米蘭站

EXIT

Milan Station

A Summary of Desire

ANNUAL REPORT 2011 年報

Milan Station Holdings Limited

Stock Code: 01150

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Yiu Kwan Tat *(Chairman and Chief Executive Officer)*
Mr. Yiu Kwan Wai, Gary *(Managing Director)*
Mr. Wong Hiu Chor
Ms. Yiu Sau Wai

Non-executive Director

Mr. Tam B Ray, Billy

Independent Non-executive Directors

Mr. Ip Shu Kwan, Stephen
Mr. So, Stephen Hon Cheung
Mr. Lau Kin Hok

AUDIT COMMITTEE

Mr. So, Stephen Hon Cheung
(Chairman of audit committee)
Mr. Ip Shu Kwan, Stephen
Mr. Lau Kin Hok

REMUNERATION COMMITTEE

Mr. Lau Kin Hok
(Chairman of remuneration committee)
Mr. So, Stephen Hon Cheung
Mr. Ip Shu Kwan, Stephen
Mr. Yiu Kwan Tat
Mr. Wong Hiu Chor

NOMINATION COMMITTEE

Mr. Yiu Kwan Tat
(Chairman of nomination committee)
Mr. So, Stephen Hon Cheung
Mr. Ip Shu Kwan, Stephen
Mr. Lau Kin Hok
Mr. Wong Hiu Chor

COMPANY SECRETARY

Mr. Chan Kwong Leung, Eric

AUTHORISED REPRESENTATIVES

Mr. Yiu Kwan Wai, Gary
Mr. Wong Hiu Chor

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 18-19, 18th Floor
Nan Fung Commercial Centre
No. 19 Lam Lok Street
Kowloon Bay, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower, 1 Tim Mei Avenue
Central, Hong Kong

LEGAL ADVISOR AS TO HONG KONG LAW

DLA Piper Hong Kong
17th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Jun He Law Offices
Suite 2008, 20/F., Jardine House
1 Connaught Place, Central
Hong Kong

LEGAL ADVISOR AS TO THE PRC LAW

Jun He Law Offices
Suite 2008, 20/F., Jardine House
1 Connaught Place, Central
Hong Kong

COMPLIANCE ADVISOR

China Merchants Securities (HK) Co., Limited
48/F., One Exchange Square, Central
Hong Kong

COMPANY WEBSITE

www.milanstation.com.hk

STOCK CODE

1150

PLACE OF LISTING

The main board of The Stock Exchange of Hong Kong

PRINCIPAL BANKERS

HONG KONG

Wing Hang Bank, Limited
DBS Bank (Hong Kong) Limited
CITIC Bank International Limited

THE PRC

China Construction Bank
DBS Bank (China) Limited

Financial Highlights

The following table set forth certain of the Group's financial ratio as of the date for the years ended 31 December 2011 and 2010 indicated:

	Notes	For the year ended 31 December 2011	2010
Profitability ratio			
Gross profit margin *(%)*	1	**24.2%**	23.9%
Net profit margin *(%)*	2	**5.5%**	7.4%
Return on total assets *(%)*	3	**12.0%**	32.7%
Return on equity *(%)*	4	**12.9%**	40.7%
Liquidity ratio			
Current ratio	5	**13.0**	4.5
Quick ratio	6	**7.5**	1.8
Gearing ratio *(%)*	7	**0.1%**	3.7%
Inventory turnover days	8	**66.6**	51.9

Notes:

1. Gross profit margin is calculated based on the gross profit for the year divided by revenue and multiplied by 100%.

2. Net profit margin is calculated based on the profit for the year divided by revenue and multiplied by 100%.

3. Return on total assets is calculated based on the profit for the year divided by the total assets at the end of the year and multiplied by 100% taking into account of the number of days in the respective years.

4. Return on equity is calculated based on the profit for the year divided by total equity at the end of the year and multiplied by 100% taking into account of the number of days in the respective years.

5. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the year.

6. Quick ratio is calculated based on the difference between the total current assets and the inventories divided by the total current liabilities as at the end of the year.

7. Gearing ratio is calculated based on the borrowings and obligations under finance leases divided by total assets at the end of the year and multiplied by 100%.

8. Inventory turnover days is calculated based on the average of opening and closing inventory balances for the year, divided by the total cost of sales during the year multiplied by the number of days for the respective year incurring cost of sales.

Chairman's Statement

Dear Shareholders:

The global economic trend faced a downturn in the second half year of 2011. Events like European debts crisis and downgrading of the United States sovereign rating had resulted turmoil in the capital markets. As harassed by various uncertainties, the economic recovery in Europe and the United States also had corresponding slowed down. Despite the main regions in which the Group is operating were inevitably affected by external economic conditions, however, they could still benefit from China's steady economic growth and enormous consumption power. As such, the three retail markets in the Mainland China, Hong Kong and Macau, where the Group is operating, maintained sound consumer sentiments in 2011.

Under the major macroeconomic environment, the Group continued to leverage on its professional and distinct marketing touch, adhered to its own strategy and development directions, and thereby achieved a steady development. Notwithstanding that the sales base of the Group's business in Hong Kong is higher than that of its People's Republic of China ("PRC" or "China" or "Mainland" or "Mainland China") business, sales volume of its Hong Kong business still recorded a steady increase of 17.1% at year-on-year, demonstrating the Company's leading market position. Sales of the PRC business recorded a surge of 65.2% on a year-on-year basis. The austerity policies in the Mainland China had obviously affected consumer sentiment since the second half of the year. At this moment, the Group, on the one hand, continues to adopt a prudent strategy in shop expansion, and on the other hand, keeps on optimising its management system. Our business in Macau had also achieved a healthy growth with a sales increase of 23.1%.

A steady sales growth of the Group has demonstrated the positive effects of its strategies in the active implementation of diversified and multi-channel advertising and promotion strategy to enhance its brand image and stimulate product sales volume. The corporate reputation and market leading position in which we have always been proud of have also fuelled up the sales growth of the Group. As all of us know, Milan Station is committed to provide "Genuine and Certified" fad-fashion products for its customers, for which we have formulated a series of stringent and systematic product certification programs with a team of professionally trained staff responsible for executing the product inspection process. These are our important assets and important cornerstones for our success. Our persistent objectives are widely recognised by the communities, and we continued to become a quality merchant recognised by Hong Kong Tourism Board in 2011, and become a firm of "No Fakes Pledge".

Apart from its brand and corporate reputation, the distinctive trading platform for second-hand branded handbags and fashionable products founded by Milan Station has deeply recognised by investors. The Group was successfully listed at The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 May 2011, which marked an important milestone in our development footprint. The initial public offering of the Group was well-received and becoming the highest share oversubscription company in 2011, showing that the communities' confidence on our distinctive operation module. After the successful listing, the Group increased its awareness in Hong Kong and the Mainland China, further enhanced its brand value, in which they can help increasing customer loyalty.

Looking forward, we are already well prepared to face 2012 under a complex and changing market environment. The Group expects the global economy will still be volatile with unstable factors in the coming year, and will face imminent significant challenges. Nevertheless, with the policy of expanding domestic demand to stimulate the economy by the PRC central government remains unchanged, it is expected that China's economy will maintain a steady growth, and we will take a cautious optimistic attitude towards the economic outlook in the coming year. With the gradual growth of China's economy, coupled with the acceleration of urbanisation, the taste standard of middle class is improving, and the longed-been accumulated enormous consumption power will continue to support the retail industry in the Mainland China, Hong Kong and Macau. As a cosmopolitan city in Asia, Hong Kong will continue to become the shopping paradise for consumers in the Greater China region.

Chairman's Statement

Milan Station will adhere to its core development strategy, by leveraging on the strengths of strong brand recognition and an industry leader, the Group will actively expand the high growth domestic retail market in the PRC while consolidating its Hong Kong market.

The Group has valued certain successful experience in the course of developing the domestic retail market in the PRC, in which it has strengthened our confidence in expanding the market in the PRC. Milan Station will expand its second-hand branded handbags retail business in other potential regions in the PRC, especially in those major cities with relatively high per capita income and consumption power, and identify quality shops under a prudent attitude. In order to further solidify our brand awareness, the Group will continue to facilitate brand promotion campaigns, we will continue to enhance the Mainland China consumers' understanding and acceptance of second-hand branded products through active media public relations and publicity and education to expand our potential customer base, and thereby prepare ourselves well in expanding into other cities in the Mainland.

In our principal market like Hong Kong, we observe the competition is becoming more and more intense in the second-hand branded product market. To cope with the various challenges in the future, Milan Station will reinforce its competitiveness and leading advantages in Hong Kong second-hand luxury products market through optimising the existing retail shop portfolio, increasing our marketing and promotion efforts, and improving the marketing strategies based on different consumer markets.

Developing a network sales platform is also one of our important development strategies in the future. The online sales platform business eliminate not only the market regional restrictions, but also enable us to expand its market share at lower operating costs. Apart from continuing the cooperation with website operator, we also will explore the possibility of developing our own online purchasing platform. At the same time, we will continue to enrich the product portfolio in online sales operation to cater for consumer needs in different markets. The Group will also reassess its overall resources deployment to concentrate on the development of its core business and adjust the development strategy for its own "MS" brand, thereby increase the overall cost effectiveness of the Group.

Finally, I would like to take this opportunity to express my gratitude to the fellow members of the Board, management and staff for their contributing efforts to Milan Station in the past year and to shareholders and customers for their continuous support to Milan Station. We will keep our efforts to generate substantial returns to our shareholders by adhering to the spirit of ever-going innovation and different new attempts in business development.

Yiu Kwan Tat
Chairman

Hong Kong, 22 March 2012

MARKET REVIEW

Market Overview

In 2011, the further deterioration of European sovereign debt crisis in the second half and downgrading of the United States sovereign rating contributed to the great turmoil in financial markets and the lingering uncertainties had encumbered the economic recovery in Europe and the United States, resulting in the lack of significant improvement in the global economic situation. The main regions in which the Group is operating were, however, slightly affected by the external economic deterioration. Benefitting from China's continuous economic growth and enormous consumption power, the consumer markets in the Mainland China, Hong Kong and Macau remained sound throughout the year.

Hong Kong Retail Market

As Hong Kong is more susceptible to external factors, its whole-year economic growth was unable to continue the strong momentum in the beginning of the year, with gross domestic products recording an increase of 5.0% in 2011. Nevertheless, the retail market maintained a sound growth with total sales value of the retail industry increasing 24.8% over last year, which was mainly due to the continued influx of visitors from both the Mainland China and overseas. The total number of visitor arrivals in Hong Kong throughout the year recorded a historic high of over 40.0 million, catalysing the retail consumption in the region. During the year, local unemployment rate remained relatively low, and the government's relief measures and subsidies should enable people to spare more money for consumption in Hong Kong.

The Mainland China Retail Market

The continuous intensifying global economic crisis had slightly affected China's overall economy. While the austerity measures promulgated by the PRC central government were beginning to show effects gradually, China's economy continued to maintain a robust development last year with its gross domestic product sustaining growth of approximately 9.2%, a moderate drop compared with 2010. The healthy development of the domestic economy, increasing disposable income of a class of affluent people, emergence of a middle class, increasing brand awareness, and the PRC central governments' push for domestic consumption are among factors driving the long-term growth of China's luxury products industry.

Macau Retail Market

In Macau, its gambling industry has been developing vigorously, with continuous sharp increase in visitor arrivals in Macau. The annual visitor arrivals recorded a historic high of 28.0 million in 2011, a year-on-year increase of 12.2%, of which visitors from the Mainland China accounted for 57.7% of the total visitor arrivals. Stimulated by visitor spending, the retail industry grew substantially. Various large shopping centers and casinos were completed one after another, attracting international renowned brands to enter into the Macau market.

Management Discussion and Analysis

BUSINESS REVIEW

Milan Station's success is attributable to our strong brand equity and management's ability to identify and seize market trends. In addition, our continuous efforts in protecting our intellectual property rights and our rigorous procurement and product examination procedures have played an instrumental role in driving Milan Station's development over the years.

In the reporting year, the "Milan Station" and "France Station" retail shops operated under the Group had a total of 16 shops in Hong Kong, the Mainland China and Macau, with total revenue amounting to approximately HK$879.8 million, representing a year-on-year increase of approximately 20.5%. Total comprehensive income for the year was approximately HK$48.4 million, representing a decrease of approximately 11.2% over last year. Total revenue contributed by Hong Kong, the PRC and Macau markets was respectively 85.9%, 8.6% and 5.5%. Gross profit margins for Hong Kong, the Mainland China and Macau were 23.9%, 33.7% and 32.2%, respectively. The profit for the year was HK$48.0 million, representing a decrease of 11.6% over last year. Excluding the one-off equity-settled share option expenses, the adjusted profit for the year was HK$53.7 million, representing a decrease of approximately 1.1% over last year.

Hong Kong

In 2011, the visitor arrivals in Hong Kong from the Mainland China had again reached its historic high, fueling the retail market boom. However, the domestic stock market and property investment market began to slow down in the fourth quarter, affecting sentiment in both tourism and consumer spending. During the reporting period, the operation in the Hong Kong region maintained a steady growth with sales of approximately HK$755.9 million, representing an increase of 17.1% over last year.

Since the shares of Milan Station were listed on the Stock Exchange on 23 May 2011 (the "Listing"), the retail operation model for second-hand handbags is extensively recognised by the market and investors, and attracted many local and overseas operators to enter into this segment. Despite the emergence of many competitors in the region, the Group's six Milan Station retail shops located at the prime districts in Hong Kong like Causeway Bay, Tsim Sha Tsui and Central still achieved satisfactory sales growth. The Group believes benign market competition will help facilitating the overall development and advancement of the industry. The brand value accumulated by Milan Station over the past years also offers undisputed competition advantages.

The management team of Milan Station has sound marketing sense, possesses the ability of identifying rare and high value products that are sought after in the market and provide higher contribution in actual profit for the Group. During the reporting period, the sales amount and volume for high-end handbags products with prices above HK$50,000 recorded a significant increase of 56.2% to approximately HK$444.8 million and 17.0% to 2,949 pieces respectively. The sales of these products accounted for 58.8% of total sales of the Hong Kong retail operation.

We continue adjusting our retail shop portfolio, and optimising sales strategy of retail shops, to maintain the balanced growth of the retail shop business in different regions. The APM Shopping Mall *(Note 1)* in Kwun Tong, which opened in August 2011 to replace the Woodhouse shop in Tsim Sha Tsui, also achieved excellent results by leveraging on the Group's resources effectively.

During the year, we actively implemented diversified and multi-channel advertising and promotion strategies to boost our brand image and product sales, including continuous cooperation with various banks and shops to launch credit card shopping benefits, providing various sales promotion events and discount benefits to members registered under the "Milan Station Loyalty Membership Scheme", organising promotional activities in social media networks and various media platforms, and establishing various large outdoor billboards in commercial areas with high pedestrian flow. Meanwhile, a new TV commercial advertisement with the theme of "the most efficient and reliable handbag trading platform" was launched at the end of last year, further reinforcing the positioning of the Group. We also participated in sponsoring movies and concerts to reach our target audience, including the movie premiere of "China 1911"(「1911辛亥革命」) and "Summer Love Love"(「戀夏戀夏戀戀下」), "K-pop" and Kary Ng concerts. As of 31 December 2011, the registered members of "Milan Station Loyalty Membership Scheme" had reached 10,645. Milan Station also actively participates in social welfare activities, and contributes donations to the charities, including "Joyful (Mental Health) Foundation Limited", "Heifer" and "Caring for Children Foundation", showing the importance we place in corporate social responsibility.

The Group started to cooperate with a major online platform operator to develop Milan Station's online sales platform in 2011, which was launched into operation in July 2011. It mainly targets overseas markets. The Group believes that the online market has a great development potential with high cost effectiveness, and it plans to continue exploring other online operation models to cater for more business needs to broaden channels for us to reach our customers. We also hope to provide the most fashionable branded handbags and fashion information through the online platform, establish a communication channel with our existing and potential customers to enhance the brand influence of Milan Station.

As the Group's principal place of business, Hong Kong contributes most of the Group's income. We will continue to consolidate our market leading position by tapping the changing market operating environment, reviewing and improving the business strategy. In facing the changing market environment, we will also identify market opportunities and seek business opportunities to make other new attempts in the core business of the second-hand luxury branded handbags retail to enhance our competitiveness in the second-hand luxury branded handbags market in Hong Kong.

Note 1: The Group terminated the lease agreement of the shop in Woodhouse, Tsim Sha Tsui on 28 June 2011 and moved to the APM shopping mall with higher shopper traffic in Kwun Tong.

The Mainland China

In 2011, the PRC Government continued to adopt a number of tightening measures that had led to an obvious slowdown in economic growth with domestic consumption sentiment weakening in the second half of 2011. Milan Station's total sales in the China region amounted to approximately HK$76.0 million, representing an increase of 65.2% over last year. During the reporting period, the Group operated four "Milan Station" retail shops in two big cities, Beijing and Shanghai *(Note 2)*. The proportion of total revenue generated by the Mainland China business attributable to the full year total revenue was approximately 8.6%.

The Group successfully obtained the business license for selling second-hand products from the Shanghai Municipal Government in the first half year of 2011 together with its corresponding tax incentives *(Note 3)*. The two Milan Station retail shops in Nanjing Xi Road and Changning District in Shanghai smoothly went into operation in the second half of 2011. The new shops achieved satisfactory performance in their initial operation, demonstrating that the consumption model of second-hand branded handbags trading platform had successfully penetrated into another major city in China.

Management Discussion and Analysis

Last year, we actively conducted the structure optimisation of the retail team in Beijing, provided training to management and marketing staff and enhanced the service quality to customers in order to strengthen the capabilities of the PRC team of the Group, preparing for the business expansion in China. The operation of the two retail shops in Beijing China Central Place and Beijing Sanlitun, is getting increasingly smooth *(Note 2)*. With the strong consumption power and high development potential for the luxury products market in Beijing, we will continue to actively develop the Beijing market. The two new shops in Wangfujing and Wangjing in Beijing are expected to go into operation in the second quarter of 2012.

As the market leader of independent retailers of second-hand luxury branded handbags, Milan Station pioneered the development of second-hand luxury brands market that has huge potential in the Mainland China and had successfully penetrated into the two major core cities in China, Beijing and Shanghai, with our business in the Mainland China gradually establishing a strong foothold. We had developed understanding of consumers and the market characteristics in the Mainland China and had accumulated extensive experience in the procurement and sales of second-hand handbag products. Our domestic sales team and retail shop operation system gradually become more sophisticated. The Group is in full confidence to continue speeding up the domestic market development in the future and will actively and prudently identify shops in selected cities to expand the business scale in China.

Note 2: Beijing China Central Place retail shop and Beijing Sanlitun retail shop commenced operation in October 2008 and August 2010, respectively; Shanghai Jingan District retail shop and Changning District retail shop commenced operation in August 2011 and December 2011, respectively.

Note 3: Currently, Beijing and Shanghai impose a value-added tax of 4% on second-hand products sold by our Group and grant a tax reduction of 50% as incentive.

Macau

During the reporting period, the Group operated one "Milan Station" retail shop in Rua de S. Domingos, Macau. In 2011, the shop recorded total sales of approximately HK$47.9 million, achieving satisfactory performance with an increase of 23.1% over the previous year.

FINANCIAL REVIEW

Revenue

During the year under review, revenue increased to approximately HK$879.8 million, representing an increase of 20.5% as compared to approximately HK$730.3 million recorded in last year. Handbags were the most important product category for the Group, representing over 99.3% of the total revenue of the Group. Sales of unused products also increased significantly and the revenue increased from approximately HK$339.6 million recorded in last year, representing 46.5% of the total revenue of the Group, to approximately HK$487.2 million during the year under review, representing 55.4% of the total revenue of the Group.

Growth in the sales of premium priced products was the major driving force of revenue growth for the Group. Revenue generated from the sales of premium priced products above HK$50,000 increased from approximately HK$315.5 million during the last year, representing 43.2% of the total revenue of the Group, to approximately HK$506.7 million during the year, representing 57.6% of the total revenue of the Group. With the increasing future demand for premium priced products from the PRC tourists, revenue from the sales of premium priced handbag products will continue to increase, and such a trend is expected to generate more revenue for the Group.

Since most of the retail shops under the brand name of "Milan Station" are located in Hong Kong, therefore, the source of revenue also concentrates in the Hong Kong market. For the year ended 31 December 2011, the revenue generated from the Hong Kong market was approximately HK$755.9 million, representing approximately 85.9% of the total revenue of the Group for the year. Revenue growth was also recorded in the China market, increasing from approximately HK$46.0 million during the last year to approximately HK$76.0 million.

The table below sets out the breakdown of the Group's revenue recorded for the years ended 31 December 2011 and 2010 by product categories, by price range of products and by geographical locations and their respective approximate percentages to the total revenue of the Group:

	For the year ended 31 December				Percentage change
	2011		2010		in revenue
	HK$ million	*(Percentage of total revenue)*	*HK$ million*	*(Percentage of total revenue)*	*(%)*
By product categories (handbags and other products)					
Handbags	**873.3**	**99.3**	722.8	99.0	20.8
Other products	**6.5**	**0.7**	7.5	1.0	(13.3)
Total	**879.8**	**100.0**	730.3	100.0	20.5
By product categories (unused and second-hand products)					
Unused products	**487.2**	**55.4**	339.6	46.5	43.5
Second-hand products	**392.6**	**44.6**	390.7	53.5	0.5
Total	**879.8**	**100.0**	730.3	100.0	20.5
By price range of products					
Within HK$10,000	**194.8**	**22.1**	239.0	32.7	(18.5)
HK$10,001 – HK$30,000	**135.9**	**15.5**	153.4	21.0	(11.4)
HK$30,001 – HK$50,000	**42.4**	**4.8**	22.4	3.1	89.3
Above HK$50,000	**506.7**	**57.6**	315.5	43.2	60.6
Total	**879.8**	**100.0**	730.3	100.0	20.5
By geographical locations					
Hong Kong	**755.9**	**85.9**	645.4	88.4	17.1
The PRC [(1)]	**76.0**	**8.6**	46.0	6.3	65.2
Macau	**47.9**	**5.5**	38.9	5.3	23.1
Total	**879.8**	**100.0**	730.3	100.0	20.5

(1) The first and the second retail shops in the PRC, located at China Central Place, Beijing and Sanlitun Road, Beijing, commenced its business in October 2008 and August 2010, respectively. The third and fourth retail shops in the PRC, located at Jingan District and Changning District, Shanghai, commenced its business in August 2011 and December 2011, respectively.

Cost of sales

For the year ended 31 December 2011, cost of sales for the Group was approximately HK$666.5 million, increased by 20.0% year-on-year. Cost of sales mainly consists of cost of inventories sold by the Group's suppliers.

Gross profit and gross profit margin

The Group's gross profit and gross profit margin showed stable performance during the year under review. Gross profit margin of handbags products increased by 0.9 percentage points from 24.2% in last year to 25.1%. By price range of products, gross profit of products in various price ranges displayed a rising trend. Gross profit margin of products below HK$10,000 remained stable at 33.6%. Gross profit margin of products in other price ranges, such as products in the price range of between HK$30,001 and HK$50,000 and above HK$50,000, also recorded an increase. During the year, gross profit margin of products above HK$50,000 was 21.8%, it is expected that there will be more room for the increase.

The table below sets out the breakdown of gross profit and gross profit margin of the Group for the years ended 31 December 2011 and 2010 by product categories, price range of products and geographical locations:

	For the year ended 31 December				
	2011		2010		Change
	Gross profit *HK$ million*	**Gross profit margin** *(%)*	Gross profit *HK$ million*	Gross profit margin *(%)*	*(%)*
By product categories (handbags and other products)					
Handbags [(1)]	**219.4**	**25.1**	175.0	24.2	25.4
Other products [(1)]	**1.9**	**29.2**	1.7	22.7	11.8
Less: provision for slow-moving inventories, inventories written off and other costs	**(8.0)**		(2.0)		
Total	**213.3**	**24.2**	174.7	23.9	22.1
By product categories (unused and second-hand products)					
Unused products [(1)]	**101.6**	**20.9**	62.1	18.3	63.6
Second-hand products [(1)]	**119.7**	**30.5**	114.6	29.4	4.5
Less: provision for slow-moving inventories, inventories written off and other costs	**(8.0)**		(2.0)		
Total	**213.3**	**24.2**	174.7	23.9	22.1

	For the year ended 31 December				
	2011		2010		Change
	Gross profit *HK$ million*	Gross profit margin *(%)*	Gross profit *HK$ million*	Gross profit margin *(%)*	*(%)*
By price range of products					
Within HK$10,000 [(1)]	**65.5**	**33.6**	77.5	32.4	(15.5)
HK$10,001 – HK$30,000 [(1)]	**36.9**	**27.2**	37.2	24.2	(0.8)
HK$30,001 – HK$50,000 [(1)]	**8.6**	**20.3**	4.2	18.9	104.8
Above HK$50,000 [(1)]	**110.3**	**21.8**	57.8	18.3	90.8
Less: provision for slow-moving inventories, inventories written off and other costs	**(8.0)**		(2.0)		
Total	**213.3**	**24.2**	174.7	23.9	22.1
By geographical locations					
Hong Kong [(1)]	**180.3**	**23.9**	148.5	23.0	21.4
The PRC [(1) and (2)]	**25.6**	**33.7**	14.8	32.2	73.0
Macau [(1)]	**15.4**	**32.2**	13.4	34.4	14.9
Less: provision for slow-moving inventories, inventories written off and other costs	**(8.0)**		(2.0)		
Total	**213.3**	**24.2**	174.7	23.9	22.1

(1) Being gross profit before the provision for slow-moving inventories, inventories written off and other costs. Accordingly, the gross profit margin is calculated as the gross profit before provision for slow-moving inventories, inventories written off and other costs divided by total revenue and multiplied by 100%.

(2) The first and second retail shops in the PRC, located at China Central Place, Beijing and Sanlitun Road, Beijing, commenced its business in October 2008 and August 2010, respectively. The third and fourth retail shops in the PRC, located at Jingan District and Changning District, Shanghai, commenced its business in August 2011 and December 2011, respectively.

Inventory analysis

The Group's total inventories as at 31 December 2011 and 2010 were HK$154.2 million and HK$89.0 million respectively. The total inventories of the Group are recorded after netting of provision for slow-moving inventories.

The following table sets forth an aging analysis of inventories for the Group's handbag products as at 31 December of the two comparative years indicated:

	31 December	
	2011	2010
	HK$'000	*HK$'000*
Age of inventories (handbags products)		
0 to 90 days	**93,184**	70,757
91 to 180 days	**40,730**	10,783
181 days to 1 year	**16,943**	5,889
Over 1 year	**2,529**	929
Total	**153,386**	88,358

The following table sets forth an aging analysis of inventories for the Group's other products as at 31 December of the two comparative years indicated:

	31 December	
	2011	2010
	HK$'000	*HK$'000*
Age of inventories (other products)		
0 to 45 days	**291**	332
46 to 90 days	**248**	125
91 days to 1 year	**235**	175
Over 1 year	**3**	17
Total	**777**	649

The following table sets forth an aging analysis of inventories for the Group's premium priced handbag products over HK$50,000 as at 31 December of the two comparative years indicated:

	31 December	
	2011	2010
	HK$'000	*HK$'000*
Age of inventories (handbags products over HK$50,000)		
0 to 90 days	**61,949**	42,021
91 to 180 days	**29,725**	3,800
181 days to 1 year	**9,416**	2,109
Over 1 year	**398**	305
Total	**101,488**	48,235

Other income and gains

During the year, other income and gains amounted to approximately HK$8.8 million, increased by HK$7.9 million as compared to last year, this was primarily attributable to the total rental income of HK$6.7 million generated from sub-letting to an independent third party by the Group during the year.

Selling expenses

The major items of the Group's selling expenses include rent and rates, employee benefit expenses for sales staff and bank credit card charges. For the year ended 31 December 2011, selling expenses of the Group were approximately HK$104.2 million, representing 11.8% of its revenue (2010: approximately HK$84.1 million, representing 11.5% of revenue). Selling expenses continued to grow during the year under review, mainly due to an increase in rent and rates of retail shops and employee benefit expenses for sales staff.

Of the selling expenses, approximately HK$4.5 million were advertising expenses, increased by approximately HK$2.2 million as compared to last year, accounting for approximately 0.5% of total turnover, representing an increase of 0.2 percentage points as compared to approximately 0.3% recorded during last year. It was mainly attributable to the Group's active implementation of diversification and multi-channel development in advertising and promotional strategies that strengthened the brand image and sales of products, including sponsorship for movies and media publicity campaigns, as well as outdoor billboards located in central business districts with busy pedestrian traffic, etc.

Administrative and other operating expenses

Administrative and other operating expenses of the Group for the year ended 31 December 2011 amounted to approximately HK$53.7 million, increased by approximately HK$29.0 million as compared to last year on year-on-year basis, representing approximately 6.1% of the turnover. The Group's administrative and other operating expenses mainly consist of directors' remuneration, equity-settled share option expense, employee benefit expenses for the senior management and administrative staff, as well as legal and professional expenses.

Finance costs

Finance costs of the Group mainly consists of interest expenses on bank borrowings, overdrafts, and finance leases. Finance costs increased from HK$187,000 as in 2010 to HK$220,000 in the current year, which was mainly attributable to amount of the Group's interest-bearing bank borrowings during the year 2011 increased and such amount has been settled as at 31 December 2011.

Profit attributable to equity holders

Profit attributable to equity holders of the Company for the year ended 31 December 2011 was approximately HK$48.0 million, representing a decrease of 11.6% from last year. Net profit margin decreased by 1.9 percentage points to 5.5% (2010: 7.4%). Excluding equity-settled share option expense, the profit for the year decreased by 1.1% to HK$53.7 million. Furthermore, in view of the continued strength in the demand for products in category with price range over HK$50,000, most of which are limited edition items and in preparation for store expansion as well as the launch of a new online channel, the Group took a proactive step to accumulate more inventory in this category since the second half of 2011, leading to an increase in the inventory provision, which has an impact on the Group's overall net profit. Earnings per share was approximately HK7.7 cents, decreased by 23.2% as compared to last year.

Employees and remuneration policy

As at 31 December 2011, the Group had a total of 159 employees (2010: 141 employees). The Group's remuneration policy is determined according to the position, performance, experience of the staff as well as the market trend. Staff benefits of the Group include basic salaries, subsidies, insurance and commission/bonus. The remuneration policy will be reviewed by the Board from time to time. Emoluments of directors are determined by the remuneration committee after considering the Group's operating results, individual performance and comparing with market conditions.

Management Discussion and Analysis

Liquidity and financial resources

The Group maintains a stable financial position. As at 31 December 2011, the Group did not have any interest-bearing bank borrowings (2010: approximately HK$5.8 million). As at 31 December 2010, all bank loans and bank overdrafts were repayable within one year or on demand.

Except for bank overdrafts which bore interest at fixed interest rates, all other borrowings of the Group bore interest at floating interest rates. The bank loans bore interest at 2.45% below the Prime Lending Rate as at 31 December 2010 for the bank loans denominated in Hong Kong dollars.

As at 31 December 2011, the Group's total balance of cash and cash equivalents, total liabilities and shareholders' equity were approximately HK$176.5 million, HK$28.3 million and HK$371.6 million respectively (2010: approximately HK$26.6 million, HK$32.3 million and HK$133.6 million respectively). The Group's gearing ratio, current ratio and quick ratio as at 31 December 2011 were approximately 0.1%, 13.0 and 7.5, respectively (2010: 3.7%, 4.5 and 1.8, respectively), such ratios remained at sound level. Based on the Group's steady cash inflow from operations and coupled with its existing cash on hand, the Group has adequate financial resources to fund its future expansion.

Foreign exchange policy

The Group carries on its trading transactions mainly in HK dollars, RMB and Euro. It is the Group's policy to continue maintaining the balance of its sales and purchases in the same currency. The Group does not have any hedging arrangement on foreign exchange. The Directors are of the view that the transactional exposure of the Group in currencies other than the functional currencies is maintained at acceptable level.

Contingent liabilities

Before the date of the Listing, Milan Station (Hong Kong) Limited, an indirect wholly owned subsidiary of the Company, provided unlimited financial guarantees (the "Unlimited Guarantees") to a bank in connection with the bank loans and other banking facilities granted to certain of its related companies of which Mr. Yiu Kwan Tat is also a director and shareholder. The banking facilities granted to those related companies that are subject to guarantees given to the banks were utilised to the extent of approximately HK$71.9 million as at 31 December 2010. The Unlimited Guarantees have been released after the Listing.

Capital commitments

The Group's capital commitments on property, plant and equipment amounted to approximately HK$69.9 million and HK$38,000 as at 31 December 2011 and 31 December 2010, respectively.

Future plans relating to the material investment on capital assets

On 2 November 2011, Milan Station Properties Holdings Limited (formerly known as Rich Bright Properties Limited), an indirect wholly-owned subsidiary of the Company (as "Purchaser"), entered into the preliminary sale and purchase agreement with an independent third party (as "Vendor") for the acquisition of a property ("Acquisition") at a total consideration of HK$75.0 million. The purpose of the Acquisition is to secure office space for the Group to facilitate further growth of the Group.

The transaction was completed on 10 January 2012.

Details of the Acquisition are set out in the announcement "Discloseable transaction and change of use of proceeds" dated 2 November 2011.

OUTLOOK

2012 will be a very challenging year with complex economic situation. Nevertheless, with the steady momentum of the growth of the PRC economic development remaining unchanged, we adopt a cautiously optimistic view on the economic outlook in the coming year. The overall policy direction of the PRC central government to rely on domestic demand to fuel its economic growth will remain unchanged in future years. Factors such as consumption-driven economy, expansion of customer base as a result of the emergence of the middle class with improving tastes, and enormous consumption power in the PRC will continue to drive the growth of retail business in Hong Kong and Macau. Hong Kong will continue to be one of most favorable and attractive destinations for consumers in the Asia-Pacific region (and in particular the Mainland China) to purchase high-end branded products. The strong demand of the PRC consumers for luxury products will continue to promote the development of the sales of luxury handbags in the PRC.

Development Strategy

In the future, we will continue to target strengthening our leading market position in Hong Kong as a base, with the core development strategy of actively developing fast-growing markets in the Mainland China.

The successful experience in developing the retail business in Beijing and Shanghai has solidified our confidence in expanding the market in the PRC. The sales network of Milan Station will continue to penetrate into the premier business areas in Beijing and Shanghai. At the same time, we will continue to identify other potential cities in the PRC to develop comprehensively the business of second-hand branded handbags in the PRC. We will be prudently identifying the locations of new stores, and focus mainly on first-tier and second-tier cities with relatively higher per capita income and consumption power, particularly premier business areas in cities where many international brands have established their presence.

In the meantime, we will also step up our efforts in brand promotion in the Mainland China. Currently, we have enjoyed relatively high brand recognition in cities such as Beijing and Shanghai. We will continue to enhance the Mainland consumers' understanding and acceptance of "second-hand branded" products through active media public relations and marketing, publicity and education. While expanding our potential customer base, this will also lay a good foundation for us to expand into other cities in the Mainland China.

In Hong Kong where we principally operate, competition is intensifying in the "second-hand branded" product market. In the light of the future challenges, we will continue to reinforce our competitiveness and leading position in Hong Kong luxury products market through improving and optimising the existing retail shop portfolio, continue our marketing and promotion efforts, and continuously improve the marketing strategies based on consumption characteristics in different regional markets.

We will continue to develop the internet sales platform business, fully leveraging on the advantage of the no-boundaries characteristic of the online sales platform. Apart from continuing the cooperation with website operators, we also will explore the possibility of developing our own online purchasing platform to enhance our brand value and website management flexibility. We will enrich and optimise the existing online sales operation, which includes supplying more products for selection to cater for consumer needs in the regional markets. At the same time, we will expand the online business, by providing updates on luxury branded handbags to strengthen our ties with customers. The online sales business will enable the Group to expand its market share and sales at lower operating costs.

Furthermore, we will emphasise on the overall resources deployment of the Group to concentrate on the development of its core business and adjust the development strategy for its own "MS" brand, and thereby increasing the overall cost effectiveness of the Group.

"Milan Station" capitalises on changes in urban lifestyle and creates an innovative operating model for luxury branded products. In the future, we will continue to leverage on our strong corporate reputation and the advantage of being a pioneer in the industry to strengthen our leading position in major markets and actively develop the PRC market so as to strive for higher returns to reward our shareholders for their support.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yiu Kwan Tat, aged 43, is the Chairman and Chief Executive Officer of the Group and was appointed as an Executive Director on 1 November 2007. He founded the Group in 2001 and is the controlling shareholder. Prior to founding the Group, Mr. Yiu ran his own business in selling second-hand clothing. Since the establishment of the Group, he has acquired the experiences in the fashion retail industry focusing on the luxury branded handbags and apparel products retail industry. During the ten years with the Group, he has been responsible for the overall management and strategic development of the Group, in particular, including deciding the business model and product portfolio offered by the Group, formulating the marketing position and pricing strategy, determining the location of the Group's retail shops and expansion plan, formulating internal control guidelines of the Group covering the purchasing procedures, product examination and sales transactions process. He is also a director of Yan Chai Hospital. He is the brother of Mr. Yiu Kwan Wai, Gary and Ms. Yiu Sau Wai.

Mr. Yiu Kwan Wai, Gary, aged 41, was appointed as an Executive Director on 13 October 2010 and the Managing Director of the Group. Prior to joining the Group in 2001, he has the experience in selling second-hand clothing. He joined the Group in 2001 and was a shop manager from 2004 to 2007. Being a shop manager, he was responsible for purchasing procedures and sales transactions process; performing the product examination and reviewing daily reports. Starting from 2007, he was promoted as a district manager of the Group. Since then, his main duties were supervising and monitoring the Group's retail operation and provide in-house training for the techniques to distinguish genuine products from counterfeit products and the procedures of checking anti-counterfeit features. He was promoted to chief operating officer of the Group in 2009 and is responsible for the overall management of the daily operation of the Group's retail shops. He is also a member of the design team of the Group and is responsible for the development of products under "MS" brand. Through his employment with the Group, he has acquired about ten years of experience in the fashion retail industry. He is the brother of Mr. Yiu Kwan Tat and Ms. Yiu Sau Wai.

Mr. Wong Hiu Chor, aged 54, was appointed as an Executive Director on 13 October 2010. He joined the Group as the chief financial officer in 2007 and is responsible for the overall financial planning and corporate management of the Group. He obtained a Master of Business Administration degree from the University of South Australia in 1999. Prior to joining the Group, he had worked in Wing Hang Bank, Limited for over 30 years from June 1976 to August 2007. During the period from December 1995 to August 2007, he worked as a manager in various branches of the bank responsible for overseeing the operation of the branch offices, providing corporate financing services and promoting other banking products to clients. He has extensive experience in the banking and finance industry.

Ms. Yiu Sau Wai, aged 38, was appointed as an Executive Director on 13 October 2010. Prior to joining the Group in 2001, Ms. Yiu worked as a general clerk in a decoration company from April 1996 to August 2001. She joined the Group in 2001 as a frontline sales working at the Group's retail shops. Starting from 2003, she became a shop manager and was responsible for purchasing procedures and sales transactions process; performing the product examination and reviewing daily reports. Since 2007, she was promoted as a district manager of the Group and was responsible for supervising and monitoring the Group's retail operation and provide in-house training for the techniques to distinguish genuine products from counterfeit products and the procedures of checking anti-counterfeit features. She was appointed to act as a general manager for the PRC region of the Group in 2008 and is responsible for supervising the Group's operation in the PRC and planning for the expansion of the Group's retail network in the PRC including identifying suitable locations in the PRC for its future retail shops. Through her employment with the Group, she has acquired about ten years of experience in the fashion retail industry. She is the sister of Mr. Yiu Kwan Tat and Mr. Yiu Kwan Wai, Gary.

NON-EXECUTIVE DIRECTOR

Mr. Tam B Ray, Billy, aged 43, was appointed as a Non-executive Director on 28 April 2011. He has been a practicing solicitor in Hong Kong for over 15 years. He is currently a partner of Messrs. Ho & Tam. Mr. Tam holds a Bachelor Degree of Laws from the University of London, Bachelor Degree of the PRC Laws from Tsinghua University; and a Master Degree of Laws from The University of Hong Kong. He is an independent non-executive director of China Fortune Financial Group Limited, a company listed on the Main Board of the Stock Exchange and independent non-executive directors of M Dream Inworld Limited, China Natural Investment Company Limited and China AU Group Holdings Limited, all of which are listed on the Growth Enterprise Market of the Stock Exchange ("GEM"). Mr. Tam is also a non-executive director of Larry Jewelry International Company Limited, a company listed on the GEM .

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ip Shu Kwan, Stephen, *GBS, JP*, aged 60, was appointed as an Independent Non-executive Director on 28 April 2011. Mr. Ip holds a Bachelor of Social Sciences degree obtained from the University of Hong Kong. Mr. Ip joined the Hong Kong Government in November 1973 and was promoted to the rank of Director of Bureau in April 1997. He worked in the Hong Kong Special Administrative Region Government as a Principal Official from July 1997 to June 2007. Senior positions held by Mr. Ip in the past included Commissioner of Insurance, Commissioner for Labour, Secretary for Economic Services and Secretary for Financial Services.

Mr. Ip took up the position of Secretary for Economic Development and Labour on 1 July 2002. His portfolio in respect of economic development covered air and sea transport, logistics development and tourism. He was also responsible for labour policies including matters relating to employment services and labour relations.

Mr. Ip received the Gold Bauhinia Star award from the Hong Kong Government in 2001, and is an unofficial Justice of the Peace. Mr. Ip is also an independent non-executive director of Yangtze China Investment Limited, a company listed in the United Kingdom since February 2008 and an independent non-executive director of the following companies listed on the Stock Exchange:

- China Resources Cement Holdings Limited (since August 2008);
- Synergis Holdings Limited (since September 2008);
- Viva China Holdings Limited (since June 2010);
- Lai Sun Development Company Limited (since December 2009);
- Goldpoly New Energy Holdings Limited (since October 2010);
- Kingboard Laminates Holdings Limited (since May 2011);
- Luk Fook Holdings (International) Limited (since October 2011); and
- PICC Property and Casualty Company Limited (from 17 January 2011 to 1 November 2011).

Directors and Senior Management

Mr. So, Stephen Hon Cheung, aged 56, was appointed as an Independent Non-executive Director on 28 April 2011. Mr. So holds a bachelor degree of commerce from the University of British Columbia, Canada.

Mr. So is a practicing accountant and a director of the accounting firm T.M. Ho, So & Leung CPA Limited. He is a member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Institute of Chartered Accountants of British Columbia, Canada and, a certified management accountant of the Society of Management Accountants of British Columbia and an associate member of the Association of International Accountants.

Mr. So is a director of Genius World Investments Limited, a company listed in Canada, since September 2007 and an independent non-executive director of the following companies listed on the Stock Exchange:

- Skyworth Digital Holdings Limited since March 2000;
- Pine Technology Holdings Limited since September 2002; and
- Hang Ten Group Holdings Limited since October 2002 (delisted on 20 March 2012).

Mr. Lau Kin Hok, aged 46, was appointed as an Independent Non-executive Director on 28 April 2011. Mr. Lau holds an E.M.B.A. degree from 長江商學院 (Cheung Kong Graduate School of Business).

Mr. Lau founded JS-Rover International Holdings Limited in 2001 and is a director ever since then. JS-Rover International Holdings Limited is currently the exclusive dealer of all types of shoes of the international brand "Pierre Cardin" in the PRC. Mr. Lau has been 廣州市荔灣區政協委員會常委 (standing committee member of Guangzhou Liwan District Political Consultative Conference) since 2006 and 廣州市政協委員 (member of Guangzhou Municipal of the Chinese People's Political Consultative Conference) since January 2012.

SENIOR MANAGEMENT

Mr. Chan Hon Leung, aged 41, is the chief marketing officer of the Group. He joined the Group as a shop manager in 2001 and was responsible for purchasing procedures and sales transactions process; performing the product examination and reviewing daily reports. In 2007, he was promoted to a district manager of the Group and was responsible for supervising and monitoring the Group's retail operation and provide in-house training for the techniques to distinguish genuine products from counterfeit products and the procedures of checking anti-counterfeit features. Since 2009, he was appointed to be chief marketing officer of the Group. He is now responsible for the overall management of marketing department which includes determining the product portfolio, formulating the marketing and pricing strategies of the Group. In addition, he is currently in charge of the in-house training courses including product knowledge and techniques for product examination. He is also a member of the design team of the Group and is responsible for the development of products under "MS" brand. Through his employment with the Group, he has acquired about ten years of experience in the fashion retail industry.

Ms. Chui Sze Man, aged 32, is the district manager of the Group. She joined the Group in 2002 and was promoted to shop manager in 2004 and further to marketing manager and district manager in 2008 and 2010 respectively. She is currently responsible for supervising the Group's retail operation in certain districts in Hong Kong. She obtained a Bachelor of Computer Engineering degree from the Hong Kong University of Science and Technology in 2001. She is the spouse of Mr. Yiu Kwan Wai, Gary.

Mr. Cheng Chung Yin, Bernardo, aged 44, is the district manager of the Group. He joined the Group in 2003 and was promoted to shop manager in 2007 and further to district manager in 2009. He is currently responsible for the management of the Group's retail operation in certain districts in Hong Kong. He obtained a Diploma in Management Studies awarded jointly by The Hong Kong Polytechnic University and The Hong Kong Management Association in 2001.

Mr. Lo Wai Shing, aged 38, is the chief financial officer of the Group. He joined the Group in 2007 and has over ten years of professional experience in accounting and auditing. Before joining the Group, he worked as the company secretary and qualified accountant for Tungda Innovative Lighting Holdings Limited from March 2007 to August 2007, a company listed on Growth Enterprise Market of the Stock Exchange. He was also an accounting manager in Wing Fung Group Holdings Limited from 6 February 2004 to 14 March 2007 and a management accountant in COFCO (Hong Kong) Limited from 1 September 2000 to 5 February 2004. He became a member of the Hong Kong Institute of Certified Public Accountants in 2005 and a fellow member of the Association of Chartered Certified Accountants in 2002. He obtained a Bachelor of Arts degree from City University of Hong Kong in 1996.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The board of directors (the "Board") of the Company is committed to maintaining high standards of corporate governance and recognises the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. Prior to the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 May 2011, the Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code"), which has been renamed as Corporate Governance Code with effect from 1 April 2012, in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance practice on 28 April 2011.

Throughout the period from 23 May 2011 to 31 December 2011 (the "Reporting Period"), the Company had complied with all applicable code provisions under the Code save as disclosed below.

Code provision A.2.1 of the Code requires the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. Mr. Yiu Kwan Tat is the Chairman and the Chief Executive Officer of the Company. The Board believes that this structure of having Mr. Yiu Kwan Tat acting as both the Chairman and the Chief Executive Officer of the Group is conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as the balance of power and authority is ensured by the operation of the Board, which comprises experienced and high caliber individuals who will meet regularly to discuss issues affecting operation of the Group. The Board has full confidence in Mr. Yiu Kwan Tat and believes that his appointment to the posts of the Chairman as well as the Chief Executive Officer is beneficial to the business prospects of the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors.

Having made specific enquiries of all Directors, all the Directors have complied with the required standard set out in the Model Code during the Reporting Period.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Group (comprising the Company and its subsidiaries) and oversees the Group's businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management who perform their duties under the leadership of the Chief Executive Officer.

The Board currently consists of eight members, including the four Executive Directors, one Non-executive Director and three Independent Non-executive Directors. One of our Independent Non-executive Directors has the professional and accounting qualifications as required by the Listing Rules.

The Board schedules at least four meetings a year and also meets as and when required. During the Reporting Period, the Board held four regular meetings. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. Under code provision A.1.3 of the Code, notice of at least 14 days should be given of a regular board meeting to all directors to give all directors an opportunity to attend. Two out of the four regular Board meetings were convened with less than 14 days' notice to facilitate the Directors' timely reaction and expeditious decision making process in respect of investment opportunity and internal affairs of the Group. All Board meetings, nevertheless, were duly convened and held in the way prescribed by the articles of association of the Company. The Board will do its best endeavour to meet the requirement of code provision A.1.3 of the Code in future. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors.

All Directors have given sufficient time and attention to the affairs of the Group. Each Executive Director is suitably qualified for his/her position, and has sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently.

The members of the Board and the attendance of each member during the Reporting Period are as follows:

	Directors	**Number of attendance**
Executive Directors	Yiu Kwan Tat *(Chairman and Chief Executive Officer)*	4/4
	Yiu Kwan Wai, Gary *(Managing Director)*	4/4
	Wong Hiu Chor	4/4
	Yiu Sau Wai	3/4
Non-executive Director	Tam B Ray, Billy	4/4
Independent Non-executive Directors	Ip Shu Kwan, Stephen	4/4
	So, Stephen Hon Cheung	4/4
	Lau Kin Hok	4/4

Board and committee minutes are recorded in appropriate detail and draft minutes are circulated to all Directors and committee for comments before being approved by the Board and committee at the next immediate meeting. All minutes are kept by the Company Secretary and are open for inspection by the Directors.

The Company has received annual confirmation of independence from each of Mr. Ip Shu Kwan, Stephen, Mr. So, Stephen Hon Cheung and Mr. Lau Kin Hok and considers them to be independent.

The Board members have no financial, business, family or other material/relevant relationship with each other except those disclosed in the director biographical details. Given the nature and business objectives of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of Directors and their respective biographies are set out on pages 18 to 20 of this annual report respectively.

Pursuant to Article 84 of the Article of Association of the Company, one-third of the Directors are subject to retirement at annual general meeting of the Company at least once every three years. All retiring directors shall be eligible for re-election. All the Independent Non-executive Directors have been appointed for specific terms.

REMUNERATION COMMITTEE

The Remuneration Committee was established with a specific written terms of reference.

The primary duties of the Remuneration Committee are to evaluate and make recommendations to the Board regarding the compensation of the Executive Directors. In addition, the Remuneration Committee conducts reviews of the performance, and determines the compensation structure of the senior management.

The Remuneration Committee comprises five Directors, a majority of whom are Independent Non-executive Directors.

During the Reporting Period, the Remuneration Committee held one meeting.

The members of the Remuneration Committee and the attendance of each member during the Reporting Period are as follows:

	Remuneration Committee Members	**Number of attendance**
Independent Non-executive Directors	Lau Kin Hok *(Chairman)*	1/1
	So, Stephen Hon Cheung	1/1
	Ip Shu Kwan, Stephen	1/1
Executive Directors	Yiu Kwan Tat	1/1
	Wong Hiu Chor	1/1

During the Reporting Period, the Remuneration Committee performed the following duties:

(1) reviewed the year end bonus and remuneration packages (including salary adjustments) of the Executive Directors and senior management with recommendations to the Board for approval; and

(2) reviewed the proposals for the grant of the share options under the Company's share option scheme to Directors and senior management to reward their contributions to the Group with recommendations to the Board for approval.

NOMINATION OF DIRECTORS

The Company has not established a Nomination Committee during the Reporting Period. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no Director being involved in fixing his/her own terms of appointment and no Independent Non-executive Director being involved in assessing his/her own independence.

New Directors are sought mainly through internal promotions and referrals. In assessing whether a candidate is suitable for appointment as a Director, the Board will consider relevant factors including the independence, experience, skills, personal ethics, integrity and time commitment.

Subsequent to the Reporting Period, the Board established a Nomination Committee on 20 January 2012 comprising five members, a majority of whom are Independent Non-executive Directors. The Nomination Committee is chaired by Mr. Yiu Kwan Tat, the Chairman of the Board. The other four members of the Nomination Committee are Mr. Ip Shu Kwan, Stephen, Mr. So, Stephen Hon Cheung, Mr. Lau Kin Hok and Mr. Wong Hiu Chor. The terms of reference of the Nomination Committee are in line with the Code and include the following duties:

(a) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) assess the independence of Independent Non-executive Directors; and

(d) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

AUDIT COMMITTEE

The Audit Committee was established with a specific written terms of reference.

The Audit Committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group and providing advice and comments to the Board.

During the Reporting Period, the Audit Committee held one meeting.

The members of the Audit Committee and the attendance of each member during the Reporting Period are as follows:

	Audit Committee Members	**Number of attendance**
Independent Non-executive Directors	So, Stephen Hon Cheung *(Chairman)*	1/1
	Ip Shu Kwan, Stephen	1/1
	Lau Kin Hok	0/1

During the Reporting Period, the Audit Committee has performed the following duties:

– reviewed with the management of the Company the accounting principles and practices adopted by the Group as well as financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2011 with recommendation to the Board for approval;

– reviewed reports on internal control system covering corporate governance, internal control, financial, operational (including information security) and compliance functions; and

– considered the independent auditors' fee in relation to the interim financial statements of the Group for the six months ended 30 June 2011.

All members of the Audit Committee possess in-depth experience in their own profession. The Chairman of the Audit Committee, Mr. So, Stephen Hon Cheung, possesses appropriate professional qualifications in finance and accounting and meets the requirements of Rule 3.21 of the Listing Rules.

AUDITORS' REMUNERATION

During the Reporting Period, the Group was charged HK$1,560,000 for auditing services and HK$473,000 for non-auditing services by the Company's auditors, Ernst & Young.

Services rendered	Fees paid/payable
	HK$'000
Audit services – annual audit	1,560
Non-audit services:	
Review of interim results	300
Taxation services	173
	2,033

ACCOUNTABILITY

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cashflows of the Group. In preparing the accounts for the six months ended 30 June 2011 and for the year ended 31 December 2011, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

CORPORATE GOVERNANCE MEASURES IN RELATION TO NON-COMPETITION UNDERTAKINGS

In accordance with the non-competition undertakings set out in the deed of non-competition dated 28 April 2011 executed by the controlling shareholders (comprising Mr. Yiu Kwan Tat and his wholly-owned company, Perfect One Enterprises Limited) in favour of the Company ("Deed of Non-Competition"), save and except the exceptional circumstances, the controlling shareholders of the Company have undertaken to the Company that they shall not carry on any business which is in competition with the business of the Group in Hong Kong, the PRC and Macau, details of which are more particularly set out in the Prospectus of the Company dated 11 May 2011 ("Prospectus").

The following corporate governance measures have been adopted to monitor the compliance of the Deed of Non-Competition during the Reporting Period:

(a) The controlling shareholders had procured the Independent Non-executive Directors to review, on annual basis, the compliance with the Deed of Non-Competition by the controlling shareholders and their respective associates, or first rights of refusal provided by the controlling shareholders and their respective associates on their existing or future competing businesses.

(b) The controlling shareholders had promptly provided all information necessary for the annual review by the Independent Non-executive Directors and the enforcement of the Deed of Non-Competition and provided to the Company a written confirmation relating to the compliance of the Deed of Non-Competition and made an annual declaration on compliance with the Deed of Non-Competition in the annual report of the Company for the year ended 31 December 2011.

(c) The Independent Non-executive Directors having reviewed the relevant information and the written confirmation provided by the controlling shareholders decided that the undertakings in respect of the Deed of Non-Competition had been duly enforced and complied with by the controlling shareholders during the Reporting Period.

INTERNAL CONTROLS

The internal control system of the Group is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss, and to mitigate rather than eliminate risks of failure in operational systems and achievements of the Group's business objectives.

The Board has, through the Audit Committee, conducted interim review of the effectiveness of the internal control system of the Group covering the Group's corporate governance, internal control, financial, operational (including information security) and compliance functions. The relevant details of the interim review and the Audit Committee's response thereto were disclosed in the interim report of the Company dated 30 August 2011.

The Board acknowledged the deficiencies and weaknesses previously identified in the Group's internal control system. The Group has, throughout the Report Period, properly implemented the internal control measures disclosed in the Prospectus according to the independent internal control consultant's recommendations. The independent internal control consultant confirmed that the results of these measures as implemented were satisfactory.

Subsequent to the interim period, the internal audit department carried out reviews on the Group's operating stores in Shanghai and Beijing. The reviews covered the operating structure as well as the inventory control, cash management and purchase systems of the stores. Findings on the reviews were presented to the Audit Committee. The Audit Committee agreed that the internal control review reports were acceptable. The Group has maintained its internal audit charter to formulate the processes and procedures of internal audit function for strengthening of the control framework.

Report of the Directors

The Directors present their first report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 95 of this annual report.

The Board has proposed a final dividend of HK0.6 cent (2010: Nil) per share for the year ended 31 December 2011. Together with the interim dividend of HK1.52 cents per share but excluding the special dividend of HK1.27 cents per share for the period ended 30 June 2011 (both having been paid on 4 October 2011), the total dividend for the year ended 31 December 2011 will amount to HK2.12 cents per share, representing a total payout of HK$14.3 million, or a distribution of 29.8% of the current year's profit attributable to equity shareholders. Subject to shareholders' approval at the forthcoming annual general meeting to be held on 18 May 2012, the proposed final dividend will be paid on or around 28 June 2012.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 16 May 2012 to Friday, 18 May 2012 (both days inclusive), during which period no transfer of shares will be registered, for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Tuesday, 15 May 2012.

The Register of Members of the Company will be closed from Friday, 25 May 2012 to Tuesday, 29 May 2012 (both days inclusive), during which period no transfer of shares will be registered, for the purpose of determining shareholders who are entitled to the proposed final dividend. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at the aforementioned address not later than 4:30 p.m. on Thursday, 24 May 2012.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

In May 2011, the Company conducted a global offering (the "Global Offering") which included the sales of 186,874,000 ordinary shares, comprising (i) 108,414,000 new shares issued and allotted by the Company; (ii) 54,086,000 sale shares offered by the shareholder; and (iii) 24,374,000 ordinary shares allotted and issued upon the exercise of the over-allotment option, at an offer price of HK$1.67 per share. Net proceeds raised for the Company were approximately HK$202.7 million and proposed applications were set out in the Prospectus. The ordinary shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 May 2011.

In conjunction with the acquisition of a property, the Board announces that the Company has decided to change the use of net proceeds accruing to the Group from the Global Offering as set out in the announcement dated 2 November 2011.

As at 31 December 2011, the net proceeds of initial public offering ("IPO") had been utilised as follows:

	Actual net IPO proceeds upon the full exercise of the over-allotment option on 23 May 2011	Revised allocation on 2 November 2011	Amount utilised up to 31 December 2011	Balance as at 31 December 2011
	HK$'000	HK$'000	HK$'000	HK$'000
Expansion of retail network in the PRC market	148.0	113.5	27.6	85.9
Relocating a total of three existing shops in Hong Kong; redecorating a total of eight existing shops in Hong Kong, the PRC and Macau; and decorating one new retail shop in Hong Kong	12.0	12.0	1.7	10.3
Marketing and promotion of the Group	17.0	17.0	2.4	14.6
Design and development of private label "MS" brand products	4.0	4.0	–	4.0
Exploration of online sales channel	2.4	2.4	–	2.4
Staff training and development	2.8	2.8	–	2.8
Upgrade of the Group's information technology system	3.2	3.2	–	3.2
General working capital	13.3	10.3	–	10.3
Acquisition of the property for own use	–	37.5	–	37.5
	202.7	202.7	31.7	171.0

A summary of the published results and assets and liabilities of the Group for the last four financial years is set out on page 96. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 25 and 26 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles of Association") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company unless otherwise required by the Stock Exchange.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities from the Listing date up to 31 December 2011.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2011 are set out in note 27(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$722,905,000, of which HK$4,046,000 has been proposed as a final dividend for the year after the reporting period. The amount of HK$722,905,000 includes the Company's share premium account and capital reserve of HK$732,148,000 in aggregate at 31 December 2011, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$976,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2011, the Group's sales to the five largest customers and purchases from the five largest suppliers accounted for less than 30% of the Group's turnover and purchases, respectively.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive Directors:
Mr. Yiu Kwan Tat *(Chairman and Chief Executive Officer)*
Mr. Yiu Kwan Wai, Gary *(Managing Director)*
Mr. Wong Hiu Chor
Ms. Yiu Sau Wai

Non-executive Director:
Mr. Tam B Ray, Billy (appointed on 28 April 2011)

Independent Non-executive Directors:
Mr. Ip Shu Kwan, Stephen (appointed on 28 April 2011)
Mr. So, Stephen Hon Cheung (appointed on 28 April 2011)
Mr. Lau Kin Hok (appointed on 28 April 2011)

In accordance with the Articles of Association, Mr. Yiu Kwan Tat, Mr. Yiu Kwan Wai, Gary and Mr. Wong Hiu Chor shall retire at the forthcoming annual general meeting and, being eligible, shall offer themselves for re-election. The remaining Directors shall continue in office.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its Independent Non-executive Directors an annual confirmation of their independence from the Group. Based on such confirmations, the Company considers that each of such Directors to be independent from the Group.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 18 to 21 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing on the Listing date, which may be terminated by not less than 3 months' notice in writing served by either party on the other.

Each of the Non-executive Director and Independent Non-executive Directors has signed a letter of appointment and is appointed for an initial term of 3 years commencing on the Listing date.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Save as disclosed above, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

Directors are subject to retirement by rotation at least once every three years as required by the Articles of Association.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions disclosed in note 28 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year ended 31 December 2011.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2011.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2011, the Directors and the chief executive had the following interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange:

Long positions in ordinary shares of the Company

	Number of shares held, capacity and nature of interest				Approximate percentage of
Name of Director	Personal Interest	Corporate Interest	Family Interest	Total	issued share capital
Mr. Yiu Kwan Tat	–	487,500,000 *(Note 1)*	528,000 *(Note 2)*	488,028,000	72.37%

Notes:

1. These shares are held by Perfect One Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Yiu Kwan Tat. By virtue of the SFO, Mr. Yiu Kwan Tat is deemed to be interested in the entire 487,500,000 shares held by Perfect One Enterprises Limited.

2. These shares are held by Ms. Lee Lai Hung, the spouse of Mr. Yiu Kwan Tat.

Long positions in share options of the Company

Name of Directors	Number of share options: Personal Interest	Family Interest	Total	Approximate percentage of issued share capital
Mr. Yiu Kwan Tat	2,000,000	–	2,000,000	0.30%
Mr. Yiu Kwan Wai, Gary	2,000,000	200,000 *(Note)*	2,200,000	0.33%
Ms. Yiu Sau Wai	2,000,000	–	2,000,000	0.30%
Mr. Wong Hiu Chor	400,000	–	400,000	0.06%
Mr. Tam B Ray, Billy	200,000	–	200,000	0.03%
Mr. Ip Shu Kwan, Stephen	200,000	–	200,000	0.03%
Mr. So, Stephen Hon Cheung	200,000	–	200,000	0.03%
Mr. Lau Kin Hok	200,000	–	200,000	0.03%

Note: These share options were granted to Ms. Chui Sze Man, the spouse of Mr. Yiu Kwan Wai, Gary, as employee of the Company.

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executive of the Company or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

SHARE OPTION

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the share option scheme are disclosed in note 26 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options								
Name or category of participant	At 1 January 2011	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2011	Date of grant of share options	Validity period of share options	Exercise price of share options HK$ per share
Executive Directors									
Mr. Yiu Kwan Tat	–	2,000,000	–	–	–	2,000,000	13-12-11	13-12-11 to 12-12-16	1.384
Mr. Yiu Kwan Wai, Gary	–	2,000,000	–	–	–	2,000,000	13-12-11	13-12-11 to 12-12-16	1.384
Ms. Yiu Sau Wai	–	2,000,000	–	–	–	2,000,000	13-12-11	13-12-11 to 12-12-16	1.384
Mr. Wong Hiu Chor	–	400,000	–	–	–	400,000	13-12-11	13-12-11 to 12-12-16	1.384
Non-executive Director									
Mr. Tam B Ray, Billy	–	200,000	–	–	–	200,000	13-12-11	13-12-11 to 12-12-16	1.384
Independent Non-executive Directors									
Mr. Ip Shu Kwan, Stephen	–	200,000	–	–	–	200,000	13-12-11	13-12-11 to 12-12-16	1.384
Mr. So, Stephen Hon Cheung	–	200,000	–	–	–	200,000	13-12-11	13-12-11 to 12-12-16	1.384
Mr. Lau Kin Hok	–	200,000	–	–	–	200,000	13-12-11	13-12-11 to 12-12-16	1.384
	–	7,200,000	–	–	–	7,200,000			
Other employees									
In aggregate	–	4,550,000	–	–	–	4,550,000	13-12-11	13-12-11 to 12-12-16	1.384
	–	11,750,000	–	–	–	11,750,000			

The closing price of the Company's shares immediately before the date on which the options were granted during the year was HK$1.4 per share.

The Directors have estimated the values of the share options granted during the year, calculated using the binomial model as at the date of grant of the options:

Grantees	Number of options granted during the year	Theoretical value of share options
		HK$'000
Mr. Yiu Kwan Tat	2,000,000	984
Mr. Yiu Kwan Wai, Gary	2,000,000	984
Ms. Yiu Sau Wai	2,000,000	984
Mr. Wong Hiu Chor	400,000	197
Mr. Tam B Ray, Billy	200,000	98
Mr. Ip Shu Kwan, Stephen	200,000	98
Mr. So, Stephen Hon Cheung	200,000	98
Mr. Lau Kin Hok	200,000	98
Other employees	4,550,000	2,241
	11,750,000	5,782

The binomial model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options included risk-free interest rate, expected life, expected volatility and expected dividend yield. The measurement dates used in the valuation calculations were the dates on which the options were granted. For details of the assumptions, please refer to note 26 to the financial statements.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, its holding company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, shareholders (not being Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, or otherwise notified to the Company are set out below:

Long positions

	Capacity/ Nature of Interest	Number of shares held	Interest in underlying shares pursuant to share option scheme	Total	Approximate percentage of issued share capital
Perfect One Enterprises Limited	Beneficial Owner	487,500,000 *(Note 1)*	–	487,500,000	72.29%
Ms. Lee Lai Hung	Personal Interest	528,000	–	528,000	0.08%
Ms. Lee Lai Hung	Interest in Spouse	487,500,000 *(Note 2)*	2,000,000 *(Note 3)*	489,500,000	72.59%

Note 1: The entire issued share capital of Perfect One Enterprises Limited is wholly and beneficially owned by Mr. Yiu Kwan Tat. By virtue of the SFO, Mr. Yiu Kwan Tat is deemed to be interested in the entire 487,500,000 shares held by Perfect One Enterprises Limited.

Note 2: The shares are held by Perfect One Enterprises Limited, the entire issued share capital of which is owned by Mr. Yiu Kwan Tat, the spouse of Ms. Lee Lai Hung. Accordingly, Ms. Lee Lai Hung is deemed to be interested in the entire 487,500,000 shares by virtue of the SFO.

Note 3: The underlying shares are held by Mr. Yiu Kwan Tat, the spouse of Ms. Lee Lai Hung. Accordingly, Ms. Lee Lai Hung is deemed to be interested in the 2,000,000 underlying shares by virtue of the SFO.

Save as disclosed above, as at 31 December 2011, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, or otherwise notified to the Company.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

	Notes	**2011** HK$'000	2010 HK$'000
Rental expenses paid to related companies	(a)	**6,266**	3,849
Purchases from a related company	(b)	**62**	257
Payments for purchase of property, plant and equipment from a related company	(c)	**2,643**	75
Expenses paid to a related company	(c)	**73**	–
Expenses for general legal advisory services paid to a related company	(d)	**250**	131

Notes:

(a) The Company has entered into lease agreements with certain related companies of the Company of which Mr. Yiu Kwan Tat, Mr. Yiu Kwan Wai, Gary and Ms. Yiu Sau Wai are also the directors of these related companies. The rental expenses paid to related companies were based on mutually agreed terms.

(b) Purchases from a related company, in which Mr. Yiu Kwan Tat has beneficial interest, were made on mutually agreed terms.

(c) Payments for purchases of property, plant and equipment and expenses to a related company, in which the spouse of Ms. Yiu Sau Wai has beneficial interest, were made on mutually agreed terms.

(d) Expenses for general legal advisory services paid to a related company, in which Mr. Tam B Ray, Billy is a partner, were made on mutually agreed terms.

The Directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

The Independent Non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

UNDERTAKING OF EXPENSES IN RELATING TO THE LISTING OF THE SHARES OF THE COMPANY BY CONNECTED PERSONS

Pursuant to an undertaking dated 2 May 2011, Perfect One Enterprises Limited and Mr. Yiu Kwan Tat, the sole beneficial owner of Perfect One Enterprises Limited, agreed to bear the listing expenses (excluding the underwriting commission) in relation to the listing of the shares of the Company on the Stock Exchange in the percentage of 541,586,000 shares over the total number of issued shares of the Company immediately upon the Listing, and take into account of the number of shares to be issued pursuant to the exercises of the over-allotment option to be granted by the Company as further detailed in the paragraph headed "Over-allotment and Stabilisation" to the Prospectus.

DEED OF NON-COMPETITION

Each of the controlling shareholders has confirmed to the Company of his/its compliance with the non-competition undertakings provided to the Company under the Deed of Non-competition (as defined in the Prospectus). The Independent Non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition have been complied with by the controlling shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by public as at the date of this annual report.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules for the period from Listing to 31 December 2011, save for certain deviations. The Corporate Governance Report is set out on pages 22 to 27 of this annual report.

AUDIT COMMITTEE

The Company has established an Audit Committee with effect from the Listing with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three Independent Non-executive Directors of the Company, namely Mr. So, Stephen Hon Cheung (Chairman), Mr. Ip Shu Kwan, Stephen and Mr. Lau Kin Hok. The audited financial statements of the Company for the year ended 31 December 2011 have been reviewed by the Audit Committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

The Audit Committee has reviewed with the management of the Company the financial statements of the Group for the year ended 31 December 2011 and discussed with the management of the Company on auditing, internal control and financial reporting matters.

AUDITORS

Ernst & Young were appointed by the Directors as the first auditors of the Company. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yiu Kwan Tat
Chairman

Hong Kong
22 March 2012

ERNST & YOUNG
安 永

To the shareholders of Milan Station Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Milan Station Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong
22 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**879,802**	730,259
Cost of sales		**(666,464)**	(555,599)
Gross profit		**213,338**	174,660
Other income and gains	5	**8,770**	935
Selling expenses		**(104,151)**	(84,091)
Administrative and other operating expenses		**(53,654)**	(24,681)
Finance costs	6	**(220)**	(187)
PROFIT BEFORE TAX	7	**64,083**	66,636
Income tax expense	10	**(16,119)**	(12,326)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	11	**47,964**	54,310
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
– Basic and diluted	13	**HK7.70 cents**	HK10.03 cents

Details of the dividends are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	2011	2010
	HK$'000	HK$'000
PROFIT FOR THE YEAR	**47,964**	54,310
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translating foreign operations	**393**	230
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**48,357**	54,540

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**11,926**	9,082
Deferred tax assets	24	**1,928**	1,231
Deposits	17	**21,011**	10,719
Total non-current assets		**34,865**	21,032
CURRENT ASSETS			
Inventories	18	**154,163**	89,007
Trade receivables	19	**9,259**	9,691
Prepayments, deposits and other receivables	17	**22,624**	17,295
Tax recoverable		**1,017**	729
Pledged deposits	20	**1,503**	1,500
Cash and cash equivalents	20	**176,539**	26,640
Total current assets		**365,105**	144,862
CURRENT LIABILITIES			
Accrued liabilities and other payables	21	**21,102**	19,575
Interest-bearing bank borrowings	22	**–**	5,771
Obligations under finance leases	23	**112**	134
Tax payable		**5,383**	4,967
Provision	16	**1,407**	1,407
Total current liabilities		**28,004**	31,854
NET CURRENT ASSETS		**337,101**	113,008
TOTAL ASSETS LESS CURRENT LIABILITIES		**371,966**	134,040
NON-CURRENT LIABILITIES			
Obligations under finance leases	23	**163**	268
Deferred tax liability	24	**177**	177
Total non-current liabilities		**340**	445
Net assets		**371,626**	133,595
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	25	**6,744**	–
Reserves	27	**364,882**	133,595
Total equity		**371,626**	133,595

Yiu Kwan Tat
Director

Wong Hiu Chor
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Attributable to equity holders of the Company								
	Issued capital	Share premium account	Capital reserve	Merger reserve	Statutory reserve fund	Exchange fluctuation reserve	Share option reserve	Retained profits	Total equity
	HK$'000	HK$'000	HK$'000 (note a)	HK$'000 (note b)	HK$'000 (note c)	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	–	–	10	(23,782)	249	89	–	116,978	93,544
Exchange differences arising on translation of foreign operations	–	–	–	–	–	230	–	–	230
Profit for the year	–	–	–	–	–	–	–	54,310	54,310
Total comprehensive income for the year	–	–	–	–	–	230	–	54,310	54,540
Transfer to statutory reserve	–	–	–	–	587	–	–	(587)	–
Interim 2010 dividend *(note 12)*	–	–	–	–	–	–	–	(14,489)	(14,489)
At 31 December 2010 and 1 January 2011	–	–*	10*	(23,782)*	836*	319*	–*	156,212*	133,595
Exchange differences arising on translation of foreign operations	–	–	–	–	–	393	–	–	393
Profit for the year	–	–	–	–	–	–	–	47,964	47,964
Total comprehensive income for the year	–	–	–	–	–	393	–	47,964	48,357
Acquisition of a subsidiary pursuant to the reorganisation *(note 1)*	10	(10)	–	–	–	–	–	–	–
Transfer to statutory reserve	–	–	–	–	893	–	–	(893)	–
Capitalisation issue credited as fully-paid conditional on the share premium account of the Company, being credited as a result of issuance of new shares to the public *(note 25)*	5,406	(5,406)	–	–	–	–	–	–	–
Issue of new shares to the public *(note 25)*	1,328	220,428	–	–	–	–	–	–	221,756
Share issue expenses	–	(19,049)	–	–	–	–	–	–	(19,049)
Equity-settled share option arrangements *(note 26)*	–	–	–	–	–	–	5,782	–	5,782
Interim 2011 dividend *(note 12)*	–	(10,250)	–	–	–	–	–	–	(10,250)
Special 2011 dividend *(note 12)*	–	(8,565)	–	–	–	–	–	–	(8,565)
At 31 December 2011	6,744	177,148*	10*	(23,782)*	1,729*	712*	5,782*	203,283*	371,626

* *These reserve accounts comprise the consolidated reserves of HK$364,882,000 (2010: HK$133,595,000) in the consolidated statement of financial position.*

Notes:

(a) The capital reserve of the Group represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the group reorganisation on 28 April 2011 and the nominal value of the ordinary shares of a subsidiary of the Company in exchange therefor.

(b) The merger reserve represents the excess of the consideration for acquiring subsidiaries over the nominal value of the paid-up capital of the subsidiaries acquired.

(c) In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of the subsidiaries' registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		64,083	66,636
Adjustments for:			
Bank interest income	5	(1,260)	(18)
Gain on disposal of items of property, plant and equipment	7	–	(873)
Write-off of items of property, plant and equipment	7	334	217
Provision for slow-moving inventories	7	8,039	1,542
Depreciation	7	4,717	5,742
Finance costs	6	220	187
Equity-settled share option expense	26	5,782	–
		81,915	73,433
Increase in inventories		(73,195)	(21,542)
Decrease/(increase) in trade receivables		432	(3,248)
Increase in prepayments, deposits and other receivables		(8,121)	(17,176)
Movements in balances with related parties		–	(22,447)
Increase in accrued liabilities and other payables		11,527	910
Decrease in provision		–	(1,233)
Cash generated from operations		12,558	8,697
Interest paid		(201)	(158)
Interest elements on finance lease rental payments		(19)	(29)
Hong Kong profits tax paid		(12,460)	(8,759)
Overseas taxes paid		(4,228)	(2,346)
Net cash used in operating activities		(4,350)	(2,595)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,260	18
Purchases of items of property, plant and equipment		(7,841)	(2,953)
Deposits for acquisition of a property	17	(7,500)	–
Increase in time deposit with original maturity of over three months		(20,000)	–
Proceeds from disposal of items of property, plant and equipment		–	780
Net cash flows used in investing activities		(34,081)	(2,155)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	25	221,756	–
Share issue expenses		(19,049)	–
New bank loans		2,449	6,251
Repayment of bank loans		(8,185)	(8,875)
Increase in pledged time deposits		(3)	(1,500)
Dividends paid		(28,815)	(4,489)
Capital element of finance lease payables		(127)	(205)
Net cash flows from/(used in) financing activities		168,026	(8,818)

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**129,595**	(13,568)
Cash and cash equivalents at beginning of year		**26,605**	39,962
Effect of foreign exchange rate changes, net		**339**	211
CASH AND CASH EQUIVALENTS AT END OF YEAR		**156,539**	26,605
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**73,791**	24,015
Non-pledge time deposit with original maturity of more than three months when acquired		**20,000**	–
Non-pledge time deposit with original maturity of less than three months when acquired		**82,748**	2,625
Cash and cash equivalents as stated in the consolidated statement of financial position	20	**176,539**	26,640
Bank overdrafts	22	**–**	(35)
Less: Time deposit with original maturity of over three months when acquired		**(20,000)**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		**156,539**	26,605

Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	555,000	–
CURRENT ASSETS			
Prepayments, deposits and other receivables	17	480	–
Due from subsidiaries	15	183,204	–
Cash and bank balances	20	460	–
Total current assets		184,144	–
CURRENT LIABILITIES			
Due to a subsidiary	15	33	28
Accrued liabilities and other payables	21	3,680	165
Total current liabilities		3,713	193
NET CURRENT ASSETS/(LIABILITIES)		180,431	(193)
Net assets/(liabilities)		735,431	(193)
EQUITY/(DEFICIENCY IN ASSETS)			
Issued capital	25	6,744	–
Reserves	27	728,687	(193)
Total equity/(deficiency in assets)		735,431	(193)

Yiu Kwan Tat
Director

Wong Hiu Chor
Director

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 1 November 2007. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands.

Pursuant to the group reorganisation (the "Reorganisation") to rationalise the structure of the Company and its subsidiaries in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of Milan Station (BVI) Limited ("MS (BVI)") and its subsidiaries (hereinafter collectively referred to as the "Group") on 28 April 2011.

Further details of the Reorganisation are set out in the Company's listing prospectus dated 11 May 2011 (the "Prospectus").

The shares of the Company were listed on the Stock Exchange on 23 May 2011 (the "Listing").

Since the Company and the companies now comprising the Group were under common control both before and after the completion of the Reorganisation, the Reorganisation was accounted for using merger method of accounting. The financial statements have been prepared on the basis as if the Company had always been the holding company of the companies now comprising the Group.

The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the year ended 31 December 2011 include the results of all companies now comprising the Group, as if the current structure had been in existence throughout the year ended 31 December 2011, or since their respective dates of acquisition, incorporation/establishment, where this is a shorter period.

The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the year ended 31 December 2010 have been prepared on a combined basis and include the financial statements of the companies now comprising the Group as if the current group structure had been in existence throughout the period, or since their respective dates of acquisition or incorporation/establishment, where this is the shorter period.

The consolidated statement of financial position of the Group as at 31 December 2010 has been prepared to present the state of affairs of the Group as if the current group structure had been in existence at that date or since the respective dates of acquisition or incorporation/establishment, whichever is the shorter period.

In the opinion of the directors of the Company, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION *(continued)*

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are disclosed in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Perfect One Enterprises Limited ("Perfect One"), which is incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to income statement or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKAS 1 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 28 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendment most applicable to the Group are as follows:

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 *Effective for annual periods beginning on or after 1 July 2011*
2 *Effective for annual periods beginning on or after 1 January 2012*
3 *Effective for annual periods beginning on or after 1 July 2012*
4 *Effective for annual periods beginning on or after 1 January 2013*
5 *Effective for annual periods beginning on or after 1 January 2014*
6 *Effective for annual periods beginning on or after 1 January 2015*

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in income statement, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in income statement. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to the income statement at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(v) the entity is controlled or jointly controlled by a person identified in (a); and

(vi) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Motor vehicles	30%
Furniture, fixtures and office equipment	20%
Leasehold improvements	Over the shorter of the lease terms and 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor to sub-lease the leased assets under operating lease, such rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentive received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, pledged deposits, trade and other receivables and deposits.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include interest-bearing bank borrowings, obligations under finance lease and other payables.

Subsequent measurement

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost is determined on a first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) rental income, on a time proportion basis over the lease terms.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. The subsidiaries operating in Mainland China are required to make contributions for their employees who are registered as permanent residents in Mainland China. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

The employees of the Group's subsidiary which operates in Macau are required to participate in a central social security scheme operated by the Macao Special Administrative Region Government. The subsidiary operating in Macau is required to make contributions for its employees who are registered as residents to the central social security scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions *(continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on statement or translation of monetary items are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustments to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements accordingly.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are described below.

Provision for obsolete and slow-moving inventories

Management of the Group reviews an aging analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving items. During the years ended 31 December 2010 and 2011, the Group made 10% provision on the gross carrying value of handbags and other products that are aged over 90 days and 45 days, respectively. Additional 10% provision on the gross carrying value of the inventories will be made if another 90 days and 45 days passed for the handbags and other products, respectively, and so on. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change as a result of changes in market conditions. Such changes will have impact on the carrying amounts of inventories and the allowance of the inventories in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

4. OPERATING SEGMENT INFORMATION

The Group's principal activity is the retailing of handbags, fashion accessories and embellishments. Since it is the only operating segment of the Group, no further analysis thereof is presented. In determining the Group's geographical information, the revenue information is based on the location of customers, and the non-current assets information is based on the location of the assets.

	Hong Kong	Macau	Mainland China	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2011				
Revenue from external customers	755,866	47,939	75,997	879,802
Non-current assets	13,870	225	6,336	20,431
Capital expenditure	2,079	6	5,756	7,841
Year ended 31 December 2010				
Revenue from external customers	645,357	38,857	46,045	730,259
Non-current assets	6,861	497	1,724	9,082
Capital expenditure	1,868	4	1,291	3,163

The non-current assets information excludes financial instruments and deferred tax assets.

Information about major customers

No customer of the Group has individually accounted for over 10% of the Group's total revenue during the year (2010: Nil), and no information about major customers is presented accordingly.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

	2011	2010
	HK$'000	HK$'000
Revenue		
Sale of goods	879,802	730,259
Other income and gains		
Bank interest income	1,260	18
Gain on disposal of items of property, plant and equipment	–	873
Gross rental income	6,670	–
Others	840	44
	8,770	935
	888,572	731,194

6. FINANCE COSTS

	Group	
	2011	2010
	HK$'000	HK$'000
Interest on:		
Bank overdrafts	12	7
Bank loans wholly repayable within five years	189	151
Finance leases	19	29
	220	187

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2011	2010
	HK$'000	HK$'000
Cost of inventories sold	666,464	555,599
Provision for slow-moving inventories	8,039	1,542
Depreciation	4,717	5,742
Minimum lease payments under operating leases in respect of land and buildings	64,252	42,177
Employee benefit expenses (excluding directors' remuneration *(note 8)*):		
Wages and salaries	32,768	26,734
Pension scheme contributions	993	898
Equity-settled share option expense	2,241	–
	36,002	27,632
Auditors' remuneration	1,560	1,000
Write-off of items of property, plant and equipment	334	217
Gain on disposal of items of property, plant and equipment	–	(873)
Bank interest income	(1,260)	(18)

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Fees	548	–
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	9,769	5,415
Pension scheme contributions	48	48
Equity-settled share option expense	3,541	–
	13,906	5,463

8. DIRECTORS' REMUNERATION *(continued)*

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 26 to the financial statements. The fair value of such options which has been recognised in the income statement was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Equity-settled share option expense	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2011					
Mr. So, Stephen Hon Cheung	122	–	–	98	220
Mr. Ip Shu Kwan, Stephen	122	–	–	98	220
Mr. Lau Kin Hok	122	–	–	98	220
	366	–	–	294	660

Mr. So, Stephen Hon Cheung, Mr. Ip Shu Kwan, Stephen and Mr. Lau Kin Hok were appointed as the independent non-executive directors of the Company on 28 April 2011. There were no fees or other emoluments payable to the independent non-executive directors during the year ended 31 December 2010.

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Equity-settled share option expense	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2011					
Executive directors:					
Mr. Yiu Kwan Tat ("Mr. Yiu")	–	6,141	12	984	7,137
Mr. Yiu Kwan Wai, Gary	–	1,118	12	984	2,114
Ms. Yiu Sau Wai ("Ms. Yiu")	–	1,355	12	984	2,351
Mr. Wong Hiu Chor ("Mr. Wong")	–	1,155	12	197	1,364
	–	9,769	48	3,149	12,966
Non-executive director:					
Mr. Tam B Ray, Billy ("Mr. Tam")	182	–	–	98	280
	182	9,769	48	3,247	13,246
Year ended 31 December 2010					
Executive directors:					
Mr. Yiu	–	3,258	12	–	3,270
Mr. Yiu Kwan Wai, Gary	–	702	12	–	714
Ms. Yiu	–	650	12	–	662
Mr. Wong	–	805	12	–	817
	–	5,415	48	–	5,463
Non-executive director:					
Mr. Tam	–	–	–	–	–
	–	5,415	48	–	5,463

Mr. Tam was appointed as the non-executive director of the Company on 28 April 2011.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2010: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2010: two) non-director, highest paid employee for the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries, bonuses, allowances and benefits in kind	**898**	1,368
Pension scheme contributions	**12**	24
Equity-settled share option expense	**148**	–
	1,058	1,392

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**1**	–
	1	2

During the year ended 31 December 2011, share options were granted to the non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 26 to the financial statements. The fair value of such options, which has been recognised in the income statement, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

During the year ended 31 December 2011, no remuneration was paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

Pursuant to the Corporate Income Tax Law (the "PRC Tax Law") of the People's Republic of China (the "PRC") being effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in the PRC during the year was 25% (2010: 25%) on their taxable profits. Macau complementary tax has been provided at progressive rates up to a maximum of 12% (2010: 12%) on the estimated taxable profits.

	Group	
	2011	2010
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**12,890**	9,926
Overprovision in prior years	**(243)**	(77)
Current – Elsewhere		
Charge for the year	**4,090**	2,880
Underprovision/(overprovision) in prior years	**79**	(30)
Deferred *(note 24)*	**(697)**	(373)
Total tax charge for the year	**16,119**	12,326

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate to the tax expense at the Group's effective tax rate is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Profit before tax	**64,083**	66,636
Tax at the statutory tax rate	**10,513**	11,355
Adjustment in respect of current tax of previous periods	**(164)**	(107)
Income not subject to tax	**(249)**	(145)
Expenses not deductible for tax	**3,491**	193
Tax losses not recognised	**2,398**	567
Tax losses from previous periods utilised	**(325)**	(20)
Others	**455**	483
Tax charge at the Group's effective tax rate	**16,119**	12,326

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year includes a loss of HK$9,050,000 (2010: HK$193,000) which has been dealt with in the financial statements of the Company (note 27(b)).

12. DIVIDENDS

	2011	2010
	HK$'000	HK$'000
Interim – HK1.52 cents (2010: Nil) per ordinary share	10,250	–
Special – HK1.27 cents (2010: Nil) per ordinary share	8,565	–
	18,815	–
Proposed final – HK0.6 cent (2010: Nil) per ordinary share	4,046	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

An interim dividend for the year ended 31 December 2010 of HK$14,489,000 was declared by the board of directors of Milan Station (Hong Kong) Limited ("MS (HK)"), a wholly-owned subsidiary of the Company, to its then equity holder, World Top Trading Limited ("World Top") on 22 December 2010.

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the year attributable to equity holders of the Company of HK$47,964,000 (2010: HK$54,310,000) and the weighted average number of ordinary shares of 622,513,677 (2010: 541,586,000) in issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2011 includes the 541,586,000 ordinary shares *(note 25)* as if the shares had been in issue throughout the year ended 31 December 2011, 108,414,000 ordinary shares issued on 23 May 2011 in connection with the Listing, and 24,374,000 ordinary shares issued on 26 May 2011 upon the exercise of the over-allotment option during the year.

The number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2010 was based on the 541,586,000 ordinary shares, representing the number of shares of the Company immediately after the capitalisation issue, as if the shares had been in issue throughout the year ended 31 December 2010.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2011 as the share options in issue during the year has no dilutive effect.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2010 as the Group has no potentially diluted ordinary shares in issue and therefore no diluting events existed throughout that year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Motor vehicles	Furniture, fixtures and office equipment	Leasehold improvements	Total
	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2011				
Cost:				
At 1 January 2011	3,040	3,871	16,934	23,845
Additions	–	628	7,213	7,841
Disposals/write-offs	–	(375)	(521)	(896)
Exchange realignment	–	4	78	82
At 31 December 2011	3,040	4,128	23,704	30,872
Accumulated depreciation:				
At 1 January 2011	1,242	2,432	11,089	14,763
Depreciation charge for the year	847	506	3,364	4,717
Disposals/write-offs	–	(142)	(420)	(562)
Exchange realignment	–	3	25	28
At 31 December 2011	2,089	2,799	14,058	18,946
Net book value:				
At 31 December 2011	951	1,329	9,646	11,926
At 31 December 2010	1,798	1,439	5,845	9,082
31 December 2010				
Cost:				
At 1 January 2010	4,851	3,470	17,206	25,527
Additions	590	399	2,174	3,163
Disposals/write-offs	(2,401)	–	(2,467)	(4,868)
Exchange realignment	–	2	21	23
At 31 December 2010	3,040	3,871	16,934	23,845
Accumulated depreciation:				
At 1 January 2010	2,204	1,936	9,411	13,551
Depreciation charge for the year	1,322	496	3,924	5,742
Disposals/write-offs	(2,284)	–	(2,250)	(4,534)
Exchange realignment	–	–	4	4
At 31 December 2010	1,242	2,432	11,089	14,763
Net book value:				
At 31 December 2010	1,798	1,439	5,845	9,082
At 31 December 2009	2,647	1,534	7,795	11,976

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The net book value of the Group's motor vehicle held under a finance lease amounted to HK$158,000 (2010: HK$317,000) as at 31 December 2011.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	**555,000**	–

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid up registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
MS (BVI)	British Virgin Islands ("BVI")	US$4	100	–	Investment holding
MS (HK)	Hong Kong	HK$10,000	–	100	Investment holding
Milan Station (Tsuen Wan) Limited	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (Shatin) Limited	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (TST) Limited	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Milan Station Fashion (TST) Limited	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (Causeway Bay) Limited	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station Trading Limited	Hong Kong	HK$10,000	–	100	Engaged in trading of handbags, fashion accessories and embellishments operation
Milan Station (Mongkok) Limited	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (Central) Limited	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Union Will Limited	Hong Kong	HK$2	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Trilink Global Limited	BVI	US$1	–	100	Investment holding
Milan Station (Asia) Limited ("MS (Asia)")	Hong Kong	HK$10,000	–	100	Dormant
Milan Station Fashion (Hong Kong) Limited	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (Macau) Limited	Macau	MOP30,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (PRC) Limited	BVI	US$1	–	100	Investment holding

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Milan Station (E-Business) Limited	Hong Kong	HK$10,000	–	100	Engaged in online sales of handbags, fashion accessories and embellishments operation
Milan Station (D & M) Limited	Hong Kong	HK$10,000	–	100	Dormant
Milan Station (PRC) Limited	Hong Kong	HK$10,000	–	100	Investment holding
Milan Station (Yuen Long) Limited	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (Kwun Tong) Limited	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station Properties Holdings Limited ("MS Properties")	Hong Kong	HK$10,000	–	100	Property holding
米蘭站亞太零售(北京)有限公司 *	The PRC/Mainland China	RMB12,000,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
米蘭站商業(上海)有限公司*	The PRC/Mainland China	RMB14,000,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation

* *Registered as a wholly-foreign-owned enterprise under the laws of the PRC.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16. PROVISION

MS (Asia), an indirect wholly-owned subsidiary of the Company, entered into a non-cancellable operating lease contract (the "Contract") with a landlord (the "Landlord") in relation to its retail shop (the "Retail Shop") with an original term of two years in May 2009. The Retail Shop was closed down in November 2009. On 6 August 2010, a notice was issued by MS (Asia) to the Landlord in relation to the early termination of the Contract. The Landlord considered MS (Asia) had repudiated the Contract and a statement of claim against MS (Asia) for the remaining outstanding minimum lease payment was issued by the Landlord on 10 August 2010. Accordingly, the Group provided for all the future minimum lease payments of HK$2,640,000 under the Contract during the year ended 31 December 2009. The Group had paid lease payments of the Retail Shop of HK$1,233,000 during the year ended 31 December 2010.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**4,720**	4,080	**255**	–
Deposits	**30,311**	14,964	**94**	–
Other receivables	**8,604**	8,970	**131**	–
	43,635	28,014	**480**	–
Less: non-current portion	**(21,011)**	(10,719)	**–**	–
	22,624	17,295	**480**	–

At 31 December 2011 and 2010, the balances of deposits and other receivables were neither past due nor impaired. Financial assets included in the above balances relate to receivables for which there was no recent history of default.

During the year, the Group entered into a sale and purchase agreement with an independent third party to acquire a property situated in Hong Kong at a consideration of HK$75,000,000. At 31 December 2011, a deposit of HK$7,500,000 (2010: Nil) was paid for such acquisition and was recorded as a non-current deposit. The transaction was completed on 10 January 2012.

18. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Goods held for resale	154,163	89,007

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Trade receivables are non-interest-bearing.

All receivables that were neither past due nor impaired relate mainly to credit card receivables from banks for whom there was no recent history of default.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	73,791	24,015	460	–
Time deposits with original maturity of less than three months when acquired	84,251	4,125	–	–
Time deposit with original maturity of more than three months when acquired	20,000	–	–	–
	178,042	28,140	460	–
Less: Time deposits pledged for bank loan and bank overdraft facilities	(1,503)	(1,500)	–	–
Cash and cash equivalents	176,539	26,640	460	–

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$4,877,000 (2010: HK$1,857,000). RMB is not freely convertible into other currencies. Under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposits rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

21. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued liabilities	**10,404**	6,897	**3,534**	165
Other payables	**7,218**	2,678	**146**	–
Deposit received	**3,480**	–	**–**	–
Dividend payable	**–**	10,000	**–**	–
	21,102	19,575	**3,680**	165

Other payables are non-interest-bearing and have an average term of one month.

22. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group	
			2011	2010
			HK$'000	HK$'000
Current				
Bank overdrafts – unsecured	N/A (2010: 14.25)	On demand	**–**	35
Bank loans – unsecured	N/A (2010: 2.8)	2011	**–**	5,736
			–	5,771

As at 31 December 2010, all bank loans and overdrafts are denominated in Hong Kong dollars and repayable within one year or on demand.

22. INTEREST-BEARING BANK BORROWINGS *(continued)*

Except for the bank overdrafts which bore interest at fixed interest rate of 14.25% for the year ended 31 December 2010, all borrowings of the Group bore interest at floating interest rates.

As at 31 December 2010, the bank loan and overdraft facilities were supported by:

(i) the pledge of a property (the "Property") of Excel Trend Limited ("Excel Trend"), a related company of the Company as Mr. Yiu, a director of the Company, is the director of Excel Trend. The carrying value of the Property as at 31 December 2010 was approximately HK$51,100,000;

(ii) a personal guarantee executed by Mr. Yiu;

(iii) a corporate guarantee executed by a subsidiary of the Company and Excel Trend; and

(iv) the pledge of a deposit of HK$1,500,000.

The personal guarantee executed by Mr. Yiu, corporate guarantee executed by a subsidiary of the Company and Excel Trend, and the pledge of the Property have been released after the Listing.

23. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain of its motor vehicles. These leases are classified as finance leases and have remaining lease terms ranging from one to three years. At 31 December 2011, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Amounts payable:				
Within one year	125	153	112	134
In the second year	119	119	112	105
In the third to fifth years, inclusive	52	170	51	163
Total minimum finance lease payments	296	442	275	402
Future finance charges	(21)	(40)		
Total net finance lease payables	275	402		
Portion classified as current liabilities	(112)	(134)		
Non-current portion	163	268		

23. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

As at 31 December 2010, the Group's obligations under finance leases are secured by the lessor's charge over the leased assets and supported by a personal guarantee executed by Mr. Yiu.

The personal guarantee has been released after the Listing.

24. DEFERRED TAX

The movements in deferred tax assets and liability during the year are as follows:

Deferred tax assets

	Depreciation in excess of related depreciation allowance	Provision for inventories	Losses available for offsetting against taxable profit	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	584	390	86	1,060
Deferred tax credited to the income statement during the year *(note 10)*	–	171	–	171
At 31 December 2010 and 1 January 2011	584	561	86	1,231
Deferred tax credited/(debited) to the income statement during the year *(note 10)*	(61)	844	(86)	697
At 31 December 2011	523	1,405	–	1,928

24. DEFERRED TAX *(continued)*

Deferred tax liability

	Depreciation allowance in excess of related depreciation
	HK$'000
At 1 January 2010	379
Deferred tax credited to the income statement during the year *(note 10)*	(202)
At 31 December 2010, 1 January 2011 and 31 December 2011	177

Certain subsidiaries of the Group have tax losses arising in Hong Kong in total of HK$22,069,000 (2010: HK$9,372,000) as at 31 December 2011 that are available indefinitely for offsetting against their future taxable profits. Deferred tax assets have not been recognised in respect of these losses as these subsidiaries have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. In estimating the withholding tax on dividends expected to be distributed by the Group's subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made assessment based on factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future. As at 31 December 2011 and 2010, no deferred tax has been recognised for withholding tax that would be payable on the unremitted earnings of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute their earnings accrued after 1 January 2008 in the foreseeable future. The aggregate amount of temporary differences associated with the Group's investments in the subsidiaries in Mainland China for which a deferred tax liability has not been recognised totalled approximately RMB1,255,000 (2010: RMB644,000) at 31 December 2011.

25. SHARE CAPITAL

The following changes in the Company's authorised and issued share capital took place during the period from 1 November 2007 (date of incorporation) to 31 December 2011:

	Notes	Number of ordinary shares	Nominal value of ordinary shares
			HK$'000
Authorised:			
Upon incorporation (38,000,000 shares of HK$0.01) and as at 31 December 2010	(a)	38,000,000	380
Increase in authorised capital on 28 April 2011	(b)	1,962,000,000	19,620
At 31 December 2011		2,000,000,000	20,000
Issued and fully paid :			
Upon incorporation (1 share of HK$0.01 allotted and issued as nil-paid) and as at 31 December 2010		1	–
On acquisition of MS (BVI) on 28 April 2011			
– allotment and issuance of 999,999 shares credited as fully paid	(c)	999,999	10
Capitalisation issue	(d)	540,586,000	5,406
Proforma issued capital as at 31 December 2010		541,586,000	5,416
New issue of shares	(e)	132,788,000	1,328
At 31 December 2011		674,374,000	6,744

Notes:

(a) On 1 November 2007, the Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands and was authorised to issue up to 38,000,000 shares of HK$0.01 each. One nil-paid share was issued and allotted to Codan Trust Company (Cayman) Limited, which was transferred to World Top on the same date. On 21 September 2010, World Top transferred the share to Perfect One at par value.

(b) Pursuant to the written resolutions of the sole shareholder passed on 28 April 2011, the authorised share capital of the Company was increased from HK$380,000 to HK$20,000,000 by the creation of additional 1,962,000,000 shares.

(c) Pursuant to a resolution passed on 28 April 2011, Perfect One acquired the entire issued share capital of MS (BVI) from World Top at a consideration of US$1. On the same date, the Company acquired the entire issued share capital of MS (BVI) from Perfect One, in consideration of the allotment and issue of 999,999 shares at par value, all credited as fully paid up, to Perfect One.

(d) Pursuant to a resolution passed on 28 April 2011, 540,586,000 new shares of HK$0.01 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of approximately HK$5,406,000 from the share premium account, to the then shareholder, whose name appeared on the register of the Company at close of business on 28 April 2011.

25. SHARE CAPITAL *(continued)*

Notes: (continued)

(e) In connection with the IPO, 108,414,000 shares of HK$0.01 each were issued at a price of HK$1.67 per share on 23 May 2011 for a total cash consideration, before related issuance expenses, of approximately HK$181,051,000. Dealings in these shares on the Stock Exchange commenced on 23 May 2011.

In connection with the Company's IPO, an over-allotment option was granted to China Merchants Securities (HK) Co., Limited, the sole global coordinator (the "Sole Global Coordinator") of the IPO, whereby the Sole Global Coordinator has the right to request the Company to issue and allot up to an aggregate of 24,374,000 additional shares of HK$0.01 each to subscribers under the IPO. On 23 May 2011, the Sole Global Coordinator exercised the over-allotment option and accordingly, 24,374,000 shares of HK$0.01 each were issued by the Company at a price of HK$1.67 per share for a total cash consideration, before related issuance expenses, of approximately HK$40,705,000. Dealings in these shares on the Stock Exchange commenced on 26 May 2011.

26. SHARE OPTION SCHEME

On 28 April 2011, the Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, consultants, advisers and the Company's shareholders. The Scheme became effective on 23 May 2011 upon the listing of the Company's shares on the Stock Exchange. The Scheme will be in force for a period of 10 years commencing on the date on which the Scheme was adopted.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors, and shall commence at the grant date and end on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

26. SHARE OPTION SCHEME *(continued)*

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price	Number of options
	HK$ per share	'000
At 1 January 2011	–	–
Granted during the year	1.384	11,750
At 31 December 2011	1.384	11,750

No options were exercised during the year ended 31 December 2011.

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

2011 Number of options	Exercise price	Exercise period
'000	HK$ per share	
11,750	1.384	13-12-11 to 12-12-16

26. SHARE OPTION SCHEME *(continued)*

The fair value of the share options granted during the year was approximately HK$5,782,000 (HK$0.5 each) of which the Group recognised a share option expense of HK$5,782,000 during the year ended 31 December 2011.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used:

	2011
Dividend yield (%)	1.1
Expected volatility (%)	59.77
Risk-free interest rate (%)	0.837
Expected life of options (year)	5
Price of the Company's shares at the date of grant (HK$ per share)	1.38

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value. At the end of the reporting period, the Company had 11,750,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 11,750,000 additional ordinary shares of the Company and additional share capital of HK$118,000 and share premium of HK$16,144,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 11,750,000 share options outstanding under the Scheme, which represented approximately 1.74% of the Company's shares in issue as at that date.

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

(b) Company

	Share premium account	Capital reserve	Share option reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2010	–	–	–	–	–
Loss for the year and total comprehensive expense for the year	–	–	–	(193)	(193)
At 31 December 2010 and 1 January 2011	–	–	–	(193)	(193)
Loss for the year and total comprehensive expense for the year	–	–	–	(9,050)	(9.050)
Acquisition of a subsidiary pursuant to the Reorganisation	–	554,990	–	–	554,990
Capitalisation issue as credited as fully-paid conditional on the share premium account of the Company, being credited as a result of issuance of new shares to the public	(5,406)	–	–	–	(5,406)
Issue of new shares to the public	220,428	–	–	–	220,428
Share issue expenses	(19,049)	–	–	–	(19,049)
Equity-settled share option arrangements	–	–	5,782	–	5,782
Interim 2011 dividend	(10,250)	–	–	–	(10,250)
Special 2011 dividend	(8,565)	–	–	–	(8,565)
At 31 December 2011	177,158	554,990	5,782	(9,243)	728,687

The Company's capital reserve represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation prior to the Listing, over the nominal value of the Company's shares issued in exchange therefor.

28. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2011 HK$'000	2010 HK$'000
Rental expenses paid to related companies	(a)	**6,266**	3,849
Purchases from a related company	(b)	**62**	257
Payments for purchase of property, plant and equipment from a related company	(c)	**2,643**	75
Expenses paid to a related company	(c)	**73**	–
Expenses for general legal advisory services paid to a related company	(d)	**250**	131

Notes:

(a) The Company has entered into lease agreements with certain related companies of the Company of which Mr. Yiu, Mr. Yiu Kwan Wai, Gary and Ms. Yiu are also the directors of these related companies. The rental expenses paid to related companies were based on mutually agreed terms.

(b) Purchases from a related company, in which Mr. Yiu has beneficial interest, were made on mutually agreed terms.

(c) Payments for purchases of property, plant and equipment and expenses to a related company, in which the husband of Ms. Yiu has beneficial interest, were made on mutually agreed terms.

(d) Expenses for general legal advisory services paid to a related company, in which Mr. Tam is a partner, were made on mutually agreed terms.

The related party transactions constitute continuing connected transactions during the year as defined in Chapter 14A of the Listing Rules.

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

28. RELATED PARTY TRANSACTIONS *(continued)*

(ii) Compensation of key management personnel of the Group:

	2011	2010
	HK$'000	HK$'000
Short-term employee benefits	**11,959**	5,617
Post-employment contributions	**72**	51
Equity-settled share option expense	**3,789**	–
	15,820	5,668

Further details of directors' emoluments are included in note 8 to the financial statements.

(iii) During the years ended 31 December 2011 and 2010, the bank loans and overdrafts were supported by a personal guarantee executed by Mr. Yiu and a corporate guarantee executed by Excel Trend, and a finance lease was supported by a personal guarantee executed by Mr. Yiu. In addition, Excel Trend has arranged a bank to issue bank guarantee in lieu of rental deposit in relation to a shop leased by the Group up to HK$384,000 as at 31 December 2010. The personal guarantees and the corporate guarantee have been released after the Listing.

(iv) During the years ended 31 December 2011 and 2010, Mr. Yiu provided personal guarantees to landlords of certain group companies for default of rental payment or other payables in accordance with the tenancy agreements. The personal guarantees have been released after the Listing.

(v) Pursuant to an undertaking dated 2 May 2011, Perfect One and Mr. Yiu, the sole beneficial owner of Perfect One, agreed to bear the listing expenses (excluding the underwriting commission) in relation to the Listing of the shares of the Company on the Stock Exchange in the percentage of 541,586,000 shares over the total number of issued shares of the Company immediately upon the Listing, and take into account of the number of shares to be issued pursuant to the exercises of the over-allotment option to be granted by the Company as further detailed in the paragraph headed "Over-allotment and Stabilisation" to the Prospectus.

28. RELATED PARTY TRANSACTIONS *(continued)*

(vi) An analysis of the balances with related parties is as follows:

Particulars of the amounts due from directors and related companies, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Year ended 31 December 2010

Name	31 December 2010	Maximum amount outstanding during the year	1 January 2010
	HK$'000	HK$'000	HK$'000
Director			
Mr. Yiu	–	15,832	2,648
Related companies			
World Top	–	8,953	6,060
台灣米蘭站股份有限公司	–	1,729	1,351
Fortune Sincere Group Limited	–	52	47
Global Fair Corporation Limited	–	1,583	1,266
Win Hero International Ltd.	–	31	31
Powerful Best Limited	–	1,520	1,520
Excel Win Limited	–	3,963	2,523
Excel Trend	–	498	498
Gorgeous Holdings Limited	–	128	128
City Venture International Limited	–	37	37
City Forum International Limited	–	37	37
Power Wisdom International Limited	–	3,152	152
	–	21,683	13,650

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(i) During the year ended 31 December 2010, the Group part exchanged a motor vehicle with a carrying amount of HK$117,000 for a new motor vehicle for an allowance of HK$210,000.

(ii) During the year ended 31 December 2010, an interim dividend for 2010 of HK$14,489,000 was declared, of which an amount of HK$10,000,000 remained unpaid and included in accrued liabilities and other payables as at 31 December 2010. The remaining amount of HK$10,000,000 was fully paid during the year ended 31 December 2011.

30. CONTINGENT LIABILITIES

Before the date of the Listing, MS(HK), an indirect wholly-owned subsidiary of the Company, provided unlimited financial guarantees (the "Unlimited Guarantees") to a bank in connection with the bank loans and other banking facilities granted to certain of its related companies of which Mr. Yiu is also a director and shareholder. The banking facilities granted to those related companies that are subject to guarantees given to the banks were utilised to the extent of approximately HK$71,893,000 as at 31 December 2010. The Unlimited Guarantees have been released after the Listing.

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantee given to a bank in connection with facilities granted to:				
A subsidiary	**–**	–	**10,000**	–

As at 31 December 2011, none of the banking facilities granted to a subsidiary that is subject to guarantee given to a bank by the Company was utilised (2010: Nil).

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group sub-leases a property under operating lease arrangements. The lease for this property is negotiated for a term of two years. The term of the lease also requires the tenant to pay a security deposit. As at 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating lease falling due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**6,960**	6,698
In the second to fifth years, inclusive	**–**	6,960
	6,960	13,658

31. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases certain of its shops, office premises and warehouse under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to six years.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**62,534**	47,467	**1,980**	–
In the second to fifth years, inclusive	**60,473**	72,967	**–**	–
More than five years	**1,855**	–	**–**	–
	124,862	120,434	**1,980**	–

32. COMMITMENTS

Other than the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	2011	2010
	HK$'000	HK$'000
Contracted, but not provided for:		
Additions of property, plant and equipment	**69,878**	38

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

The Group's financial assets as at the end of the reporting period which are categorised as loans and receivables are as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**9,259**	9,691	**–**	–
Financial assets included in prepayments, deposits and other receivables	**30,410**	23,538	**225**	–
Due from subsidiaries	**–**	–	**183,204**	–
Pledged deposits	**1,503**	1,500	**–**	–
Cash and cash equivalents	**176,539**	26,640	**460**	–
	217,711	61,369	**183,889**	–

Financial liabilities

The Group's financial liabilities as at the end of the reporting period which are categorised as financial liabilities at amortised cost are as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due to a subsidiary	**–**	–	**33**	28
Financial liabilities included in accrued liabilities and other payables	**16,676**	17,796	**3,680**	165
Interest-bearing bank borrowings	**–**	5,771	**–**	–
Obligations under finance leases	**275**	402	**–**	–
	16,951	23,969	**3,713**	193

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits and interest-bearing borrowings. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, accrued liabilities and other payables, and obligations under finance leases.

It is, and has been, throughout the year, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in the market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The interest rates of the interest-bearing bank borrowings of the Group are disclosed in note 22 to the financial statements. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate bank borrowings).

	Increase in interest rate (basis points)	Decrease in profit before tax HK$'000
Year ended 31 December 2011	**N/A**	**N/A**
Year ended 31 December 2010	100	57

Foreign currency risk

The Group carries on its trading transactions mainly in HK$, RMB and Euro. In respect of transactional exposures of the Group in currencies other than the functional currency, the Group ensures that the net exposure is kept to an acceptable level. It is the policy of the Group to continue maintaining the balances of its sales and purchases in the same currency. The Group does not use derivative financial instruments to protect against the volatility associated with foreign currency transactions and other financial assets and liabilities created in the ordinary course of business.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB and Euro exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in RMB/Euro rate	Increase/ (decrease) in profit before tax
	%	HK$'000
Year ended 31 December 2011		
If HK$ weakens against RMB	5	(244)
If HK$ strengthens against RMB	(5)	244
If HK$ weakens against Euro	5	105
If HK$ strengthens against Euro	(5)	(105)
Year ended 31 December 2010		
If HK$ weakens against RMB	5	(103)
If HK$ strengthens against RMB	(5)	103
If HK$ weakens against Euro	5	107
If HK$ strengthens against Euro	(5)	(107)

Credit risk

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The Group is not exposed to significant credit risk in relation to other financial assets such as cash and cash equivalents.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	31 December 2011		
	On demand or less than 1 year	Over 1 year	Total
	HK$'000	HK$'000	HK$'000
Financial liabilities included in accrued liabilities and other payables	16,676	–	16,676
Obligations under finance leases	125	171	296
	16,801	171	16,972

	31 December 2010		
	On demand or less than 1 year	Over 1 year	Total
	HK$'000	HK$'000	HK$'000
Financial liabilities included in accrued liabilities and other payables	17,796	–	17,796
Interest-bearing bank borrowings	5,771	–	5,771
Obligations under finance leases	153	289	442
	23,720	289	24,009

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

Company

	31 December 2011		
	On demand or less than 1 year	Over 1 year	Total
	HK$'000	HK$'000	HK$'000
Due to a subsidiary	33	–	33
Financial liabilities included in accrued liabilities and other payables	3,680	–	3,680
	3,713	–	3,713

	31 December 2010		
	On demand or less than 1 year	Over 1 year	Total
	HK$'000	HK$'000	HK$'000
Due to a subsidiary	28	–	28
Financial liabilities included in accrued liabilities and other payables	165	–	165
	193	–	193

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 2010.

The Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. The Group's policy is to keep the current ratio above 1.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2012.

Four Years Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the last four financial years prepared on the basis set out in the notes below.

	Year ended 31 December			
	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS				
REVENUE	**879,802**	730,259	611,273	511,998
Cost of sales	**(666,464)**	(555,599)	(467,609)	(371,546)
Gross profit	**213,338**	174,660	143,664	140,452
Other income and gains	**8,770**	935	536	2,025
Selling expenses	**(104,151)**	(84,091)	(71,028)	(61,854)
Administrative and other operating expenses	**(53,654)**	(24,681)	(24,597)	(23,231)
Finance costs	**(220)**	(187)	(381)	(244)
PROFIT BEFORE TAX	**64,083**	66,636	48,194	57,148
Income tax expense	**(16,119)**	(12,326)	(9,031)	(11,120)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**47,964**	54,310	39,163	46,028

ASSETS AND LIABILITIES

	As at 31 December			
	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**399,970**	165,894	157,152	139,832
TOTAL LIABILITIES	**(28,344)**	(32,299)	(63,608)	(43,460)
	371,626	133,595	93,544	96,372

Notes:

(i) The summary of the consolidated results of the Group for each of the three years ended 31 December 2008, 2009 and 2010 and of the assets and liabilities as of 31 December 2008, 2009 and 2010 have been extracted from the Company's listing prospectus dated 11 May 2011. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years.

(ii) The consolidated results of the Group for each of the two years ended 31 December 2010 and 2011 and the consolidated assets and liabilities of the Group as at 31 December 2010 and 2011 are those set out on pages 40 to 42 of this annual report. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years.

The financial information for the year ended 31 December 2007 was not disclosed as consolidated financial statements for the Group have not been prepared for that year.

The summary above does not form part of the audited financial statements.


米蘭站
出
EXIT