COMMENTARY

March 19th, 2009

Dear clients and colleagues,

This week is marked by two positive surprises. US housing starts in February surged 22% MoM. The Fed demonstrated its determination to bring down borrowing costs, pledging to buy US$750B agency mortgage-backed securities and US$300B treasury bonds. As a result, the S&P 500 continued last week's rally to a 16% gain from the recent 12-year-low, led by financials, industrials and commodities. US$ fell sharply yesterday due to inflation concern. Oil and gold are enjoying a handsome ride.

Although the US economy is still in bad shape with high unemployment, weak industrial production and negative leading indicators, we believe the downward momentum is diminishing. The Fed's action should support the stock market to recover later this year.

In view of the above developments, we still feel comfortable with the current asset allocation of our portfolio.

This week one of our companies reported very good results. Citic 1616, a telecom service provider with a leading position in inter-operator connectivity in Asia, had sales up 67.3% y/y, profit up 26.4%. I met its CFO in HK last month. The management is confident to maintain growth at a relatively fast pace in 2009.

We removed one stock from the portfolio due to a change of growth strategy. Sina has been a leading internet portal in China since 2000. Now it aims to be a media giant after acquiring the advertising business of Focus Media, an outdoor media firm.

This week we will profile:
Ports Design Limited (589 HK - HK$1.13)
www.portsdesign.com

Originally founded in Canada in 1961, Ports Design is an international high-end fashion company based in HK with a strong focus in mainland China. It designs, manufactures and retails garment and accessories under the brand name of PORTS. The company has over 380 retail stores in 60 cities in China. Same store sales in 1H08 reached a record 28.95%. Management is from Chan's family which holds about 40% of stake.

Market cap US$668M, net cash US$46M, div yield 5.73%, p/e (2008e) 10.2x, roe 44.4%, ev/sales (TTM) 2.89x, annual sales US$178M, 5-year sales CAGR 25.7%, one year return -46%.

Target Market Size

According to Ernst & Young, China will be the key area of growth for the global luxury goods market in the coming years. Currently China's luxury market is the world's 3rd largest with more than US$2B sales. It is expected to grow 10% annually till 2015, when sales are to exceed US$11.5B.

Competitive advantages
First Mover: Ports entered the China high-end market back in 1993 and established wide distribution network.
Strong brand: The 2007 China Fashion Index survey placed Ports after Chanel as the 2nd most popular ladies wear brand in China. It is famous for simple style, high quality and suitable design for Asian women.

Growth strategy
Distribution strategy to open new stores. High-end brand perception allows pricing to increase each year at 3% to 4% above inflation rate. Wide distribution network is leveraged to sell other brands such as Armani, BMW lifestyle and Vivian Tam.

Risk
Falling demand due to general economic downturn. Fashion risk.

Investment Theme
Booming consumers sector: Consumption is the long-term driver of China's economy growth, especially supported by China's stimulus plan. As the top choice of Chinese white-collar women, Ports is well prepared for the coming recovery.

Valuation
Target price = HK$15.8 for a 76% return, using DCF model at growth rate of 15% for the first 7 years, 6% at maturity, risk premium of 10%, and payout at maturity of 50%.

Have a good week.

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