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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 2009

The Board of Directors of PORTS DESIGN LIMITED (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 2009.

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	<i>For the year ended 31 December</i>	
		2009 (RMB'000)	2008 (RMB'000)
<b>Turnover</b>	3, 4	1,538,090	1,488,615
Cost of sales		<u>(283,133)</u>	<u>(346,581)</u>
<b>Gross profit</b>		1,254,957	1,142,034
Other revenue	5	45,782	13,976
Other net income	5	2,438	12,037
Distribution costs		(657,921)	(618,936)
Administrative expenses		(57,032)	(47,863)
Other operating expenses		<u>(64,581)</u>	<u>(47,498)</u>
<b>Profit from operations</b>		523,643	453,750
Finance income		13,080	23,234
Finance costs		<u>(14,990)</u>	<u>(13,279)</u>
Net finance (costs)/ income	6(a)	(1,910)	9,955
<b>Profit before taxation</b>	6	521,733	463,705
Income tax	7	<u>(53,446)</u>	<u>(42,023)</u>
<b>Profit for the year</b>		<u>468,287</u>	<u>421,682</u>
Other comprehensive income for the year, net of income tax		-	-
<b>Total comprehensive income for the year</b>		<u>468,287</u>	<u>421,682</u>

**Profit attributable to:**

Equity shareholders of the Company	468,287	421,685
Non-controlling interests	<u>-</u>	<u>(3)</u>
<b>Profit for the year</b>	<u><u>468,287</u></u>	<u><u>421,682</u></u>

**Total comprehensive income attributable to:**

Equity shareholders of the Company	468,287	421,685
Non-controlling interests	<u>-</u>	<u>(3)</u>
<b>Total comprehensive income for the year</b>	<u><u>468,287</u></u>	<u><u>421,682</u></u>

**Earnings per share (RMB)**

-Basic	8	<u><u>0.83</u></u>	<u><u>0.75</u></u>
-Diluted	8	<u><u>0.83</u></u>	<u><u>0.75</u></u>

*\*for identification only*

## CONSOLIDATED BALANCE SHEET

		<b>As at 31 December</b>	
	<i>Note</i>	2009	2008
		(RMB'000)	(RMB'000)
<b>Non-current assets</b>			
Lease prepayments		3,527	3,772
Property, plant and equipment		262,080	166,863
Intangible assets		21,065	21,065
Deferred tax assets		<u>28,490</u>	<u>14,589</u>
		315,162	206,289
<b>Current assets</b>			
Inventories		448,479	425,593
Trade and other receivables, deposits and prepayments	9	265,333	314,643
Fixed deposits with banks		665,524	636,039
Cash and cash equivalents		<u>793,821</u>	<u>307,606</u>
		2,173,157	1,683,881
<b>Current liabilities</b>			
Trade payables, other payables and accruals	10	369,685	231,089
Interest-bearing borrowings		734,117	507,093
Current taxation		<u>19,916</u>	<u>40,053</u>
		1,123,718	778,235
<b>Net current assets</b>		<u>1,049,439</u>	<u>905,646</u>
<b>Total assets less current liabilities</b>		<u>1,364,601</u>	<u>1,111,935</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		<u>6,845</u>	-
		6,845	-
<b>Net assets</b>		<u>1,357,756</u>	<u>1,111,935</u>
<b>Capital and reserves</b>			
Share capital		1,492	1,486
Reserves		<u>1,356,264</u>	<u>1,110,449</u>
<b>Total equity attributable to equity shareholders of the Company</b>		1,357,756	1,111,935
<b>Non controlling interests</b>		-	-
<b>Total equity</b>		<u>1,357,756</u>	<u>1,111,935</u>

## Notes:

### 1. Significant accounting policies

The consolidated financial statements of the Company for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the “Group”).

#### (a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board (“IASB”). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the IASB. The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the financial statements.

#### (b) *Basis of preparation of the financial statements*

The measurement basis used in the preparation of the financial statements is the historical cost basis.

### 2. Changes in accounting policies

The IASB has issued one new IFRS, a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group’s financial statements:

- IFRIC 13 Customer Loyalty Programmes
- IFRS 8 Operating segments
- IAS 1 Presentation of financial statements (2007)
- Amendments to IFRS 7 Financial instruments: Disclosures - improving disclosures about financial instruments
- Improvements to IFRSs (2008)
- Amendments to IAS 27 Consolidated and separate financial statements - cost of an investment in a subsidiary, jointly controlled entity or associate
- IAS 23 Borrowing costs (2007)
- Amendments to IFRS 2 Share-based payment - vesting conditions and cancellations

The “Improvements to IFRSs (2008)” comprise a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments. The amendments had no material impact on the Group’s financial statements.

## 2. Changes in accounting policies (continued)

The amendments to IFRS 2 and Interpretation IFRIC 13 have had no material impact on the Group's financial statements as the amendments and interpretation are consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the Group's financial statements.

The impact of the remainder of these developments is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, notwithstanding that the reportable segments identified by the Group in accordance with IFRS 8 are the same as those of prior periods. Corresponding amounts have also been provided on a basis consistent with the revised segment information.
- As a result of the adoption of IAS 1 Presentation of Financial Statements (2007), the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in the Group's financial statements. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.
- As a result of the adoption of IAS 23 (2007), the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the prospective adoption of IAS 23 Borrowing Costs (2007) in accordance with the transitional provisions of such standard; comparative figures have not been restated. The change in accounting policy had no material impact on assets, profit or earnings per share during the year.

### **3. Turnover**

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

The Group's customer base is diversified and the Group does not have any single customer with whom transactions have exceeded 10% of the Group's revenue.

Further details regarding the Group's principal activities are disclosed in note 4.

### **4. Segment reporting**

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments.

- Retail: this segment primarily derives revenue from retail sales in the People's Republic of China ("the PRC"). The products are either sourced externally or are manufactured in the Group's manufacturing facilities located in the PRC. Individual retail shops are identified as operating segments and have been aggregated to form this reportable segment as they have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.
- OEM: this segment exports merchandise to retailers and customers in North America, Europe and Asia. The manufacture of OEM merchandise is outsourced and is branded under brands requested by the OEM customers.

#### **(a) Segment results and assets**

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following bases:

Segment assets represent inventories only.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments.

The measure used for reporting segment profit is gross profit less selling and distribution costs directly attributable to the segment.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

#### 4. Segment reporting (continued)

##### (a) Segment results and assets (continued)

	Retail		OEM		Others(i)		Total	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Revenue from external customers	1,424,391	1,294,340	75,370	109,174	38,329	85,101	1,538,090	1,488,615
<b>Reportable segment revenue</b>	<b>1,424,391</b>	<b>1,294,340</b>	<b>75,370</b>	<b>109,174</b>	<b>38,329</b>	<b>85,101</b>	<b>1,538,090</b>	<b>1,488,615</b>
<b>Reportable segment profit</b>	<b>733,142</b>	<b>641,375</b>	<b>15,724</b>	<b>17,918</b>	<b>15,489</b>	<b>40,306</b>	<b>764,355</b>	<b>699,599</b>
Distribution expenses	490,602	442,435	-	-	-	-	490,602	442,435
<b>Reportable segment assets</b>	<b>439,448</b>	<b>418,214</b>	<b>5,010</b>	<b>4,035</b>	<b>4,021</b>	<b>3,344</b>	<b>448,479</b>	<b>425,593</b>

(i) Revenue from segments below the quantitative thresholds are mainly attributable to two operating segments of the Group. Those segments include export sales and wholesales. None of those segments met any of the quantitative thresholds for determining reportable segments.

##### (b) Reconciliations of reportable segment revenues, profit and assets

	2009 RMB'000	2008 RMB'000
<b>Revenue</b>		
Reportable segment revenue	1,499,761	1,403,514
Other revenue	38,329	85,101
<b>Consolidated turnover</b>	<b>1,538,090</b>	<b>1,488,615</b>
	2009 RMB'000	2008 RMB'000
<b>Profit</b>		
Reportable segment profit	748,866	659,293
Other profit	15,489	40,306
	764,355	699,599
Other revenue and other net income	48,220	26,013
Distribution costs	(167,319)	(176,501)
Administrative expenses	(57,032)	(47,863)
Other operating expenses	(64,581)	(47,498)
Net finance (costs)/income	(1,910)	9,955
<b>Consolidated profit before taxation</b>	<b>521,733</b>	<b>463,705</b>
	2009 RMB'000	2008 RMB'000
<b>Assets</b>		
Reportable segments assets	444,458	422,249
Other assets	4,021	3,344
	448,479	425,593
Non-current assets	315,162	206,289
Trade and other receivables, deposits and prepayments	265,333	314,643
Fixed deposits with banks	665,524	636,039
Cash and cash equivalents	793,821	307,606
<b>Consolidated total assets</b>	<b>2,488,319</b>	<b>1,890,170</b>

#### 4. Segment reporting (continued)

##### (c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, lease prepayments and intangible assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of lease prepayments and property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets.

The Group's business is mainly based and operated in the Mainland China.

	<i>Revenues from external customers</i>		<i>Specified non-current assets</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
the Mainland China	1,396,637	1,269,919	263,175	174,978
Others	141,453	218,696	23,497	16,722
	<u>1,538,090</u>	<u>1,488,615</u>	<u>286,672</u>	<u>191,700</u>

#### 5. Other revenue and other net income

	<i>2009</i>	<i>2008</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>a) Other revenue</b>		
Liaison service income	1,512	1,466
Royalty income	5,000	4,856
Design and decoration income	7,311	4,024
Insurance compensation	1,099	1,533
Government subsidies	25,200	-
Others	<u>5,660</u>	<u>2,097</u>
	<u>45,782</u>	<u>13,976</u>

The Group received unconditional subsidies of RMB 25,200 thousand for the year ended 31 December 2009 (2008: nil) from local government authorities in Xiamen, Mainland China as an incentive for the Group's contribution to that city. These subsidies were recorded as other revenue as there were no specific expenses required to be incurred by the Group to obtain them.

	<i>2009</i>	<i>2008</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>b) Other net income</b>		
Net gain on sale of property, plant and equipment	2,438	11,006
Net gain on sale of land use rights	<u>-</u>	<u>1,031</u>
	<u>2,438</u>	<u>12,037</u>

## 6. Profit before taxation

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

	2009 RMB'000	2008 RMB'000
<b>(a) Net finance costs/(income)</b>		
Interest income from bank deposits	(13,080)	(16,538)
Net foreign exchange gain	<u>-</u>	<u>(6,696)</u>
Finance income	(13,080)	(23,234)
	-----	-----
Interest expense on bank loans repayable within five years	13,473	12,026
Less: interest expense capitalised into property, plant and equipment*	<u>(1,078)</u>	<u>-</u>
Interest expense, net	12,395	12,026
Net foreign exchange loss	1,442	-
Others	<u>1,153</u>	<u>1,253</u>
Finance costs	14,990	13,279
	-----	-----
Net finance costs/(income)	<u>1,910</u>	<u>(9,955)</u>

\* The borrowing costs have been capitalised at a weighted average interest rate of 2.03% per annum (2008: nil).

	2009 RMB'000	2008 RMB'000
<b>(b) Other items</b>		
Depreciation		
- owned fixed assets	42,905	47,890
- leased fixed assets	<u>272</u>	<u>272</u>
	<u>43,177</u>	<u>48,162</u>
	-----	-----
Operating leases charges in respect of properties		
- minimum lease payments	84,510	80,782
- contingent rents	<u>267,587</u>	<u>246,717</u>
	<u>352,097</u>	<u>327,499</u>
	-----	-----
Auditors' remuneration - audit services	1,877	2,040
Amortisation- lease prepayments	109	173
Cost of inventories	347,714	391,745

## 7. Income tax in the consolidated statement of comprehensive income

Taxation in the consolidated statement of comprehensive income represents:

	2009 RMB'000	2008 RMB'000
<b>Current tax – PRC Income Tax</b>		
Provision for the year	60,502	50,644
Under-provision in respect of prior years	<u>-</u>	<u>901</u>
	60,502	51,545
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>(7,056)</u>	<u>(9,522)</u>
	<u>53,446</u>	<u>42,023</u>

- (i) 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.
- (ii) No provision for Hong Kong Profits tax has been made during the years ended 31 December 2009 and 2008 as the subsidiaries in Hong Kong did not earn any assessable income for Hong Kong Profits tax purposes.
- (iii) The provision for PRC income tax is based on the respective applicable rates on the estimated assessable income of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rates and regulations of the PRC.

A majority of the subsidiaries in the PRC ("PRC subsidiaries") are located within special economic zones in the PRC and were previously subject to preferential PRC Enterprise income tax of 15% pursuant to the income tax rules and regulations of the PRC concerning foreign investment and foreign enterprises (the "FEIT Law"). In addition, under the FEIT law, all the PRC subsidiaries were entitled to a tax holiday of a tax-free period for two years from their first profit-making year of operations and thereafter, to a 50% reduction of the applicable income tax rate for the following three years.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "New Tax Law"). According to the New Tax Law, the new enterprise income tax rate for all companies in the PRC is unified at 25% effective from 1 January 2008 when the FEIT Law was ended. Pursuant to the transitional arrangement under the New Tax Law, the income tax rate applicable to the Group's PRC subsidiaries will be gradually increased from the applicable rate under the FEIT Law of 15% to the unified rate of 25% over a 5-year transition period. The PRC subsidiaries will also continue to enjoy the tax-exemption or 50% reduction on the applicable income tax rate under the New Tax Law until the expiry of the above-mentioned tax holiday previously granted under the FEIT Law, and thereafter they will be subject to the unified rate of 25%.

## 8. Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB 468,287 thousand (2008: RMB 421,685 thousand) and the weighted average of 561,785,951 (2008: 560,273,478) ordinary shares in issue during the year.

#### (i) Weighted average number of ordinary shares

	2009 <i>Number of shares</i>	2008 <i>Number of shares</i>
Issued ordinary shares at 1 January	560,934,388	558,728,124
Effect of share options exercised	<u>851,563</u>	<u>1,545,354</u>
Weighted average number of ordinary shares for the year ended 31 December	<u><u>561,785,951</u></u>	<u><u>560,273,478</u></u>

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company of RMB 468,287 thousand (2008: RMB 421,685 thousand) and the weighted average number of 561,785,951 (2008: 565,678,013) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's share option scheme.

#### (c) Weighted average number of ordinary shares (diluted)

	2009 <i>Number of shares</i>	2008 <i>Number of shares</i>
Weighted average number of ordinary shares for the year ended 31 December	561,785,951	560,273,478
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<u>-</u>	<u>5,404,535</u>
Weighted average number of ordinary shares (diluted) for the year ended 31 December	<u><u>561,785,951</u></u>	<u><u>565,678,013</u></u>

In computing diluted earnings per share for the year ended 31 December 2009, there is no dilutive effect of outstanding share options of 33,223,809 because the number of ordinary shares deemed to be issued upon the exercise of the share options is less than the ordinary shares that would have been issued at the average market price of the Company's ordinary shares during the period. As a result, the calculation of diluted earnings per share does not assume exercise of share options for the year ended 31 December 2009.

## 9. Trade and other receivables, deposits and prepayments

Included in trade and other receivables, deposits and prepayments as at 31 December 2009 was an amount of RMB 176,666 thousand (2008: 162,313 thousand) relating to accounts receivable. An ageing analysis of accounts receivable is as follows:

	<i>2009</i> <i>RMB'000</i>	<i>2008</i> <i>RMB'000</i>
Current	140,243	137,960
Less than 1 month past due	24,175	19,855
1-3 months past due	10,131	4,343
Over 3 months but less than 12 months past due	2,117	155
Amounts past due	36,423	24,353
	<u>176,666</u>	<u>162,313</u>

Customers are normally granted credit terms of 0 to 90 days, depending on the credit worthiness of individual customers.

## 10. Trade payables, other payables and accruals

Included in trade payables, other payables and accruals as at 31 December 2009 was an amount of RMB 53,580 thousand (2008: 93,615 thousand) relating to accounts payable. An ageing analysis of accounts payable is as follows:

	<i>2009</i> <i>RMB'000</i>	<i>2008</i> <i>RMB'000</i>
Due within 1 month or on demand	32,553	55,732
Due after 1 month but within 3 months	14,820	25,286
Due after 3 months but within 6 months	5,140	11,559
Due after 6 months but within 12 months	1,067	1,038
	<u>53,580</u>	<u>93,615</u>

## Dividends

### Dividends attributable to the year

	<i>2009</i> <i>RMB'000</i>	<i>2008</i> <i>RMB'000</i>
Interim dividend approved and paid of RMB 0.24 (2008: RMB 0.21) per share	134,954	117,796
Special interim dividend approved of RMB 0.25 (2008: RMB nil) per share	140,942	-
Final dividend proposed after the balance sheet date of RMB 0.24 (2008: RMB nil) per share	<u>135,305</u>	<u>-</u>
	<u><u>411,201</u></u>	<u><u>117,796</u></u>

Pursuant to a board resolution dated 27 August 2009, the Company approved the payment of an interim dividend of RMB 0.24 per share. A difference of RMB 301 thousand between the interim dividend proposed in the interim report for the six months ended 30 June 2009 and the amount eventually paid represents the additional dividends distributed to the holders of shares which were issued upon the exercise of share options during the period between the date the interim report was authorised for issue and the closing date of the register of members based on which interim dividends were actually paid.

Pursuant to a board resolution dated 8 December 2009, the Company approved a special interim dividend of RMB 0.25 per share, which was paid in January 2010.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Business Review

At the beginning of the year, with the weak global economy lingering on from 2008, Management anticipated difficult retail operating conditions in the PRC to continue. Management therefore adopted a conservative approach both in terms of revenue growth and expense management. Despite very challenging global trading conditions that negatively affected our OEM and Others businesses, retail and market conditions within China showed improvement as the year progressed. Ports Design Limited, together with its subsidiaries (the "Group"), is pleased to end FY2009 with a double-digit revenue growth in Retail segment, which help to contribute to an increase in the profit from operations of 15.4%, an overall profit increase of 12.5% before taxes, and 11.1% after taxes.

The second half of 2009 showed a continual recovery from the first half. This trend demonstrates that the PRC economy has to some extent over the years shifted from a mostly export driven economy to an economy where domestic consumption is growing in importance. The Group recognizes this important trend, and is taking meaningful steps to reap the long term benefit of this for our shareholders. The upgrading of the PORTS retail network and the building of a multi-brand luxury retail portfolio are tangible steps to tap into the growing affluence of the PRC consumers. The Group continues to believe that the high end market in China will be the most rewarding position for our brands, and will generate the best long term return for our shareholders.

The Retail segment maintained its positive trend of stable turnover and improving same-store-sales growth throughout FY2009. The Retail segment recorded revenue of RMB1.42 billion, an increase of 10.0% from FY2008. The Retail gross profit margin rose to 86.0% in FY2009 (FY2008: 83.7%) due to an increase in the average retail selling price ("ARSP") and further economies of scale. Retail segment continued to increase its contribution to the Group's overall turnover – currently accounting for 92.6%, compared to 86.9% in FY2008. With the weak demand from the U.S. and E.E.C. economies, turnover of OEM and Others segments continued a declining trend, resulting in decreases of 31.0% and 55.0% respectively compared to FY2008.

From a brand building perspective, 2009 indeed was a very exciting year. The PORTS menswear business, which has historically trailed the womenswear business for years, has seen strong improvements in retail sales in 2009. For the first time, a survey conducted by the world renowned menswear magazine, *Gentleman's Quarterly* in 2009, showed that PORTS had earned a place among the top ten luxury menswear brands most desired by Chinese men.

PORTS presented its Spring / Summer 2010 ladies collection at the Mercedes-Benz New York Fashion Week in September 2009. This collection was inspired by 1930's Haute Couture and the culture of Japan, showcasing pieces with textures made up of organic materials and simple structures. The brand's visibility and influence in the media continue to improve globally as well as in China, with impressive editorial coverage in both Chinese and international fashion publications such as *Elle*, *Vogue* and *Harpers Bazaar*. The impeccable quality and design of our products has brought increasing recognition among international celebrities, including the recent Oscar Best Actress winner, Sandra Bullock.

The Retail segment maintained stable turnover growth for 2009. Same-store-sales growth demonstrated an improving trend during the year, and this has continued through the first quarter of 2010. During 2009, Management implemented a modest ARSP increase of 7%, which helped to further improve our Retail gross profit margin. Continue to move the brand further upmarket remains as part of the Company's strategy. At the same time, management has recognized the entry of more international brands into the PRC market, and therefore responded with a variety of measures, amongst which the most important one was making a conscious decision to speed up the upgrading of our retail distribution network (both in terms of quality of store location, as well as quality of store design and decoration). As at 31 December 2009, the store count was 356. The Management expects the retail network upgrading exercise to be mostly completed by year end 2010, and anticipates being able to report more robust growth in store count in 2011 and beyond. PORTS continues to dominate the upscale womenswear apparel market in China, and with the recent improvement seen in the PORTS menswear business, the Management sees opportunities across the entire product spectrum for the Company.

The BMW Lifestyle brand continues its good progress and Management expects to further develop and launch non-apparel products such as watches and accessories in 2010. The success of the auto brand in the lifestyle business has been mutually rewarding both for BMW and the Group. Recognizing the value that the lifestyle business has contributed to BMW brand building in China, BMW AG in Munich rewarded the Group with a lower royalty rate upon the renewal of the licensing agreement in 2009. The success of the BMW Lifestyle

business resulted in offers from other luxury auto brands to partner together for the Chinese market. In the first quarter of 2009, the Group decided to partner with Ferrari as we believe the strong brand appeal of Ferrari will lead to a further expansion of the market that BMW Lifestyle currently targets and serves. Ferrari retail stores are expected to be rolled out in China starting in 2010.

While the Group's core strategy remains unchanged, certain tactical adjustments were made. The Group maintained steady progress on its multi-brand portfolio strategy approach. In order to manage this growth, a new business unit "Licensed Brands Division" ("LBD") was formed in 2009. LBD currently manages six brands – BMW Lifestyle, Armani, Vivienne Tam, MaxMara, Ferrari and Versace. Management expects the contribution of the LBD will be able to offset the decline in the export driven OEM business. Despite the excitement drummed up by the new brands, Management will remain conservative in the initial roll out. Stringent standards will be applied when monitoring and measuring the progress achieved by these new brands and a full scale roll out plan will only be considered when the brands have proven to deliver strong financial returns.

The Directors remain pleased that the Group's overall corporate strategy has proven effective and is being well executed by the Management team and the employees. The Group is largely maintaining its salary freeze policy as well as its new hire program. Given the somewhat uncertain global macroeconomic environment, the Board has set up policies at the start of the year which emphasized cash conservation and strict costs control. Discipline has resulted in the accumulation of over RMB1.46 billion in cash at the end of the year, ensuring the Group was prepared for any prolonged economic slump if the financial crisis persisted. Profit from operations for 2009, a true measure of the Management's effort, increased by 15.4% to RMB523.6 million over 2008. To reward our employees and further incentivize them for future performance, new stock options were granted to our employees during the third quarter of 2009, resulting in non-cash share option expense charge of RMB34.6 million. The Board believes strongly in this program, and would like to thank our employees for their contribution and hard work during this challenging period.

### **A Look Forward To 2010**

During the first quarter of 2010, the retail industry in PRC enjoyed a sustained recovery and consumer sentiment remained on a high note for the celebration of Chinese New Year in February despite rather extreme cold weather conditions. With the strong market position enjoyed by our brands, the Management remains cautiously optimistic about 2010.

The Group remains committed to build retail businesses in the PRC and to gain market share by continuously moving PORTS and BMW Lifestyle brands further up-market, improving product offerings, merchandising, and customer service. The Management seeks to improve our operating margins through increased retail store efficiency, enhanced merchandising discipline and improved working capital management. There were 13 factory outlet mall stores in 2009 and Management expects an additional two outlet stores in 2010. Therefore, subject to the availability of quality outlet stores, the Group expects the increase in the number of outlet stores will continue at a steady pace, aiming that sale of aged inventory through this channel can eventually contribute up to approximately 5% of Retail turnover in the years to come.

The visibility regarding the economy and consumer behavior remains limited but we expect the economic recovery to continue in the first half of the year. The Group is on track and the Ports brand is ideally positioned in the market place to capitalize on this opportunity. Management aims to increase ARSP by roughly 5% for the first half of this year. Within the Retail segment, LBD will continue to vigilantly monitor the performance of new brands, and at the same time looking out for new opportunities.

The Group expects turnover for OEM and Others segments to continue experiencing declining rates as it is expected that demand from the affected economies will not pick up. However, margins are expected to remain stable across both segments as Management remains selective in accepting orders.

The Group expects to move into its new headquarter facility by the end of the first half of the year. The Management is optimistic that this consolidation will help improve productivity and the increase in manufacturing capacity will support and improve economies of scale. However, the old factory will not be decommissioned until the new factory is 100% fully operational.

For 2010, the Group expects the effective income tax rate to increase slightly from the current level of 10%. The Directors remains optimistic and with a strong cash position, the Directors have recommended a final dividend of RMB0.24 per share to our shareholders. With the interim and special dividends declared for 2009, the Group is committed to improving long term returns to our shareholders.

## **Financial Review**

### **Turnover**

Turnover of the Group increased from RMB1.49 billion in FY2008 to RMB1.54 billion in FY2009, representing an increase of 3.3%. Turnover comprises three different segments: Retail, OEM, and Others. In FY2009, the Retail segment continued to maintain its strong contribution to the overall turnover; growing from 86.9% in FY2008, to 92.6% of the total Group's turnover in FY2009.

#### **Retail turnover**

Retail turnover increased from RMB1.29 billion in FY2008 to RMB1.42 billion in FY2009, representing an increase of 10.0%. The increase was contributed by a combination of increases in: volume of units sold, and average retail selling price ("ARSP"), outweighing the possible effect of a decrease in the number of retail stores. In FY2009, the Group accelerated the upgrade the quality of our retail distribution network in China, in effort to strengthen the high-end positioning of our PORTS and BMW Lifestyle brands. As China has become the most important market for luxury brands in the global market. Management believes it is important to only maintain stores that are only in line with the brand position of PORTS or BMW Lifestyle.

This overall corporate strategy to move upmarket has proven effective, resulting in higher sales per store and better gross profit margin for the Group. The marketing program is well executed, enabling the Group to achieve price increases without reduction in volume, despite a challenging operating environment in 2009. For the first time, the popularity of the PORTS brand, mainly known for ladies wear, have spilt over to the menswear segment. A survey conducted by GQ Magazine (Gentlemen's Quarterly) in December 2009 placed PORTS among the top ten most popular luxury menswear brands for men in China. This will open up a new channel of growth for the Group. The Management believes that, given the popularity of our brands together the upward trend in the domestic consumption market in China, Retail turnover will continue to flourish. With discipline and in-depth knowledge about the PRC market, the Group is in a good position to reap the long term benefit in this important market.

As at 31 December 2009, Retail segment remained as the key turnover contributor, accounting for 92.6% of the Group's turnover, increasing from 86.9% in FY2008. As at 31 December 2009, the Group operated 356 retail stores in the Mainland China, Hong Kong and Macau.

#### **OEM turnover**

OEM turnover decreased from RMB109.2 million in FY2008 to RMB75.4 million in FY2009, representing a decrease of 31.0%, bringing down OEM segment's contribution to the Group's turnover from 7.3% in FY2008 to 4.9% in FY2009. The continued growth of Retail segment played a role in contributing to the decline, however, the effect was further multiplied by the weak and declining demand from the U.S. and the European export markets. With an unclear outlook for the export markets, the Management anticipates a similar trend for the OEM segment in 2010.

#### **Others turnover**

Others turnover decreased by approximately 55.0%, from RMB85.1 million in FY2008 to RMB38.3 million in FY2009. Other turnover comprises of BMW Lifestyle apparel exports to BMW AG in Germany, and wholesales exports of PORTS branded apparel. With the European and US economies still weak, the Management anticipates that the contribution of Others turnover to the Group's total turnover will continue to decline in 2010.

### **Cost of Sales**

Cost of sales declined from RMB346.6 million in FY2008 to RMB283.1 million in FY2009, representing a decrease of 18.3%. This decline is primarily contributed by the significant decrease in the OEM segment sales. Although the Retail segment sales rose, the cost of sales for the Retail segment declined due to the benefits of economies of scale and other operational improvements. Cost of sales as a percentage of turnover decreased by 4.9% to 18.4% in FY2009 (FY2008: 23.3%).

## **Gross Profit**

Gross profit increased from RMB1.14 billion in FY2008 to RMB1.25 billion in FY2009, representing an increase of 9.9%. Gross profit margin also rose from 76.7% in FY2008 to 81.6% in FY2009. The improvement in gross profit margin was driven predominantly by the increasing contribution of Retail gross profit.

### **Retail Gross Profit**

Retail gross profit increased by 12.9% from RMB1.08 billion in FY2008 to RMB1.22 billion in FY2009, accounting for the Group's 97.5% gross profit. Retail gross profit margin increased from 83.7% to 85.9% over the same period. With the ability to command higher ARSP, the increase in Retail gross profit margin was mainly due to the higher ARSP and the increase in contributions from the higher margin outlet mall retail sales.

### **OEM Gross Profit**

OEM gross profit decreased from RMB17.9 million in FY2008 to RMB15.7 million in FY2009, representing a decrease of 12.3%. Gross profit margin for the OEM segment rose from 16.4% in FY2008 to 20.9% in FY2009. The increase in gross profit margin was mainly due to the Value Added Tax ("VAT") rebates offered by the PRC government for the export industry and cost savings from competitive sourcing. The Management does not expect the grant of the VAT rebates from the government to continue in 2010 and expects margins to remain stable as the Management will be selective in accepting OEM orders.

### **Others Gross Profit**

Others gross profit decreased from RMB40.3 million in FY2008 to RMB15.5 million in FY2009, representing a decrease of 61.5%. Gross profit margin declined from 47.4% in FY2008 to 40.4% in FY2009. This decrease in gross profit margin was mainly due to fewer BMW Lifestyle apparel export orders from BMW AG in Germany, as well as the decline in the value of Euro, which is the currency used for the export to the EEC countries. While faced with difficult operating environment and uncertain timing of the market recovery, customers continued to rationalise orders. The Management expects the weak trend to continue in the foreseeable future.

## **Operating Expenses**

Operating expenses increased from RMB714.3 million in FY2008 to RMB779.5 million in FY2009, representing an increase of 9.1%. Operating expenses have generally increased in accordance with the growth of the retail business. Expenses consist of distribution expenses, administrative expenses and other operating expenses.

### **Distribution costs**

Distribution costs increased from RMB618.9 million in FY2008 to RMB657.9 million in FY2009, representing an increase of 6.3% (FY2008: 19.8%). The increase was due to increases in rental payments, salaries and benefits, and depreciation charges. Rental charges increased from RMB327.5 million in FY2008 to RMB352.1 million in FY2009, representing an increase of 7.5%, as a result of an increase in retail segment turnover. Rental as a percentage of Retail turnover maintained stable at 24.7% in FY2009 (FY2008: 25.3%). Salaries and benefits to retail sales staff increased from RMB120.4 million in FY2008 to RMB131.2 million in FY2009, representing an increase of 9.0%. Salaries and benefits as a percentage of Retail turnover declined to 9.2% in FY2009 (FY2008: 9.3%). Depreciation charges increased from RMB38.1 million in FY2008 to RMB47.8 million in FY2009, representing an increase of 25.7%, as a result of increased investments in manufacturing, distribution facilities and retail outlets.

### **Administrative expenses**

Administrative expenses increased from RMB47.9 million in FY2008 to RMB57.0 million in FY2009, representing an increase of 19.2% (FY2008: 7.1%). This increase was principally due to increases in salaries and benefits. Salaries and benefits increased from RMB24.8 million in FY2008 to RMB 40.7 million in FY2009, representing an increase of 64.1%. The increase was mainly due to the impact from the increase on the amortization expense related to our Share Option Scheme. In FY2009, salaries and benefits for administrative staff as a percentage of total turnover maintained stable at 2.6% (FY2008: 1.9%). The Management granted new share options to employees during the third quarter of 2009, resulting in non-cash charge of RMB34.6 million to the employee share option expense for 2009. The Management believes that

the Share Option Scheme is an integral part of the Group's employee retention strategy and will yield long term benefits to the Group.

### **Other operating expenses**

Other operating expenses increased from RMB47.5 million in FY2008 to RMB64.6 million in FY2009, representing an increase of 36.0%. The increase was mainly due to the impact from the increase on the stock provision made related to our inventory position. Stock provision rose by 43.0%, from RMB45.2 million in FY2008 to RMB64.6 million in FY2009. In FY2009, the stock provision made as a percentage of Retail turnover rose to 4.5% (FY2008: 3.5%).

### **Other revenue**

Strong brand position led to improvement in royalty income from the PORTS Eyewear collection licensee. The incentives offered by department stores operators and landlords also have improved significantly, resulting in increases of design and decoration income, from RMB4.0 million in FY2008 to RMB 7.3 million in FY2009, representing an increase of 81.7%. The significant contribution of the Group to the local economy in Xiamen also resulted in Government incentive subsidies of RMB25.2 million during 2009.

### **Net finance costs/income**

With the decline in the overall interest rate, the interest income have declined from RMB10.0 million in FY2008 to a loss of RMB1.9 million in FY2009. The unexpected strengthening of the United States dollars ("US\$") dollar vs Renminbi ("RMB") have also resulted in the reversal of exchange income. From a gain of RMB 6.7 million in FY2008, the Group have an exchange loss RMB1.4 million in FY2009. The Group have over RMB1.46 billion of cash, cash equipments and deposit. The Management believes that the exchange rate fluctuation at year end 2009 is temporary, and continued to believe in the long term appreciation potential of the RMB, and therefore, have decided to continue to hold the cash balances as term deposits in RMB in China.

### **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 RMB453.8 million in FY2008 to RMB523.6 million in FY2009, representing an increase of 15.4%. The Group's operating margin (i.e. profit from operations expressed as a percentage of turnover), increased from 30.5% in FY2008 to 34.0% in FY2009.

### **Income tax**

The Group's effective income tax rate increased from 9.1% of profit before tax in FY2008 to 10.2% of profit before tax in FY2009, resulting in an actual increase of RMB11.4 million in FY2009.

### **Profit attributable to shareholders**

As a result of the factors discussed above, the Group's profit attributable to shareholders increased from RMB421.7 million in FY2008 to RMB468.3 million in FY2009, representing an increase of 11.1%. The Group's net profit margin increased from 28.3% in FY2008 to 30.4% in FY2009 due to the increasing contribution from the higher margin Retail segment.

### **Financial Position, Liquidity and Gearing Ratio**

The Group continues to enjoy a strong financial position, with significant cash reserves being generated from normal business operations. As at 31 December 2009, the Group had approximately RMB1.46 billion in cash, cash equivalents and time deposits, an increase of 54.6%, compared to RMB943.6 million as at 31 December 2008. The Group also had access to significant bank loans and overdraft facilities and as at 31 December 2009, the Group had interest-bearing borrowings of RMB734.1 million. Net cash inflows from operating activities increased from RMB444.2 million in FY2008 to RMB539.6 million in FY2009, representing an increase of 21.5%. As at 31 December 2009, the Group's gearing ratio was 53.8% based on outstanding bank debt and total equity of approximately RMB1.36 billion (FY2008: 45.6%). As at 31 December 2009, the current ratio was 1.93 based on current assets of RMB2.17 billion and current liabilities of RMB1.12 billion.

### **Acquisitions and Disposal of subsidiaries and associate companies**

The Group did not engage in any material acquisitions or disposals of any subsidiaries or associated companies during the reporting period.

### **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 ("Euro"), with major banks in Hong Kong and the PRC. The Group considers its risk exposure to currency fluctuations to be minimal.

### **Capital Commitments and Contingent Liabilities**

As at 31 December 2009, the Group had capital commitments of RMB191.0 million (compared to RMB263.5 million as at 31 December 2008), of which RMB141.0 million was authorized but not contracted for (compared to RMB263.5 million as at 31 December 2008). These capital commitments were mainly attributable to the construction of the new manufacturing facility. As at 31 December 2009, the Company had contingent liabilities of RMB616.1 million.

### **Capital Structure of the Group**

The Group requires working capital to support its manufacturing, Retail, OEM and Others operations. As at 31 December 2009, the Group had cash, cash equivalents and time deposits of approximately RMB1.46 billion, 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.

### **Major Customers and Suppliers**

During FY2009, the Group purchased approximately 13% and 22% of its goods and services from its largest supplier and five largest suppliers respectively. The percentages of turnover attributable to the Group's largest customer and its five largest customers combined were roughly 3% and 12% respectively. None of the Directors, their associates or shareholders (which to the best knowledge of the Directors own more than 5% of the Group's share capital) were interested at any time in the year in the above suppliers or customers.

### **Charges on Assets**

As at 31 December 2009, the Group had not charged any of its assets.

### **Human Resources**

As at 31 December 2009, the Group had approximately 5,150 employees. Total personnel expenses, comprised of wages, salaries, and benefits, amounted to RMB255.2 million in FY2009, compared with RMB233.8 million in FY2008, representing an increase of 9.1%. In FY2009, total personnel expenses as a percentage of the Group's turnover maintained stable at 16.6% (FY2008: 15.9%).

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 respective areas of responsibility. The multicultural environment within at the Group also provides a unique opportunity for employees from all over the world to perform and excel in their respective disciplines, enabling exchange of best practices in all aspects. In addition, as an extra incentive to the contribution made by employees, the Board approved the granting of 24,324,000 share options in July 2009.

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

During the twelve months ended 31 December 2009, 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 2009 Financial Year.

## ANNOUNCEMENT OF DETAILED RESULTS

The 2009 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.portdesign.com>.

Hong Kong, 30 March 2010

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

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

**Executive Directors:**

Mr. Tan, Han-Kiat, Edward (*Chairman*)  
Mr. Chan, Kai Tai, Alfred  
Mr. Bourque, Pierre Frank

**Non-executive Director:**

Ms. Enfield, Julie Ann

**Independent Non-executive Directors:**

Mr. Cone, Rodney Ray  
Ms. Fong, Wei Lynn Valarie  
Ms. Lai, Lara Magno

*Please also refer to this announcement on the Company's website ([www.portdesign.com](http://www.portdesign.com)), and on the HKEx's website (<http://www.hkexnews.hk>).*