shift in business mix, the management decided to raise the average unit retail selling price for the 2006 Spring/Summer collection, which also contributed, in part, to the improvement in gross profit margin.

Retail Gross Profit

Retail gross profit increased 33.99%, from RMB221.8 million in 1H 2005 to RMB297.2 million in 1H 2006, while gross margin increased from 78.13% to 81.67% over the same period. Management decided to raise the average unit retail selling price for the 2006 Spring/Summer collection, which contributed, in part, to the improvement in gross profit margin.

Of the Company's gross profit, retail contributed 95.76% of the total in 1H 2006, compared to 89.07% in 1H 2005, reflecting the impact of the decrease in the contribution from the OEM and Other segments to the overall business of the Company, and the increasing importance of the Company's retail operation.

OEM Gross Profit

OEM gross profit decreased from RMB12.8 million in 1H 2005 to RMB7.7 million in 1H 2006, representing a decrease of 39.84%. Gross margin for the OEM segment improved however, increasing from 17.61% in 1H 2005 to 19.20% in 1H 2006. The increase in gross margin was mainly due to the continued impact of safeguard quotas imposed by the U.S. government in 2H 2005. The Company's OEM orders to Canadian customers generally have a higher gross margin than orders to U.S. customers, and as OEM orders in 1H 2006 were comprised mainly of higher margin Canadian orders, gross margin for the OEM segment increased accordingly.

Gross Profit of Other Turnover

The Company's Other segment turnover comprises mainly of exports of BMW Lifestyle merchandise to BMW AG in Germany, wholesale of PORTS merchandise to boutiques and department stores in Asia and Australia. In 1H 2006, the Other segment continued to suffer the impact from safeguard quotas imposed by the European government in the second half of 2005. Gross profit from other turnover, decreased 61.81%, from RMB14.4 million in 1H 2005 to RMB5.5 million in 1H 2006. Gross margin also decreased from 54.14% in 1H 2005 to 41.98% in 1H 2006. Management is optimistic that the global demand for BMW Lifestyle apparel products will resume in the second half of 2006, and has therefore decided to focus its attention on the continued development of this business. However, in the near term, apprehension from BMW dealers throughout the world towards the possible disruption to the supply of BMW Lifestyle apparel arising from safeguard quotas or other unforeseen circumstances may slow the normal growth of this business segment.

Other operating income

Other operating income increased 55.32% from RMB4.7 million in 1H 2005 to RMB7.3 million in 1H 2006. 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 RMB2.1 million in 1H 2005, to RMB3.6 million in 1H 2006, representing an increase of 71.43%. This increase in income was mainly due to increased charges to concessionaires applying to open new Ports stores. In addition to increased charges to concessionaire, there was also a meaningful increase in the royalties received from the Company's sunglass licensee.

Profit from operations

As a result of the factors discussed above, the Company's profit from operations increased by 49.19% from RMB70.6 million in 1H 2005 to RMB105.3 million in 1H 2006. The Company's operating margin (profit from operations expressed as a percentage of turnover) increased from 18.42% in 1H 2005 to 25.24% in 1H 2006. The increase in profitability is largely due to improved economies of scale derived from the growth in sales and increases in gross profit margin due to average unit selling price increase in the retail segment.

Operating Expenses

Operating expenses increased from RMB183.2 million in 1H 2005 to RMB213.0 million in 1H 2006, an increase of 16.27%. 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 19.56% from RMB150.3 million in 1H 2005 to RMB179.7 million in 1H 2006. This increase was principally due to increases in rent and salaries and benefits. Rent expense for retail outlets increased 30.41% from RMB74.0 million in 1H 2005 to RMB96.5 million in 1H 2006. This increase was mainly due to an increase in retail turnover, particularly from concessions as the occupancy cost of a concession store is charged at a percentage of turnover. Increases in turnover therefore will result in higher rent paid to the department stores.

Salaries and benefit expenses resulting from the retail operation increased 8.99% from RMB27.8 million in 1H 2005 to RMB30.3 million in 1H 2006. This increase is mainly the result of increased payments to retail sales employees, as commissions on retail sales are offered as incentives to in-store staff. This small increase reflects, in part, the economies of scale inherent to the Company's retail business, as retail turnover during 1H 2006 rose by 28.18%.

Other components of distribution expenses also experienced increases. Depreciation expenses increased 39.33% from RMB8.9 million in 1H 2005 to RMB12.4 million in 1H 2006, mainly due to capital expenditure relating to investment into the Company's production and distribution facilities, and the continued introduction of PORTS flagship retail stores, one of which was opened in Xi'an during 1H 2006. Advertising costs increased 12.80% from RMB12.5 million in 1H 2005 to RMB14.1 million in 1H 2006. This increase is due to the Company's continued investment into building the PORTS and BMW Lifestyle brands, and remained consistent with historical levels at 3.87% of retail turnover. Store and mall expenses also increased 23.81% from RMB8.4 million in 1H 2005 to RMB10.4 million in 1H 2006, mainly due to renovations to upgrade existing department store concessions and mall locations.

Administrative expenses

Administrative expenses decreased 10.33% from RMB18.4 million in 1H 2005 to RMB16.5 million in 1H 2006. This was mainly due to a decrease in administrative salaries and benefits, the largest category of administrative expense, which decreased by 7.06% from RMB8.5 million in 1H 2005 to RMB7.9 million in 1H 2006. This decrease was mainly the result of the allocation of design costs to the North American operation under the Company's design sharing agreement, due to the increase in the volume of business in North America. 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 15.07% from RMB14.6 million in 1H 2005 to RMB16.8 million in 1H 2006. This increase was mainly due to an increase in stock provisions, from RMB14.3 million in 1H 2005 to RMB16.8 million in 1H 2006.

Income Tax

The Company's effective income tax rate increased from 2.88% of profit before tax in 1H 2005 to 6.25% of profit before tax in 1H 2006. The increase in income taxes paid was mainly due to the reduction of the income tax rebate as a percentage of total income earned.

Profit attributable to shareholders

The Company's profit attributable to shareholders increased 51.35% from RMB66.6 million in 1H 2005 to RMB100.8 million in 1H 2006. The Company's net profit margin increased from 17.38% in 1H 2005 to 24.18% in 1H 2006. This increase in net profit margin was driven mainly by the shift in business mix during 1H 2006 away from the lower-margin businesses of the OEM and Other segments towards the higher-margin PORTS and BMW Lifestyle retail businesses. The conversion of the majority of the Company's cash reserves into RMB from foreign currencies has also helped to decrease the exchange loss from RMB4.9 million in first half of 2005, to RMB1.1 million during the first half of 2006.

Financial Position, Liquidity and Gearing Ratio

The Group continues to be in a strong financial position, with significant cash and cash equivalents and no bank borrowings. As at 30 June 2006, the Group had approximately RMB330.8 million in cash and cash equivalents and time deposits with major banks, compared with RMB346.9 million as at 31 December 2005. 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 2006, the Group's gearing ratio was zero, based on no bank debt outstanding and total assets of approximately RMB945.7 million. The Group's gearing ratio was zero as at 31 December 2005. As at 30 June 2006, the current ratio was 5.77, based on current assets of RMB785.0 million and current liabilities of RMB136.0 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 2006.

Currency Risk Management

The Group's cash balances and cash generated from normal business operations are mainly deposited in RMB with major Chinese banks, with a small amount in Hong Kong dollars ("HK$"), United States dollars ("US$") and the European Union common currency ("Euro") being deposited with other major international banks in China and Hong Kong. The Company continues to minimize exchange losses by reducing foreign currency reserves, and increasing RMB reserves. Management anticipates the continued appreciation of the RMB, which may potentially increase the Group's purchasing power for raw materials sourced outside China. In 1H 2006, the company reported an RMB1.1 million exchange loss compared to RMB4.9 million in 1H 2005.

The Group does not engage in any currency hedging activities as it considers its risk exposure to currency fluctuations to be acceptable. The Group's cost base is mainly denominated in RMB with some Euro and US$ exposure from raw materials purchased in Europe. Exposure to the fluctuations of the Euro and US$ are balanced by the receipt of Euros from exports of BMW Lifestyle apparel to BMW in Germany, and the receipt of US$ from OEM customers in the USA. Currently, revenue from operations is denominated mainly in RMB with some minor Euro and US$ exposure. In the future, the

Company plans to increase the RMB component of cash holdings, thus minimizing the losses due to foreign currency fluctuations and maximizing the benefits from the continued appreciation of the RMB.

Capital Commitments & Contingent Liabilities

As at 30 June 2006, the Group had capital commitments of RMB2.7 million which had been contracted for, and capital commitments of RMB62.5 million, which had been authorized but not contracted for. The Group had no contingent liabilities as at 30 June 2006.

Capital Structure of the Group

The Group requires working capital to support its 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 initial public offering of the Company's shares on 31 October 2003 has provided an additional source of working capital. As at 30 June 2006, the Group had cash and cash equivalents and time deposits of RMB330.8 million, denominated principally in RMB, HK$, US$ and Euro, representing a decrease of 4.58% from 31 December 2005. Net cash inflows from operating activities increased 14.02% to RMB56.1 million in 1H 2006, as compared to RMB49.2 million for the same period in 2005. The Group currently has no outstanding interest-bearing debt obligations.

Charges on Assets

As at 30 June 2006, the Group had not charged any of its assets.

Human Resources

As at 30 June 2006, the Group had approximately 4,600 employees. Total personnel expenses, comprising wages, salaries and benefits, amounted to RMB70.0 million in the first half of 2006, compared to RMB61.6 million for the same period in 2005.

Post-Balance Sheet Date Developments

As at the balance sheet date, the directors have declared an interim dividend of RMB0.11 per share based on 547,505,262 ordinary shares in issue as at 30 June 2006, amounting in aggregate to RMB60.2 million to be paid on 31 October 2006 to shareholders of the Company whose names appear on the register of members of the Company at the close of business on 29 September 2006.

Significant Events

There were no significant events in the first half of 2006.

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

During the six months ended 30 June 2006, 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 2006 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 2006 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 Institute of Certified Public 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 2006.

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 2006, 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.

ANNOUNCEMENT OF DETAILED RESULTS

This announcement and the interim report will be published on the Stock Exchange's website and the Company's website: http://www.portsdesign.com.

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

Hong Kong, 31August 2006

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