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## PORTS DESIGN LIMITED

(Incorporated in Bermuda with limited liability)  
(STOCK CODE: 0589)

### Interim Results Announcement for the six months ended 30 June 2010

The Board of Directors of PORTS DESIGN LIMITED (“PORTS” or the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010.

#### Consolidated statement of comprehensive income for the six months ended 30 June 2010 (unaudited)

(Expressed in thousands of Renminbi yuan, except share and per share data)

	Note	<i>Six months ended 30 June</i>	
		<i>2010</i>	<i>2009</i>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>Turnover</b>	3	788,949	730,992
Cost of sales		<u>(158,304)</u>	<u>(135,229)</u>
<b>Gross profit</b>		630,645	595,763
Other revenue		9,651	10,808
Distribution costs		(345,558)	(322,820)
Administrative expenses		(42,998)	(20,162)
Other operating expenses		<u>(24,414)</u>	<u>(27,440)</u>
<b>Profit from operations</b>		227,326	236,149
Finance income		11,462	6,611
Finance costs		<u>(3,682)</u>	<u>(10,720)</u>
<b>Net finance income /(costs)</b>	4(a)	<u>7,780</u>	<u>(4,109)</u>
<b>Profit before taxation</b>	4	235,106	232,040
Income tax	5	<u>(26,968)</u>	<u>(25,594)</u>
<b>Profit for the period</b>		208,138	206,446
<b>Other comprehensive income for the period, net of income tax</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the period</b>		<u><u>208,138</u></u>	<u><u>206,446</u></u>

**Consolidated statement of comprehensive income (continued)**  
**for the six months ended 30 June 2010 (unaudited)**  
*(Expressed in thousands of Renminbi yuan, except share and per share data)*

		<i>Six months ended 30 June</i>	
	<i>Note</i>	<i>2010</i>	<i>2009</i>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit attributable to:</b>			
Equity shareholders of the Company		209,241	206,446
Non-controlling interests		<u>(1,103)</u>	<u>-</u>
<b>Profit for the period</b>		<u><u>208,138</u></u>	<u><u>206,446</u></u>
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Company		209,241	206,446
Non-controlling interests		<u>(1,103)</u>	<u>-</u>
<b>Total comprehensive income for the period</b>		<u><u>208,138</u></u>	<u><u>206,446</u></u>
<b>Earnings per share (RMB)</b>			
-Basic	6	<u><u>0.37</u></u>	<u><u>0.37</u></u>
-Diluted	6	<u><u>0.37</u></u>	<u><u>0.37</u></u>

**Consolidated balance sheet**  
**At 30 June 2010 (unaudited)**  
*(Expressed in thousands of Renminbi yuan)*

	<i>Note</i>	<i>At 30 June 2010 RMB'000</i>	<i>At 31 December 2009 RMB'000</i>
<b>Non-current assets</b>			
Lease prepayments		3,431	3,527
Property, plant and equipment		279,538	262,080
Intangible assets		21,065	21,065
Deferred tax assets		<u>32,640</u>	<u>28,490</u>
		336,674	315,162
<b>Current assets</b>			
Inventories		479,330	448,479
Trade and other receivables, deposits and prepayments	7	260,625	265,333
Fixed deposits with banks		760,247	665,524
Cash and cash equivalents		<u>245,246</u>	<u>793,821</u>
		1,745,448	2,173,157
<b>Current liabilities</b>			
Trade payables, other payables and accruals	8	359,052	369,685
Interest-bearing borrowings		230,532	734,117
Current taxation		<u>-</u>	<u>19,916</u>
		589,584	1,123,718
<b>Net current assets</b>		<u>1,155,864</u>	<u>1,049,439</u>
<b>Total assets less current liabilities</b>		<u>1,492,538</u>	<u>1,364,601</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		<u>6,845</u>	<u>6,845</u>
		6,845	6,845
<b>Net assets</b>		<u>1,485,693</u>	<u>1,357,756</u>
<b>Capital and reserves</b>			
Share capital		1,497	1,492
Reserves		<u>1,485,299</u>	<u>1,356,264</u>
<b>Total equity attributable to equity shareholders of the Company</b>		1,486,796	1,357,756
<b>Non-controlling interests</b>		<u>(1,103)</u>	<u>-</u>
<b>Total equity</b>		<u>1,485,693</u>	<u>1,357,756</u>

Approved and authorised for issue by the board of directors on 26 August 2010.



**Edward Han Kiat Tan**  
*Chairman*  
26 August 2010

**Notes To The Unaudited Interim Financial Report  
for the six months ended 30 June 2010  
(Expressed in thousands of Renminbi yuan)**

**1. Basis of preparation**

Ports Design Limited (“the Company”) is a company incorporated in Bermuda with limited liability. The interim financial report of the Company for the six months ended 30 June 2010 comprises the Company and its subsidiaries (together referred to as the “Group”).

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, issued by the International Accounting Standards Board (“IASB”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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.

The 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 2009 annual financial statements. The interim financial report does not include all of the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2009.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2009 included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2009 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2010.

**Notes To The Unaudited Interim Financial Report  
for the six months ended 30 June 2010  
(Expressed in thousands of Renminbi yuan)**

**2. Changes in accounting policies**

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation 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:

- IFRS 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Amendments to IFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*
- Improvements to IFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendment introduced by the *Improvements to IFRSs (2009)* omnibus standard in respect of IAS 17, *Leases*, has had no material impact on the Group's financial statements as the classification of the Group's interests in leasehold land as operating leases continues to be appropriate.

As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

The impact of the remainder of these developments in respect of the revisions to IFRS 3, IAS 27, and IFRS 5 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and the Group has not yet entered into relevant transactions which will be affected by these developments.

**Notes To The Unaudited Interim Financial Report  
for the six months ended 30 June 2010  
(Expressed in thousands of Renminbi yuan)**

**3. 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 primary derives revenue from retail sales in the People's Republic of China ("the PRC"). These 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 result 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.

	<i>Six months ended 30 June</i>							
	<i>Retail</i>		<i>OEM</i>		<i>Others (i)</i>		<i>Total</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers	732,436	669,653	45,546	35,706	10,967	25,633	788,949	730,992
<b>Reportable segment revenue</b>	<b>732,436</b>	<b>669,653</b>	<b>45,546</b>	<b>35,706</b>	<b>10,967</b>	<b>25,633</b>	<b>788,949</b>	<b>730,992</b>
<b>Reportable segment profit</b>	<b>350,396</b>	<b>321,002</b>	<b>6,326</b>	<b>7,173</b>	<b>3,392</b>	<b>11,528</b>	<b>360,114</b>	<b>339,703</b>
	<i>Retail</i>		<i>OEM</i>		<i>Others (i)</i>		<i>Total</i>	
	<i>30 June 2010</i>	<i>31 December 2009</i>	<i>30 June 2010</i>	<i>31 December 2009</i>	<i>30 June 2010</i>	<i>31 December 2009</i>	<i>30 June 2010</i>	<i>31 December 2009</i>
<b>Reportable segment assets</b>	<b>468,025</b>	<b>439,448</b>	<b>5,590</b>	<b>5,010</b>	<b>5,715</b>	<b>4,021</b>	<b>479,330</b>	<b>448,479</b>

**Notes To The Unaudited Interim Financial Report  
for the six months ended 30 June 2010  
(Expressed in thousands of Renminbi yuan)**

**3. Segment reporting (continued)**

**(a) Segment result and assets (continued)**

- (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 revenue, profit and assets**

	<i>Six months ended 30 June</i>	
	<i>2010</i>	<i>2009</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>		
Reportable segment revenue	777,982	705,359
Other revenue	10,967	25,633
<b>Consolidated turnover</b>	<u>788,949</u>	<u>730,992</u>
	<i>Six months ended 30 June</i>	
	<i>2010</i>	<i>2009</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit</b>		
Reportable segment profit	356,722	328,175
Other profit	3,392	11,528
	<u>360,114</u>	<u>339,703</u>
Other revenue	9,651	10,808
Distribution costs	(75,027)	(66,760)
Administrative expenses	(42,998)	(20,162)
Other operating expenses	(24,414)	(27,440)
Net finance income/(costs)	7,780	(4,109)
<b>Consolidated profit before taxation</b>	<u>235,106</u>	<u>232,040</u>
	<i>At 30 June</i>	<i>At 31 December</i>
	<i>2010</i>	<i>2009</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Assets</b>		
Reportable segment assets	473,615	444,458
Other assets	5,715	4,021
	<u>479,330</u>	<u>448,479</u>
Non-current assets	336,674	315,162
Trade and other receivables, deposits and prepayments	260,625	265,333
Fixed deposits with banks	760,247	665,524
Cash and cash equivalents	245,246	793,821
<b>Consolidated total assets</b>	<u>2,082,122</u>	<u>2,488,319</u>

**Notes To The Unaudited Interim Financial Report  
for the six months ended 30 June 2010  
(Expressed in thousands of Renminbi yuan)**

**4. Profit before taxation**

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

	<i>Six months ended 30 June</i>	
	<i>2010</i>	<i>2009</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>(a) Net finance (income)/ costs</b>		
Interest income from bank deposits	(9,032)	(6,611)
Net foreign exchange gain	<u>(2,430)</u>	<u>-</u>
Finance income	----- (11,462)	----- (6,611)
Interest expense on bank loans repayable within five years	3,673	8,774
Less: Interest expense capitalised into property, plant and equipment	<u>(759)</u>	<u>(221)</u>
Interest expense, net	2,914	8,553
Net foreign exchange loss	-	1,561
Others	<u>768</u>	<u>606</u>
Finance costs	----- 3,682	----- 10,720
Net finance(income)/costs	<u><u>(7,780)</u></u>	<u><u>4,109</u></u>
<b>(b) Other items</b>		
Depreciation		
- owned fixed assets	31,777	28,153
- leased fixed assets	<u>-</u>	<u>136</u>
	31,777	28,289
Operating leases charges in respect of properties		
- minimum lease payments	43,230	44,192
- contingent rents	<u>131,742</u>	<u>128,379</u>
	174,972	172,571
Amortisation - lease prepayments	42	55
Cost of inventories	182,718	162,669

**Notes To The Unaudited Interim Financial Report  
for the six months ended 30 June 2010**  
(Expressed in thousands of Renminbi yuan)

**5. Income tax**

	<i>Six months ended 30 June</i>	
	<i>2010</i>	<i>2009</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax - PRC income tax	31,118	29,040
Deferred taxation	<u>(4,150)</u>	<u>(3,446)</u>
	<u>26,968</u>	<u>25,594</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 six months ended 30 June 2010 and 2009 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%.

**Notes To The Unaudited Interim Financial Report  
for the six months ended 30 June 2010  
(Expressed in thousands of Renminbi yuan)**

**5. Income tax (continued)**

Pursuant to the New Tax Law, 10% withholding tax is levied on the foreign investor, except that only 5% is levied for foreign investors which are registered in Hong Kong and meet certain requirements specified in the relevant tax regulations in the PRC, in respect of dividend distributions arising from profit earned by a foreign investment enterprise in the PRC after 1 January 2008. Deferred tax liabilities of RMB 54,064 thousand (31 December 2009: RMB 41,599 thousand) have not been recognised in respect of the tax that would be payable on the distribution of the retained profits of certain PRC subsidiaries of the Group as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits earned by the Group's subsidiaries in the PRC will not be distributed in the foreseeable future.

**6. Earnings per share**

(a) *Basic earnings per share*

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the profit attributable to equity shareholders of the Company of RMB 209,241 thousand (2009: RMB 206,446 thousand) and the weighted average number of 565,369,410 (2009: 560,961,031) 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 2010 is based on the profit attributable to equity shareholders of the Company of RMB 209,241 thousand (2009: RMB 206,446 thousand) and the weighted average number of 568,469,768 (2009: 562,176,628) 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)*

	<u>Six months ended 30 June</u>	
	2010	2009
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares at 30 June	565,369,410	560,961,031
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<u>3,100,358</u>	<u>1,215,597</u>
Weighted average number of ordinary shares (diluted) at 30 June	<u>568,469,768</u>	<u>562,176,628</u>

**Notes To The Unaudited Interim Financial Report  
for the six months ended 30 June 2010  
(Expressed in thousands of Renminbi yuan)**

**7. Trade and other receivables, deposits and prepayments**

Included in trade and other receivables, deposits and prepayments as at 30 June 2010 was an amount of RMB 143,755 thousand (31 December 2009: RMB 176,666 thousand) relating to accounts receivables. An ageing analysis of accounts receivable (net of provisions for bad and doubtful debts) is as follows:

	<i>30 June 2010</i> <i>RMB'000</i>	<i>31 December 2009</i> <i>RMB'000</i>
Current	109,926	140,243
Less than 1 month past due	21,609	24,175
1-3 months past due	8,031	10,131
Over 3 months but less than 12 months past due	4,189	2,117
	-----	-----
Amounts past due	<u>33,829</u>	<u>36,423</u>
	<u>143,755</u>	<u>176,666</u>

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

**8. Trade payables, other payables and accruals**

Included in trade payable, other payables and accruals as at 30 June 2010 was an amount of RMB 83,481 thousand (31 December 2009: RMB 53,580 thousand) relating to accounts payable. An ageing analysis of accounts payable is as follows:

	<i>30 June 2010</i> <i>RMB'000</i>	<i>31 December 2009</i> <i>RMB'000</i>
Due within 1 month or on demand	71,097	32,553
Due after 1 month but within 3 months	6,995	14,820
Due after 3 month but within 6 months	4,000	5,140
Due after 6 month but within 12 months	<u>1,389</u>	<u>1,067</u>
	<u>83,481</u>	<u>53,580</u>

## Dividends

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

	<u>Six months ended 30 June</u>	
	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Interim dividend proposed after the balance sheet date of RMB 0.25 per share (2009: RMB 0.24 per share)	<u>141,505</u>	<u>134,653</u>

The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. The calculation of proposed interim dividend is based on 566,018,279 ordinary shares in issue as at 30 June 2010 (30 June 2009: 561,055,645 ordinary shares).

(b) **Dividends payable to the equity shareholders of the Company attributable to the previous financial year**

	<u>Six months ended 30 June</u>	
	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Special interim dividend approved in the previous financial year and paid during the period of RMB 0.25 per share (2009: RMB nil per share)	140,942	-
Final dividend in respect of the previous financial year, approved during the period, of RMB 0.24 per share (2009: RMB nil per share)	<u>135,677</u>	<u>-</u>

Pursuant to a board resolution dated 30 March 2010, the Company approved 2009 final dividend of RMB 0.24 per share.

## **INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS**

The earnings for the Group for the six months ended 30 June 2010 are RMB208.1 million. The Directors have declared an interim dividend of RMB0.25 per share for the six months ended 30 June 2010, totaling RMB141.5 million based on 566,018,279 ordinary shares in issue as at 30 June 2010.

The interim dividend will be payable on 20 December 2010. The register of members will be closed from 2 November 2010 to 8 November 2010, both days inclusive, during which period no transfer of shares can be effected.

In order to qualify for the above dividend, all transfers 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, 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m., 1 November 2010.

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

The Group began its current financial year in the midst of gradual macro economic recovery and strategic transition under the Retail Network Repositioning Program which was started in late 2007 (the "Program"). With the economic recovery and the transitions that we had undergone, the management team planned a roadmap for balancing short-term financial performance with its strategic goal of moving the brand further upmarket which we believe will create the most value in the long-run.

The Group's strategic and operational performance was in line with what the management had expected to result from the restructuring of the retail distribution network that was to take place during the first half of 2010 ("1H2010"). Turnover for 1H2010 was RMB788.9 million compared to RMB731.0 million for the same period in 2009 ("1H2009"), representing an increase of 7.9%. The Group's revenue growth was achieved mostly with retail sales growth. The Group's gross profit increased 5.9%, from RMB595.8 million in 1H2009 to RMB630.6 million in 1H2010. Operating profit declined by 3.7% to RMB227.3 million mainly due to the increase in the non-cash charge of RMB33.0 million which is primarily related to employee stock option expense. The Group's profit attributable to shareholders for 1H2010 increased by 1.4% to RMB209.2 million compared to RMB206.4 million for 1H2009. The non-cash share option expense had indeed created a direct impact to the financials, however, if we were to exclude this non-cash expense item, the financials do demonstrate a very healthy performance trend, as the Group's net profit margin actually increased from 28.6% in 1H2009 to 30.6% for 1H2010.

As the Group strived to boost Retail segment performance with the anticipated economic recovery, the Management implemented a modest increase in the average retail selling price ("ARSP") for the 2010 Spring/Summer collection. This was to test the appropriate pricing strategy for the retail business and the extent of the price elasticity versus demand in the high-end PRC retail market. The Group achieved Retail revenue of RMB732.4 million for 1H2010, a 9.4% increase compared with the same period in 2009. This sales increase was primarily contributed by a strong double digit same store sales growth. Through thorough review and observation of the Group's Retail performance over the years, and the effect of price versus demand, the Management has come to a view that within the PRC high-end market, consumers are relatively insensitive to prices. Therefore, as long as the Group manages to, and which the Group is committed to, maintaining the strong brand attributes of our core PORTS brand, the Group will continue to enjoy sales growth. Starting from 2010 Fall collection, the management team will return to the original pricing formula with higher ARSP increases.

When the Group embarked on the Program to upgrade the retail network in the second half of 2007, the management team had the responsibility of balancing the short-term financial results and long-term strategic direction of the Group's Retail segment. A conscious decision was made to close down stores that were not in line with the positioning of the PORTS brand. Under the Program, the Group opened 33 new stores during 1H2010, but at the same time closed 60 stores that Management considered as inconsistent with the positioning of our brand. That resulted in a reduction of 27 in the total store count from 31 December 2009 to 30 June 2010. The Management is pleased to report that we are now near the tail end of this Program, and the Group will resume an increasing trend in the total number of retail stores. The progress achieved under the Program is reflected in the financial performance and we have achieved our dual objectives of maintaining short-term financial performance while moving the brand further upmarket, which will create the greatest long-term value.

PORTS unveiled the PORTS 1961 Fall 2010 collection during the Mercedes Benz New York Fashion Week in February 2010. The Craeft Fall 2010 collection was inspired by a venture into a realm that is rooted in the past yet reaches for the future. It highlights pieces which uses the human form as its muse to create a very distinctive collection that was full of sculptural accents. The show received global media coverage, including major fashion media like Vogue, Elle, Harper's Bazaar and Style.com. The Management is pleased to report that the PORTS brand continues to attract many new fans with many celebrities like Olivia Palermo, MTV Reality television actress and Julia Jones, actress of the movie phenomena "Twilight", were seen wearing PORTS.

The Retail segment remained a key business driver for the Group's profitability and continued to dominate the Group's overall turnover by accounting for 92.8% of the Group's turnover, compared to 91.6% in 1H2009. Strategically, important steps were taken in the continued effort to complete the Program with respect to maintaining the PORTS brand integrity. The Retail segment grew by 9.4%, marginally lower than 10.2% in 1H2009, Management feels that Retail segment has delivered a satisfactory performance while undertaking the critical Program aimed at taking the Group into another phase of significant growth.

The BMW Lifestyle brand continues to demonstrate progress with the success of its non-apparel product extension developments which include leather goods, eyewear and watches. The recent launch of the BMW Lifestyle Timepiece Collection in Beijing was well-received and Management will monitor its progress and will continue to enhance its product lines and invest in the development to support growth. Leveraging on our successful experience with the BMW Lifestyle brand, Management is working closely to finalise the retail roadmap for Ferrari and the Group's first Ferrari retail concept store was unveiled in August 2010.

The Group remains focused on its multi-brand portfolio strategy and the Licensed Brand Division ("LBD") continues to actively manage and scout for quality international brands to add to the Group's existing brand portfolio. Presently, LBD is managing five brands – BMW Lifestyle, Armani, Vivienne Tam, Ferrari and Versace. Management will continue to monitor and evaluate the progress achieved by these new brands and exercise discretion concerning their retail rollout plan. This strategic approach is in line with management's conservative stance to maintain strong financial returns and to have the flexibility to capture any potential opportunities.

The Directors remain pleased with the Group's performance and are grateful to the management team and employees for their efforts and dedication. In recognition of the patience and support of our employees during the past few turbulent years, the Group issued the third batch of options under the 2003 Share Option Scheme (the "Scheme") in the third quarter of last year. This third batch grant resulted in a non-cash share option expense charge of RMB 33.0 million in 1H2010, causing a significant increase in operating costs. Nevertheless, the Directors are of the opinion that the maintenance of the Scheme will have significant long-term benefit to the Group. The Group also lifted the salary freeze and resumed the hiring of new employees, in order to improve the quality of our workforce and maintain our competitiveness in attracting top talents in the fashion industry. The Management remains focused on strict cost control and will continuously monitor opportunities for further improvements in operating efficiencies. With this unrelenting financial discipline, the Group remains in a strong financial position with over RMB1.01 billion in cash, cash equivalents and time deposits with banks as at 30 June 2010.

## **A LOOK FORWARD TO THE SECOND HALF OF 2010**

During the months of July and August, Management saw retail sales growth trends similar to that of 1H2010. An increase of ARSP increase, roughly 8% was implemented for the 2010 Fall Collection, which appears to be well accepted by the consumers.

The Group remains optimistic and will continue to open new stores in the second half of 2010. The Group expects that the repositioned retail distribution network will bring higher sales productivity and acquire a larger market share. For 1H2010, the Management is pleased with the progress of the Program and expects the store count to increase modestly from now till year end.

With the gradual recovery in the global economic environment, the Management expects turnover for OEM and Others segments to increase slowly, due to an improvement in demand from the affected Western economies. However, contributions to earnings are expected to be insignificant compared with the contribution from the Retail segment.

The Group is expected to move into the new headquarter facility by year end 2010. Management believes that the consolidation will improve productivity and increase manufacturing capacity, which

will support the Group's future growth and enable the Group to continue to reap the benefits from improved economies of scale.

The Directors remain upbeat about the future of the Group's business and have declared an interim dividend of RMB0.25 per share to our shareholders. The Group will continue to monitor market conditions to ensure the continuing strength of its core PORTS brand and to meet its responsibilities to all its stakeholders, including customers, employees, vendors and shareholders.

## **OVERALL PERFORMANCE**

### **Turnover**

Turnover for the six months ended 30 June 2010 was RMB788.9 million compared to RMB731.0 million for the same period in 2009, representing an increase of 7.9%. Turnover comprises of three different segments: Retail, OEM and Others.

#### **Retail Turnover**

Retail turnover is generated from the PORTS, BMW Lifestyle brand, and to much lesser extent, the Armani and Vivienne Tam retail stores. As at 30 June 2010, there were a total of 329 stores in China, including Hong Kong and Macau. Retail turnover generated by these stores in 1H2010 was RMB732.4 million, compared to RMB669.7 million for the same period in 2009, representing an increase of 9.4%. This increase was driven mainly by an increase in number of units sold in existing stores as well as an increase in the ARSP. The increase in selling price reflects, in part, the strength of the PORTS and BMW Lifestyle brands in the Chinese market. The Management attributes this strength to the continued investment into building the brands via the Group's marketing activities, and the continued favourable reviews from independent fashion editors and critics within the global fashion industry.

#### **OEM Turnover**

Turnover for the OEM segment rose from RMB35.7 million in 1H2009 to RMB45.5 million in 1H2010, an increase of 27.6%. The Management expects that OEM exports will continue to increase in the second half of 2010 ("2H2010").

#### **Others Turnover**

Others turnover comprises mainly of turnover from the export of BMW Lifestyle apparel to the global BMW dealer network as well as to BMW Lifestyle boutiques in the U.S. and Germany. Others turnover amounted to RMB11.0 million in 1H2010 compared to RMB25.6 million in 1H2009, representing a decrease of 57.2%. The Management expects that Others turnover will improve in 2H2010.

### **Cost of Sales**

Cost of sales in 1H2010 amounted to RMB158.3 million, compared to RMB135.2 million in 1H2009, representing an increase of 17.1%. The increase in cost of sales is mostly due to the increased non-cash share option expense, which is in relation to the third batch of share options that has been granted to employees in relation to retail operations.

### **Gross Profit**

As a result of the factors discussed above, the Group's gross profit increased 5.9%, from RMB595.8 million in 1H2009 to RMB630.6 million in 1H2010. Removing the share option expense impact, Management is pleased to report that the Group's gross profit margin remained stable at 81.2% for 1H2010, as compared to 81.6% in 1H2009. The Group's Retail segment enjoys a significantly higher gross profit margin than the OEM and Others segments.

### **Retail Gross Profit**

Retail gross profit increased 7.6%, from RMB577.1 million in 1H2009 to RMB620.9 million in 1H2010, while gross margin declined from 86.2% to 84.8% over the same period. The decline in gross margin was mainly due to the increased share option expense. This accounts for the Group's 98.5% gross profit, compared to 96.9% in 1H2009, reflecting the growing importance of the Group's retail operations.

### **OEM Gross Profit**

Gross profit of the OEM segment decreased from RMB7.2 million in 1H2009 to RMB6.3 million in 1H2010, representing a decline of 11.8%. Gross profit margin for the OEM segment fell from 20.1% in 1H2009 to 13.9% in 1H2010. The Group outsources the manufacturing for the OEM segment and the decline in gross margin was mainly due to a more competitive and higher sourcing costs in China.

### **Others Gross Profit**

Gross profit of the Others segment decreased by 70.6%, from RMB11.5 million in 1H2009 to RMB3.4 million in 1H2010. Gross profit margin also decreased from 45.0% in 1H2009 to 30.9% in 1H2010. This is due mainly to a very competitive environment as a result of the global financial crisis. The Management expects that the demand for BMW Lifestyle apparel products will improve gradually in 2H2010.

### **Other Revenue**

Other Revenue declined by 10.7%, from RMB10.8 million in 1H2009 to RMB9.7 million in 1H2010 due to the decreased commission fee from the OEM segment. Other operating income consists mainly of income from the Group's sunglass licensee, store design and decoration services provided to third parties, including department stores that contain new PORTS concessions, this two category of operating income continue the trend of modest growth, whereas the commission fee from the OEM segment have experienced significant decline.

### **Operating Expenses**

Operating expenses increased modestly from RMB370.4 million in 1H2009 to RMB413.0 million in 1H2010, an increase of 11.5%. Operating expenses consisted of distribution costs, administrative expenses and other operating expenses. The changes in various components are summarized in the following paragraphs.

#### **Distribution Costs**

Distribution costs increased by 7.0%, from RMB322.8 million in 1H2009 to RMB345.6 million in 1H2010. Distribution costs consist mainly of salaries and benefits and leasehold improvement fee from retail operations. Distribution costs as a percentage of Retail turnover maintained stable at 47.2% in 1H2010 (1H2009: 48.2%).

Rental expense for retail network increased by 1.4%, from RMB172.6 million in 1H2009 to RMB175.0 million in 1H2010. Rental expense as a percentage of Retail turnover declined to 23.9% in 1H2010 (FY2009: 24.7%, 1H2009: 25.8%).

Salaries and benefit expenses resulting from retail operations increased by 5.9%, from RMB65.7 million in 1H2009 to RMB69.6million in 1H2010. This increase was mainly the result of increased share option expense to the Retail employees.

Other components of distribution costs also experienced increases. Store and mall expenses increased by 49.4%, from RMB19.4 million in 1H2009 to RMB29.0 million in 1H2010 as we continue upgrading existing department store concessions and mall locations.

Depreciation expenses increased by 18.4%, from RMB23.5 million in 1H2009 to RMB27.9 million in 1H2010, mainly due to capital expenditure relating to investment into the Group's production and distribution facilities, and the continued introduction of PORTS retail stores.

Advertising costs increased by 7.8%, from RMB21.1 million in 1H2009 to RMB22.8 million in 1H2010. The advertising rate has increased as a result of the recovery of the global financial crisis. However, the advertisement costs as a percentage of Retail revenue maintained stable at 3.1% (1H2009: 3.2%), demonstrating the Group's ability to continue to enjoy increasing economies of scale with advertising expenses.

### **Administrative Expenses**

Administrative expenses increased by 113.3%, from RMB20.2 million in 1H2009 to RMB43.0 million in 1H2010. This was mainly due to an increase in salaries and benefits (including share based payments).

Salaries and benefits for administrative staff, the single largest category of administrative expenses increased by 175.3%, from RMB12.6 million in 1H2009 to RMB34.7 million in 1H2010. The significant increase was mainly due to the impact from the increase on the amortization expense related to the Scheme. In 1H2010, salaries and benefits for administrative staff as a percentage of total Group's turnover is at 4.4% (1H2009: 1.7%). The Management granted new share options to employees during the third quarter of 2009, resulting in an increase in the employee share option expense for 1H2010. The Management believes that the Scheme is a key part of the Group's employee retention strategy and will deliver long-term benefits to the Group.

### **Other Operating Expenses**

Other operating expenses decreased 11.0%, from RMB27.4 million in 1H2009 to RMB24.4 million in 1H2010. This decrease was mainly due to a decline in stock provisions, from RMB27.4 million in 1H2009 to RMB24.4 million in 1H2010. In 1H2010, the stock provision as a percentage of Retail turnover was maintained at 3.3% (FY2009: 4.5%, 1H2009: 4.1%).

### **Profit from Operations**

As a result of the factors discussed above, the Group's profit from operations decreased by 3.7%, from RMB236.1 million in 1H2009 to RMB227.3 million in 1H2010. The operating margin declined from 32.3% in 1H2009 to 28.8% in 1H2010. The decline in profitability is largely due to the increase in the non-cash charge of employee share option expense, under cost of sales, distribution costs and administrative expenses, as well as other factors discussed above.

### **Net Finance Costs/ Income**

Net finance cost reversed from a loss of RMB4.1 million in 1H2009 to an income of RMB7.8 million in 1H2010, a decrease of 289.4%. In 1H2010, the Group reported a gain of RMB2.4 million in exchange income compared to a RMB1.6 million exchange loss in 1H2009. This exchange gain was mainly related to the Hong Kong dollars ("HK\$") denominated loan, which caused a net finance income gain due to the strengthening of the Renminbi ("RMB").

## **Income Tax**

The Group's income tax expense increased by 5.4%, from RMB25.6 million in 1H2009 to RMB27.0 million in 1H2010, as the effective income tax rate increased from 11.0% of profit before tax in 1H2009 to 11.5% of profit before tax in 1H2010.

## **Profit Attributable to Shareholders**

The Group's profit attributable to shareholders increased by 1.4%, from RMB206.4 million in 1H2009 to RMB209.2 million in 1H2010. Management is proud to report that the Group's net profit margin, excluding the non-cash share option expense of RMB33.0 million, improved to 30.7% for 1H2010, as compared to 28.6% in 1H2009.

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

The Group continues to be in a strong financial position, with significant cash and cash equivalents. As at 30 June 2010, the Group had approximately RMB1,005.5 million in cash, cash equivalents and time deposits with major banks, compared with RMB1,459.3 million as at 31 December 2009. The Group also had access to significant bank loans and overdraft facilities, and had outstanding bank borrowings of RMB230.5 million as at 30 June 2010, versus RMB734.1 million at year end 2009. The Group pays out cash dividend of RMB140.9 million during 1H2010, vs. nil in the corresponding period last year. As at 30 June 2010, the Group's gearing ratio was 11.1%, based on outstanding bank debt and total assets of approximately RMB2,082.1 million. The Group's gearing ratio was 29.5% as at 31 December 2009. As at 30 June 2010, the current ratio was 2.96, based on current assets of RMB 1,745.4 million and current liabilities of RMB 589.6 million.

## **Acquisitions, Disposals of Subsidiaries and 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 2010.

## **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 HK\$, US\$ and the European Union common currency ("Euro") being deposited with other major international banks in China and Hong Kong. The Management anticipates the continued appreciation of the RMB will potentially increase the Group's purchasing power for raw materials sourced outside China in the medium and long-term basis. In 1H2010, the Group reported RMB2.4 million exchange income compared to an RMB1.6 million exchange loss in 1H2009. The reversal has impacted positively on the Group's earnings by approximately RMB7.8 million in 1H2010. 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\$ is 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 United States. Currently, revenue from operations is denominated mainly in RMB with some minor Euro and US\$ exposure. The Company is of the view that the RMB will appreciate against the US\$ in the medium and longer term, and will continue to hold significant portion of cash in RMB.

## **Capital Commitments & Contingent Liabilities**

As at 30 June 2010, the Group had capital commitments of RMB149.5 million, of which RMB102.0 million was authorized but not contracted for. The Group had no material contingent liabilities as at 30 June 2010.

## **Capital Structure of the Group**

The Group requires working capital to support its manufacturing, Retail, OEM and Others 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 Group's shares on 31 October 2003 provided an additional source of working capital. As at 30 June 2010, the Group had cash, cash equivalents and time deposits of RMB1,005.5 million, denominated principally in RMB, HK\$, US\$ and Euro, representing a decline of 31.1% from 31 December 2009. Net cash inflows from operating activities decreased by 10.5% to RMB213.9 million in 1H2010, compared to RMB239.1 million for the same period in 2009. The Group currently has outstanding interest-bearing debt obligations of RMB230.5 million.

## **Charges on Assets**

As at 30 June 2010, the Group's bank deposits of RMB 238.8 million were pledged to secure banking facilities and bank borrowings granted to the Group.

## **Human Resources**

As at 30 June 2010, the Group had approximately 5,030 employees. Total personnel expenses, comprising wages, salaries and benefits, amounted to RMB 142.7 million in 1H2010, compared to RMB116.0 million for the same period in 2009.

## **Post-Balance Sheet Date Developments**

After the balance sheet date, the Directors have declared an interim dividend of RMB0.25 per share based on 566,018,279 ordinary shares in issue as at 30 June 2010, amounting in aggregate to RMB141.5 million to be paid on 20 December 2010 to shareholders of the Company whose names appear on the register of members of the Company at the close of business on 1 November 2010.

## **Significant Events**

There were no significant events in the 1H2010.

## **Purchase, Sale or Redemption of the Company's Listed Securities**

During the six months ended 30 June 2010, 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 auditor's review 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 first six months ended 30 June 2010.

## **Announcement of Detailed Results**

The 2010 Interim 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.portsdesign.com>.

By Order of the Board  
Irene F.M. Wong

Hong Kong, 26 August 2010

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  
Mr. Bromberger, Peter Nikolaus

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