



米蘭站控股有限公司

MILAN STATION HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1150

2012

INTERIM REPORT

Desire goes online 

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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 Directors

Mr. Tam B Ray, Billy
Mr. Yuen Lai Yan, Darius (appointed on 30 August 2012)

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

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South Seas Centre, No. 75 Mody Road
Kowloon, 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
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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 ADVISER AS TO HONG KONG LAW

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

COMPLIANCE ADVISER

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

Condensed Consolidated Income Statement

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Milan Station Holdings Limited (the "Company") presents the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2012 (the "Period") together with the comparative figures for the corresponding period in 2011 and the relevant explanatory notes as set out below. The interim results for the Period are unaudited, but have been reviewed by the audit committee (the "Audit Committee") of the Company.

	Notes	For the six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
REVENUE	5	374,336	430,182
Cost of sales		(296,268)	(322,515)
Gross profit		78,068	107,667
Other income and gains	5	4,654	3,280
Selling expenses		(54,085)	(49,388)
Administrative and other operating expenses		(25,550)	(18,464)
Finance costs	6	(638)	(98)
PROFIT BEFORE TAX	7	2,449	42,997
Income tax expense	8	(2,063)	(8,841)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		386	34,156
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
– Basic and diluted	10	HK0.06 cent	HK5.99 cents

Details of the dividends are disclosed in note 9 to the financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June

	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	386	34,156
OTHER COMPREHENSIVE INCOME/(EXPENSE):		
Exchange differences on translating foreign operations	(152)	108
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	234	34,264

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	95,083	11,926
Deferred tax assets		1,928	1,928
Deposits		23,817	21,011
Total non-current assets		120,828	34,865
CURRENT ASSETS			
Inventories		116,989	154,163
Trade receivables	12	6,115	9,259
Prepayments, deposits and other receivables		16,809	22,624
Tax recoverable		1,095	1,017
Pledged deposits		21,597	1,503
Cash and cash equivalents		144,352	176,539
Total current assets		306,957	365,105
CURRENT LIABILITIES			
Accrued liabilities and other payables		14,670	21,102
Interest-bearing bank borrowings	13	38,280	–
Obligations under finance leases		101	112
Tax payable		6,627	5,383
Provision	14	–	1,407
Total current liabilities		59,678	28,004
NET CURRENT ASSETS		247,279	337,101
TOTAL ASSETS LESS CURRENT LIABILITIES		368,107	371,966
NON-CURRENT LIABILITIES			
Obligations under finance leases		116	163
Deferred tax liability		177	177
Total non-current liabilities		293	340
Net assets		367,814	371,626
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	15	6,744	6,744
Reserves		361,070	364,882
Total equity		367,814	371,626

Condensed Consolidated Statement of Changes in Equity

	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 2012	6,744	177,148	10	(23,782)	1,729	712	5,782	203,283	371,626
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(152)	-	-	(152)
Profit for the period	-	-	-	-	-	-	-	386	386
Total comprehensive income/ (expense) for the period	-	-	-	-	-	(152)	-	386	234
Share options lapsed	-	-	-	-	-	-	(172)	172	-
Final 2011 dividend (note 9)	-	(4,046)	-	-	-	-	-	-	(4,046)
At 30 June 2012	6,744	173,102*	10*	(23,782)*	1,729*	560*	5,610*	203,841*	367,814

* These reserve accounts comprise the consolidated reserves of HK\$361,070,000 (30 June 2011: HK\$363,822,000) in the condensed consolidated statement of financial position.

Notes:

- 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.
- 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.
- 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.

Condensed Consolidated Statement of Changes in Equity *(continued)*

	Attributable to equity holders of the Company								
	Issued capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000 (note a)	Merger reserve HK\$'000 (note b)	Statutory reserve fund HK\$'000 (note c)	Exchange fluctuation reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 January 2011	-	-	10	(23,782)	836	319	-	156,212	133,595
Exchange differences arising on translation of foreign operations	-	-	-	-	-	108	-	-	108
Profit for the period	-	-	-	-	-	-	-	34,156	34,156
Total comprehensive income for the period	-	-	-	-	-	108	-	34,156	34,264
Acquisition of a subsidiary pursuant to the reorganisation	10	(10)	-	-	-	-	-	-	-
Transfer to statutory reserve	-	-	-	-	218	-	-	(218)	-
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	5,406	(5,406)	-	-	-	-	-	-	-
Issue of new shares to the public	1,328	220,428	-	-	-	-	-	-	221,756
Share issue expenses	-	(19,049)	-	-	-	-	-	-	(19,049)
At 30 June 2011	6,744	195,963*	10*	(23,782)*	1,054*	427*	-*	190,150*	370,566

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June

	2012	2011
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	40,461	17,945
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(29,233)	(21,516)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	(23,415)	200,365
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(12,187)	196,794
Cash and cash equivalents at beginning of the period	156,539	26,605
Effect of foreign exchange rates, net	–	77
CASH AND CASH EQUIVALENTS AT END OF PERIOD	144,352	223,476
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	77,076	51,547
Non-pledged time deposits with original maturity of three months or less when acquired	67,276	172,276
Non-pledged time deposit with original maturity of over three months when acquired	–	20,000
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	144,352	243,823
Less: Time deposit with original maturity of over three months when acquired	–	(20,000)
Bank overdrafts	–	(347)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	144,352	223,476

Notes to Condensed Consolidated Interim Financial Statements

1. CORPORATE INFORMATION

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.

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the retailing of handbags, fashion accessories and embellishments. There were no significant changes in the nature of the Group's principal activities during the Period.

In the opinion of the directors of the Company, 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. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2011, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include Hong Kong Accounting Standards and Interpretations) in the current period for the first time as disclosed in note 3 below.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs ("new HKFRSs") were adopted for the first time for the current period's condensed consolidated interim financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the above new HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

Notes to Condensed Consolidated Interim Financial Statements

4. OPERATING SEGMENT INFORMATION

The Group's primary 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
For the six months ended 30 June 2012				
Revenue from external customers	304,633	26,477	43,226	374,336
Non-current assets	90,847	86	11,825	102,758
Capital expenditure	87,159	–	125	87,284

	Hong Kong	Macau	Mainland China	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June 2011				
Revenue from external customers	373,187	23,877	33,118	430,182
Non-current assets	5,444	358	2,408	8,210
Capital expenditure	74	–	13	87

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 period (six months ended 30 June 2011: Nil) and no information about major customers is presented accordingly.

Notes to Condensed Consolidated Interim Financial Statements

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:

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue		
Sale of goods	374,336	430,182
Other income and gains		
Bank interest income	552	15
Gross rental income	3,480	3,190
Others	622	75
	4,654	3,280
	378,990	433,462

6. FINANCE COSTS

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Interest on:		
Bank overdrafts	1	11
Bank loans wholly repayable within 5 years	–	79
Bank loan wholly repayable over 5 years	631	–
Finance leases	6	8
	638	98

Notes to Condensed Consolidated Interim Financial Statements

7. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Cost of inventories sold	296,268	322,515
Provision for slow-moving inventories	6,716	2,220
Depreciation	3,576	2,088
Minimum lease payments under operating leases in respect of land and buildings	34,721	29,418
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	15,402	16,109
Pension scheme contributions	541	487
	15,943	16,596
Write-off of items of property, plant and equipment	550	345
Bank interest income	(552)	(15)

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided on the estimated assessable profit arising in Hong Kong at the rate of 16.5% for the periods ended 30 June 2012 and 2011. Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

Pursuant to the Corporate Income 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 was 25% for the periods ended 30 June 2012 and 2011 on their taxable profits. Macau complementary tax has been provided at progressive rates up to a maximum of 12% on the estimated taxable profits.

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current charge for the period		
– Hong Kong	863	6,486
– Elsewhere	1,200	2,355
Total tax charge for the period	2,063	8,841

Notes to Condensed Consolidated Interim Financial Statements

9. DIVIDENDS

Proposed dividends

Interim – Nil (six months ended 30 June 2011:

HK1.52 cents) per ordinary share

Special – Nil (six months ended 30 June 2011:

HK1.27 cents) per ordinary share

For the six months ended 30 June

2012	2011
(Unaudited) HK\$'000	(Unaudited) HK\$'000
–	10,250
–	8,565
–	18,815

Dividend paid during the period

Final dividend in respect of the financial year ended

31 December 2011 of HK0.6 cent

(six months ended 30 June 2011: Nil) per ordinary share

For the six months ended 30 June

2012	2011
(Unaudited) HK\$'000	(Unaudited) HK\$'000
4,046	–

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

The calculation of basic earnings per share amount for the six months ended 30 June 2012 is based on the profit for the Period attributable to equity holders of the Company of HK\$386,000 (six months ended 30 June 2011: HK\$34,156,000) and the ordinary shares of 674,374,000 (six months ended 30 June 2011: weighted average number of ordinary shares of 569,793,790) in issue during the Period.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2011 includes the 1,000,000 ordinary shares in issue, 540,586,000 ordinary shares issued during the six months ended 30 June 2011 pursuant to the capitalisation issue as if the shares had been in issue throughout the six months ended 30 June 2011, 132,788,000 ordinary shares issued in connection with the listing of the Company's ordinary shares on the Stock Exchange, including 24,374,000 ordinary shares issued on 26 May 2011 upon exercise of the over-allotment option (note 15(e)).

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2012 as the share options in issue during the Period has no dilutive effect.

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2011 as the Group had no potentially diluted ordinary shares in issue and therefore no diluting events existed throughout that period.

Notes to Condensed Consolidated Interim Financial Statements

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired a property situated in Hong Kong at total cost of HK\$78,879,000 (31 December 2011: Nil).

12. 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.

13. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	30 June 2012 (Unaudited)	31 December 2011 (Audited)
	(%)		HK\$'000	HK\$'000
Current				
Bank loan – secured	3.75 (31 December 2011: N/A)	On demand	36,205	–
Bank loan – unsecured	7.02 (31 December 2011: N/A)	2012	2,075	–
			38,280	–

As at 30 June 2012, except for a bank loan of HK\$2.1 million which is denominated in Renminbi and repayable within one year, the remaining interest-bearing borrowing is denominated in Hong Kong dollars.

The Group's secured bank loan in the amount of HK\$36,205,000 (31 December 2011: Nil) as at 30 June 2012 containing a repayment on demand clause is included within current interest-bearing bank borrowings and analysed into bank loan repayable within one year or on demand.

Notwithstanding the above repayment on demand clause, the directors do not believe that the secured bank loan will be called in its entirety within 12 months, and they consider that the bank loan will be repaid in accordance with the maturity dates as set out in the agreement. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the Group's compliance with the loan covenants; the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the secured bank loan, the maturity terms of the secured bank loan are HK\$3,200,000 (31 December 2011: Nil) repayable within one year or on demand as at 30 June 2012; HK\$3,322,000 (31 December 2011: Nil) repayable in the second year as at 30 June 2012; HK\$10,743,000 (31 December 2011: Nil) repayable in the third to fifth years, inclusive as at 30 June 2012; and HK\$18,940,000 (31 December 2011: Nil) repayable beyond five years as at 30 June 2012.

All borrowings of the Group bear interest at floating interest rates for the period ended 30 June 2012.

Notes to Condensed Consolidated Interim Financial Statements

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

As at 30 June 2012, the bank loan facilities were supported by:

- (i) the pledge of a property of the Group with a carrying amount of HK\$78,487,000 (31 December 2011: Nil) as at 30 June 2012;
- (ii) a corporate guarantee executed by a subsidiary of the Company to the extent of HK\$37,500,000 (31 December 2011: Nil); and
- (iii) the pledge of deposits of HK\$21,597,000.

14. PROVISION

Milan Station (Asia) Limited ("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.

During the Period, the Group reached a settlement agreement with the Landlord, pursuant to which the Group made an additional payment of HK\$850,000 (the "Final Payment"), and credited the difference between the carrying amount of the provision at 31 December 2011 of HK\$1,407,000 and the Final Payment of HK\$557,000 as "other income" in the condensed consolidated income statement.

15. SHARE CAPITAL

The details of the authorised and issued share capital of the Company as at 30 June 2012 and 31 December 2011 are as follows:

	30 June 2012 (Unaudited) HK'000	31 December 2011 (Audited) HK'000
Authorised: 2,000,000,000 ordinary shares of HK\$0.01 each	20,000	20,000
Issued and fully paid: 674,374,000 ordinary shares of HK\$0.01 each	6,744	6,744

Notes to Condensed Consolidated Interim Financial Statements

15. SHARE CAPITAL (continued)

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 30 June 2012:

	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, 1 January 2012 and 30 June 2012		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 Milan Station (BVI) Limited ("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, 1 January 2012 and 30 June 2012		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 Trading Limited ("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.

Notes to Condensed Consolidated Interim Financial Statements

15. SHARE CAPITAL *(continued)*

Notes: *(continued)*

- (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.
- (e) In connection with the initial public offering ("IPO") of the Company, 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 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.

16. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group sub-leases a property under operating lease arrangement. 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 30 June 2012, the Group had total future minimum lease receivables under non-cancellable operating lease of HK\$3,480,000 (31 December 2011: HK\$6,960,000) falling due within one year.

(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.

As at 30 June 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012	31 December 2011
	(Unaudited) HK\$'000	(Audited) HK\$'000
Within one year	59,037	62,534
In the second to fifth years, inclusive	57,858	60,473
More than five years	–	1,855
	116,895	124,862

Notes to Condensed Consolidated Interim Financial Statements

17. COMMITMENTS

Other than the operating lease commitments detailed in note 16 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2012	31 December 2011
	(Unaudited) HK\$'000	(Audited) HK\$'000
Contracted, but not provided for:		
Additions of property, plant and equipment	2,722	69,878

18. RELATED PARTY TRANSACTIONS

(i) The Group had the following material transactions with related parties during the periods:

		For the six month ended 30 June	
		2012	2011
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
	Notes		
Rental expenses paid to related companies	(a)	3,828	2,658
Purchases from a related company	(b)	19	42
Purchase of property, plant and equipment from a related company	(c)	6,652	444
Expenses paid to a related company	(c)	100	–
Expenses for general legal advisory services paid to a related company	(d)	189	–

Notes:

- (a) The Company has entered into lease agreements with certain related companies of the Company of which Mr. Yiu Kwan Tat ("Mr. Yiu"), Mr. Yiu Kwan Wai, Gary and Ms. Yiu Sau Wai ("Ms. Yiu") are also 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) Purchases of property, plant and equipment and expenses paid 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 B Ray, Billy is a partner, were made on mutually agreed terms.

Notes to Condensed Consolidated Interim Financial Statements

18. RELATED PARTY TRANSACTIONS *(continued)*

- (ii) Compensation of key management personnel of the Group during the periods are as follows:

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Short-term employee benefits	5,386	4,197
Post-employment contributions	38	36
	5,424	4,233

- (iii) During the period ended 30 June 2011, the bank loans and overdraft were supported by a personal guarantee executed by Mr. Yiu and a corporate guarantee executed by Excel Trend Limited ("Excel Trend"), and a finance lease was supported by a personal guarantee executed by Mr. Yiu. In addition, Excel Trend had 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 guarantee and corporate guarantee had been released after the shares of the Company were listed on the Stock Exchange on 23 May 2011 (the "Listing").
- (iv) During the period ended 30 June 2011, 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 had been released after the Listing.
- (vi) 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.

Notes to Condensed Consolidated Interim Financial Statements

19. EVENT AFTER THE REPORTING PERIOD

On 22 August 2012, Milan Station (PRC) Limited (“MS (PRC)”), an indirect wholly-owned subsidiary of the Company, entered into a shareholders’ agreement (the “Shareholders’ Agreement”) with Star Continent Holdings Limited (“Star Continent”), an independent third party, for the proposed formation of a joint venture (the “Joint Venture”). The proposed principal business of the Joint Venture is the development of the retail market for second-hand luxury branded handbags in Chengdu, the PRC.

Pursuant to the Shareholders’ Agreement, within 7 business days following the date of signing of the Shareholders’ Agreement, Star Continent shall subscribe, and MS (PRC) shall procure the Joint Venture to issue, a total of 4,286 ordinary shares of the Joint Venture at the issue price of HK\$1 per share, whereupon following completion of such subscription, the Joint Venture shall be held as to 70% by MS (PRC) and 30% by Star Continent. Pursuant to the Shareholders’ Agreement, within 6 months following the establishment of the Joint Venture, MS (PRC) and Star Continent shall procure the Joint Venture to establish a wholly foreign-owned enterprise under the proposed business name “米蘭站商貿(成都)有限公司 (Milan Station Trading (Chengdu) Limited*)” in Chengdu, the PRC, subject to obtaining the approvals of the relevant PRC authorities, with a proposed total investment amount of RMB30,000,000 and a proposed total registered capital of RMB15,000,000.

Further details of the proposed formation of the Joint Venture were disclosed in an announcement made by the Company on 22 August 2012.

20. APPROVAL OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 30 August 2012.

* For identification purpose only

Management Discussion and Analysis

MARKET REVIEW

Market Overview

As affected by macroeconomic environment, 2012 is a year full of challenges. The operating environment in both Mainland China and Hong Kong was an acute test of the market's mettle in the first half. The impact of European debt crisis continued to perplex the global market and was augmented by the unpromising US economic recovery; as a result, the global financial market was volatile with external environment seeing signs of downward risk. The major regions of the Group's operation were affected by external economic factors with consumer conation dampened significantly, and the luxury goods market was hit hard. Therefore, the consumer markets in Mainland China, Hong Kong and Macau slowed down during the period under review.

Hong Kong Retail Market

Hong Kong's economic growth recorded a significant decrease over the corresponding period last year amid the uncertain external factors. The local GDP growth was 0.9% in the first half, representing a decrease of 5.4 percentage points on a year-on-year basis. Its retail market was also affected due to weakening stimulation effect of the Individual Visit Scheme to Hong Kong's retail sector, resulting in slower sales along with an overall decline of the market. In the first half of 2012, total sales of the retail sector saw an increase of only 11% over the corresponding period last year, reflecting the declining purchasing power of Mainland tourists. Even during April to June of 2012 when Hong Kong's unemployment rate was within a low level of 3.2%, the volatile stock markets have eroded consumption confidence of Hong Kong people, contributing to a slower sales in the period.

Mainland China Retail Market

As the world's second largest economy, China was also dragged down by external market conditions. Both its economic growth and retail market consumption witnessed a slowdown. According to the data of the National Bureau of Statistics, in the first half of 2012, China's GDP recorded an increase of only 7.8% over the corresponding period last year, the lowest increment in three years. Uncertainties in the economic environment has hurt the consumer confidence, in particular, the consumption markets in the first and second-tier cities. In the first half, the real estate and stock markets were volatile and the growth of overall retail and luxury goods consumption was slowing down significantly. As the China Central Government maintained its target of stable growth, which in turn mitigates some of the external influences. Therefore, China is still poised for a relatively high growth environment. Excluding the pricing factor, the disposable income per capita of urban residents increased by 9.7% in the first half of 2012. Overall, China's enormous consumption power was weakened, amidst the uncertain economic factors, even though the disposable income of the affluent sector saw continuous growth.

Macau Retail Market

In Macau, despite the uncertainties in its economy and travel business, its gambling industry was still able to develop steadily. Revenue from gambling in Macau was MOP148.7 billion, up by 19.8% over the corresponding period last year. Macau also saw a continuous increase in visitor arrivals. The visitor arrivals reached approximately 13.6 million in the first half of 2012, a year-on-year increase of 2.5%, of which visitors from Mainland China accounted for 59.7%. Stimulated by the continuous increase in visitor arrivals, the retail industry was developing vigorously. 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

The Period under review saw a very tough operating environment, and as disclosed in the profit warning announcement made by the Company on 24 April 2012, the business operation and financial performance of the Group was significantly affected. “Milan Station” and “France Station” retail chains operated under the Group had a total of 16 shops in Hong Kong, Mainland China and Macau, with total revenue amounting to approximately HK\$374.3 million, representing a year-on-year decrease of approximately 13.0%. Total revenue contributed by Hong Kong, Mainland China and Macau markets were 81.4%, 11.5% and 7.1% respectively; gross profit margins for Hong Kong, Mainland China and Macau were 21.1%, 28.9% and 30.6% respectively. As the consumer markets in Hong Kong and Mainland China were affected by general downturn of consumer sentiment in the first half of 2012, and the result of the increase in selling expenses, administrative expenses and other operating expenses, the profit of the Group recorded for the Period was only HK\$386,000.

Hong Kong

In the first half of 2012, the growth of visitor arrivals in Hong Kong from Mainland China had slowed down with the impact of Individual Visit Scheme weakening, combined with a higher sales base last year, resulting an approximately 18.4% decrease in sales of the Hong Kong operation to approximately HK\$304.6 million during the reporting period.

Since the Company was successfully listed last year, its unique operation model has extensively recognised by the market and investors, and attracted many local and overseas operators to enter into this segment market, which has affected the Group to a certain extent. However, as a pioneer in the industry, the Group enjoys higher brand awareness and reputation; and the strength of its brand built up over many years has enabled the Group to maintain its advantages in the competitive industry environment. Also, the Group is committed to provide “Genuine and Certified” trendy 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 measures helped the Group consolidate its market position and drove its continuous growth forward.

Under the current weak consumer sentiment, the Group adjusted its product portfolio during the period, adding products more readily affordable to increase sales, such as mid-range and fast-moving products. During the reporting period, the sales amount and volume for products with prices ranging from HK\$30,001 to HK\$50,000 recorded an increase of 5.7% to approximately HK\$16.8 million and 6.7% to 433 pieces, respectively, which accounted for 5.5% of total sales of the Hong Kong retail operation. This had fully demonstrated the sound marketing sense of the management team of the Group, and highlighted their ability to cater for market changes and the changing taste and preference of consumers. Furthermore, the Group also captured the opportunities brought by the economic downturn in stocking up goods at more cost-effective prices, and had repurchased highly sought-after limited edition products (which saw solid demand) from the market, while waiting for an economic upturn.

Meanwhile, the Group reviewed and adjusted its retail shop portfolio from time to time based on changing market environment during the period, as well as optimised the sales strategy on different retail shops to maintain the business competitiveness of retail shops in different regions. To cope with the pressure of rental costs, the Group selected the sites for shops on a more stringent basis to control its rents at normal levels. As such, the Group’s “France Station” retail shop at Russell Street in Causeway Bay had moved to Sharp Street East in Causeway Bay (*Note 1*) when its lease was expired in May 2012 in order to increase cost efficiency.

Management Discussion and Analysis

To enhance its brand image, consolidate its corporate reputation and market leading position, the Group has implemented diversified and multi-channel advertising and promotion strategies. The Group continues to cooperate 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”. It also stepped up marketing effort by organising promotional activities in social media networks and various media platforms, and placing advertisements in various large outdoor billboards in commercial areas with high pedestrian flow and MTR stations, to enhance its brand marketing. The Group participated in sponsoring movies and recreational activities to reach its target customers, including the “Lu Chen Magic World Tour - Hong Kong”(劉謙世界魔術巡迴之旅香港站) show, the charity movie premiere of “A Simple Life” and “Spider Man”. The Group further launched discount benefits in important festivals, such as during Easter, Mother’s Day and Labor Day holidays to attract target customers. As at 30 June 2012, the registered members of “Milan Station Loyalty Membership Scheme” had reached 11,824. The Group also actively participates in social welfare activities, and makes donations to the charities, including “The Community Chest” and “Hong Kong Early Psychosis Intervention Society”, to fulfill its corporate social responsibility.

In order to develop the overseas markets and mitigate the overall rental pressure, the Group has started to cooperate with a major online platform operator to develop online sales platform since July last year. Its operation is becoming more and more matured with a contribution of approximately HK\$2.1 million during the Period. The Group believes that the online market has a great development potential with cost effectiveness, and is actively exploring other feasible online operation models to broaden its channels of customer reach. Also, the Group hopes to provide the most fashionable branded handbags and fashion information through the online platform, to enhance the brand influence of “Milan Station”. The Group has also actively explored new sales channels during the period to increase sales.

Note 1: The Group terminated the lease agreement of the “France Station” shop at Russell Street in Causeway Bay on 22 May 2012 and moved it to Sharp Street East in Causeway Bay which is more cost-effective.

Mainland China

During the reporting period, sales performance of the retail shops in Beijing was lower than the corresponding period last year, amid sluggish consumer sentiment. The Group’s two Shanghai retail shops, located in Jingan District and Changning District, commenced their businesses in the second half of 2011 and were also affected by the prevailing macroeconomic environment, failing to significantly lift Mainland China sales for the Group. Total sales of the Group for the period in Mainland China region only represented an increase of approximately 30.5% over the corresponding period last year, reaching approximately HK\$43.2 million. Nevertheless, the contribution of two new shops in Shanghai had successfully enlarged the proportion of total revenue from Mainland China business attributable to the total revenue for the Period of the Group. During the reporting period, the Group operated four “Milan Station” retail shops in two major cities, Beijing and Shanghai, in Mainland China (*Note 2*).

In 2008, the Group started to develop the second-hand luxury brand market in Mainland China. Through years of efforts, the Group has grasped both the consumer behavior and consumer market conditions in Mainland China and accumulated certain experience in the procurement and sales of second-hand handbag products. Currently, it has successfully penetrated into major Mainland cities, including Beijing and Shanghai. The Group slowed down the pace of business development based on market condition during the period and adopted a cautious approach in identifying new shop locations in target cities for negotiations. The Group will continue to develop the Beijing market, given its huge potential in its luxury products market. The new shops in Wangfujing and Wangjiing in Beijing are scheduled to open, respectively, in the third and fourth quarter of 2012. In addition, the Group intended to enter the Guangzhou market by the end of 2012 and open new shop in Zhujiang New Town.

Management Discussion and Analysis

To further strengthen the brand advantages of “Milan Station”, the Group held various marketing initiatives in Mainland China, which can help to promote brand image and stimulating sales. The major marketing promotion activities comprised the cooperation with other renowned luxury brands, financial institutions and luxury goods websites, as well as hosting exhibition to display and sell the Group’s products, in which, they will not only enhance the brand profile but also attain promotion effectiveness.

With the emergence of China’s middle class and their increasing demand on brands, tastes and their consumption power will continue to benefit the retail market in China. In response to this, on 22 August 2012, the Group, through Milan Station (PRC) Limited, an indirectly wholly-owned subsidiary of the Company, had entered into an agreement with an Independent Third Party for proposed formation of a joint venture in Hong Kong, for the purpose of operating a retail shop under the brand “Milan Station” in Chengdu, poising its PRC business for further expansion, which marked a significant milestone for the Company as this is its first move into western China and an important step in the Group’s PRC expansion plan.

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.

Macau

During the reporting period, the Group operated one “Milan Station” retail shop in Rua de S. Domingos, Macau. In the first half of 2012, total sales recorded by the shop were approximately HK\$26.5 million, achieving a satisfactory performance with an increase of 10.9% over the corresponding period last year.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The table below sets out the breakdown of the Group's revenue recorded for the six months ended 30 June 2012 and 2011 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 six months ended 30 June				Percentage change in revenue (%)
	2012		2011		
	HK\$ million	(Percentage of total revenue)	HK\$ million	(Percentage of total revenue)	
By product categories (handbags and other products)					
Handbags	367.3	98.1	427.3	99.3	(14.0)
Other products	7.0	1.9	2.9	0.7	141.4
Total	374.3	100.0	430.2	100.0	(13.0)
By product categories (unused and second-hand products)					
Unused products	217.3	58.1	233.8	54.3	(7.1)
Second-hand products	157.0	41.9	196.4	45.7	(20.1)
Total	374.3	100.0	430.2	100.0	(13.0)
By price range of products					
Within HK\$10,000	91.4	24.4	96.5	22.5	(5.3)
HK\$10,001 – HK\$30,000	61.8	16.5	69.9	16.2	(11.6)
HK\$30,001 – HK\$50,000	21.0	5.6	18.0	4.2	16.7
Above HK\$50,000	200.1	53.5	245.8	57.1	(18.6)
Total	374.3	100.0	430.2	100.0	(13.0)
By geographical locations					
Hong Kong	304.6	81.4	373.2	86.8	(18.4)
Mainland China ⁽¹⁾	43.2	11.5	33.1	7.7	30.5
Macau	26.5	7.1	23.9	5.5	10.9
Total	374.3	100.0	430.2	100.0	(13.0)

(1) The first and the second retail shops in Mainland China, 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 Mainland China, located at Jingan District and Changning District, Shanghai, commenced its business in August 2011 and December 2011, respectively.

Management Discussion and Analysis

Cost of sales

For the six months ended 30 June 2012, cost of sales of the Group was approximately HK\$296.3 million, decreased by 8.1% year-on-year. Cost of sales mainly consists of cost of inventories sold by the Group's suppliers.

Gross profit and gross profit margin

Along with the general downturn of consumer sentiment in both China and Hong Kong in the first half of 2012, sales of the Group were affected with both the gross profit and gross profit margin decreasing correspondingly. Furthermore, the launching of discount benefits by the Group in important festivals to attract customers for purpose of stimulating sales had also affected the overall gross profit and gross profit margin of the Group. Gross profit of the Group for the period decreased by HK\$29.6 million to approximately HK\$78.1 million, with its gross profit margin decreased by 4.1 percentage points to 20.9%.

By product prices breakdown, premium priced products of above HK\$50,000 were significantly affected with gross profit and gross profit margin dropped by 35.5% and 4.6 percentage points respectively. High price tag handbags were hardest hit in the slowing down of luxury products market. However, gross profit margin for handbags products with price ranging from HK\$30,001 to HK\$50,000 was still able to maintain a stable level, with a slight increase in gross profit, reflecting the products in this price range were still in strong demand by consumers despite the tough retail environment, and able to maintain the competition edge.

The table below sets out the breakdown of the Group's gross profit and gross profit margin recorded for the six months ended 30 June 2012 and 2011 by product categories, price range of products and geographical locations:

	For the six months ended 30 June				Change (%)
	2012		2011		
	Gross profit HK\$ million	Gross profit margin (%)	Gross profit HK\$ million	Gross profit margin (%)	
By product categories (handbags and other products)					
Handbags ⁽¹⁾	83.2	22.7	109.0	25.5	(23.7)
Other products ⁽¹⁾	1.7	24.3	0.8	27.6	112.5
Less: provision for slow-moving inventories, inventories written off and other costs	(6.8)		(2.1)		
Total	78.1	20.9	107.7	25.0	(27.5)
By product categories (unused and second-hand products)					
Unused products ⁽¹⁾	39.1	18.0	50.0	21.4	(21.8)
Second-hand products ⁽¹⁾	45.8	29.2	59.8	30.4	(23.4)
Less: provision for slow-moving inventories, inventories written off and other costs	(6.8)		(2.1)		
Total	78.1	20.9	107.7	25.0	(27.5)

Management Discussion and Analysis

	For the six months ended 30 June				Change
	2012		2011		
	Gross profit HK\$ million	Gross profit margin (%)	Gross profit HK\$ million	Gross profit margin (%)	(%)
By price range of products					
Within HK\$10,000 ⁽¹⁾	28.9	31.6	32.5	33.7	(11.1)
HK\$10,001 – HK\$30,000 ⁽¹⁾	16.2	26.2	18.7	26.8	(13.4)
HK\$30,001 – HK\$50,000 ⁽¹⁾	4.4	21.0	3.7	20.6	18.9
Above HK\$50,000 ⁽¹⁾	35.4	17.7	54.9	22.3	(35.5)
Less: provision for slow-moving inventories, inventories written off and other costs	(6.8)		(2.1)		
Total	78.1	20.9	107.7	25.0	(27.5)
By geographical locations					
Hong Kong ⁽¹⁾	64.3	21.1	90.0	24.1	(28.6)
Mainland China ^{(1) and (2)}	12.5	28.9	12.1	36.6	3.3
Macau ⁽¹⁾	8.1	30.6	7.7	32.2	5.2
Less: provision for slow-moving inventories, inventories written off and other costs	(6.8)		(2.1)		
Total	78.1	20.9	107.7	25.0	(27.5)

(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 Mainland China, 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 Mainland China, 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 30 June 2012 and 31 December 2011 were approximately HK\$117.0 million and approximately HK\$154.2 million, respectively. The total inventories of the Group are presented after netting of provision for slow-moving inventories.

Management Discussion and Analysis

The following table sets forth an aging analysis of inventories for the Group's handbag products as at 30 June 2012 and 31 December 2011:

	As at 30 June 2012	As at 31 December 2011
	HK\$'000	HK\$'000
Aging of inventories (handbags products)		
0 to 90 days	50,468	93,184
91 to 180 days	31,162	40,730
181 days to 1 year	28,408	16,943
Over 1 year	5,853	2,529
Total	115,891	153,386

The following table sets forth an aging analysis of inventories for the Group's other products as at 30 June 2012 and 31 December 2011:

	As at 30 June 2012	As at 31 December 2011
	HK\$'000	HK\$'000
Aging of inventories (other products)		
0 to 45 days	265	291
46 to 90 days	289	248
91 days to 1 year	522	235
Over 1 year	22	3
Total	1,098	777

Management Discussion and Analysis

The following table sets forth an aging analysis of inventories for the Group's premium priced handbag products over HK\$50,000 as at 30 June 2012 and 31 December 2011:

	As at 30 June 2012	As at 31 December 2011
	HK\$'000	HK\$'000
Aging of inventories (handbags products over HK\$50,000)		
0 to 90 days	24,512	61,949
91 to 180 days	21,200	29,725
181 days to 1 year	20,056	9,416
Over 1 year	2,830	398
Total	68,598	101,488

In view of preparing for store expansion as well as the launch of a new online sales channel, the Group took a proactive step to accumulate more inventory in category with price range over HK\$50,000 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. The Group is exploring and expanding sales channels with cost effectiveness and reinforcing marketing and promotion activities, so as to reduce its slow-moving inventories and increase its sales volume and profit.

Other income and gains

Other income and gains amounted to approximately HK\$4.7 million, increased by HK\$1.4 million as compared to corresponding period last year, this was primarily attributable to the increase of bank interest income amounting to HK\$0.5 million generated in the Period and the HK\$0.6 million generated from write-back of provision of a claim.

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 six months ended 30 June 2012, selling expenses of the Group were approximately HK\$54.1 million, representing 14.5% of its revenue (six months ended 30 June 2011: approximately HK\$49.4 million, representing 11.5% of revenue). Selling expenses continued to grow during the period under review, mainly due to an increase in rent and rates of retail shops and advertising expenses.

Management Discussion and Analysis

Of the selling expenses, approximately HK\$2.6 million were advertising expenses, increased by approximately HK\$1.4 million as compared to the corresponding period last year, accounting for approximately 0.7% of total turnover, representing an increase of 0.4 percentage points as compared to approximately 0.3% recorded during the corresponding period 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 six months ended 30 June 2012 amounted to approximately HK\$25.6 million, increased by approximately HK\$7.1 million as compared to the corresponding period last year, representing approximately 6.8% of the turnover. The Group's administrative and other operating expenses mainly consist of directors' remuneration, 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\$98,000 as in first half of 2011 to HK\$638,000 in the current period, which was mainly attributable to the Group's interest-bearing bank borrowings financed during the Period for the acquisition of a property.

Profit attributable to equity holders

Profit attributable to equity holders of the Company for the six months ended 30 June 2012 was approximately HK\$0.4 million, representing a decrease of 98.8%. Net profit margin decreased by 7.8 percentage points to 0.1% (six months ended 30 June 2011: 7.9%). Earnings per share were HK0.06 cent, decreased by 99.0% as compared to the corresponding period last year.

Employees and remuneration policy

As at 30 June 2012, the Group had a total of 161 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.

Liquidity and financial resources

As at 30 June 2012, the Group had total interest-bearing bank borrowings of approximately HK\$38.3 million (31 December 2011: Nil). Except for the bank loan of HK\$2.1 million which is denominated in Renminbi, the remaining borrowing is denominated in Hong Kong dollars. The bank loans bear interest at prevailing commercial lending rates. The Group's property were pledged to secure the bank borrowings. It is expected that all the borrowings will be repaid by internal generated funds.

Management Discussion and Analysis

As at 30 June 2012, the Group's total balance of cash and cash equivalents, total liabilities and shareholders' equity were approximately HK\$144.4 million, HK\$60.0 million and HK\$367.8 million respectively (31 December 2011: approximately HK\$176.5 million, HK\$28.3 million and HK\$371.6 million respectively). The Group's gearing ratio (*Note 1*), current ratio (*Note 2*) and quick ratio (*Note 3*) as at 30 June 2012 were approximately 9.0%, 5.1 and 3.2, respectively (31 December 2011: 0.1%, 13.0 and 7.5 respectively). 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.

Notes:

1. Gearing ratio is calculated based on the borrowings and obligations under finance leases divided by total assets at the end of the Period and multiplied by 100%.
2. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the Period.
3. 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 Period.

Pledge of assets

At 30 June 2012, the Group's property and the Group's bank deposits of HK\$21.6 million were pledged to banks to secure the bank borrowings and general banking facilities granted to the Group.

Foreign exchange policy

The Group carries on its trading transactions mainly in HK dollars, RMB and US dollars. 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

As at 30 June 2012, the Group did not have any significant contingent liabilities.

Capital commitments

The Group's capital commitment on property, plant and equipment amounted to approximately HK\$2.7 million as at 30 June 2012.

OUTLOOK

In the second half of 2012, the turmoil in the global economy and turbulent capital markets will continue to affect consumer sentiment. The China Central Government expects that the economic growth rate of China for the year will be about 7.5%. The Group expects that the growth of the luxury products market will slow down in line with China and Hong Kong's economy, with consumption and purchasing power still remaining weak. The Group is of the opinion that the situation is only a temporary adjustment and the policy of the China Central Government to stimulate domestic consumption still remain unchanged. The Group believes that the consumer markets in Mainland China and Hong Kong will gradually improve in the future. With the emergence of China's middle class and their increasing demand on brands, tastes and their consumption power will continue to drive the high-end luxury brand handbags market and sales business in different regions in the long run. Moreover, the Group expects that the various economic and business policies will remain relatively stable and that market condition will improve in the second half. As a result, with the steady growing momentum of China's economic development remaining unchanged, the Groups remains cautiously optimistic regarding the economic outlook in the second half of the year.

Development Strategy

In the future, the Group will continue to build on the target of consolidating its leading market position in Hong Kong, with the core development strategy of prudently developing the markets in Mainland China. In facing the weak economic environment and consumer markets, the management is aware that the luxury products retail markets might encounter with many difficulties. The Group is well prepared to cope with the challenges in the second half. As these adverse factors are expected to continue affecting the global economy, the Group will closely monitor the market conditions to refine its positioning.

As the Group's principal place of business, Hong Kong contributes most of the Group's revenue. The competition in the "second-hand branded" product market is intensifying in Hong Kong. In light of the future challenges, the Group will keep up with the changing market business environment to consolidate its competitiveness and leading position in Hong Kong luxury products market through optimising the existing retail shop portfolio, exploring and expanding sales channels with cost effectiveness, reinforcing marketing and promotion activities, and improving the marketing strategies based on consumption characteristics in different regional markets. As a pioneer being successfully aware of modern city life model and changing fashion trend, the Group will identify more popular mid-range and fast-moving products for its customers suiting consumers' ever-changing tastes, so as to increase its sales volume and profits. In facing the changing market environment, the Group will grasp the market opportunities that arise and pursue business opportunities with development potential. The Group will also make other new attempts in the core business of the second-hand luxury branded handbags, to enhance its competitiveness in the second-hand luxury branded handbags market in Hong Kong.

Management Discussion and Analysis

For the market in Mainland China, the Group's successful experience in developing the retail business in Beijing and Shanghai has consolidated its confidence in expanding Mainland China market. The sales network of the Group will continue to expand into the core business districts in Beijing and Shanghai, and the Group will identify other Mainland cities with growth potential to prudently expand the Group's second-hand branded handbags business. The Group will prudently identify the locations of new stores, and focus mainly in cities with relatively higher per capita income and consumption power, particularly premier business areas in cities where many international brands have already established their presence. In the meantime, the Group will also step up its efforts in brand promotion in Mainland China. Currently, the Group has enjoyed relatively high brand recognition in cities such as Beijing and Shanghai. The Group will continue to deepen the Mainland consumers' understanding and acceptance of "second-hand branded" products through active media public relations, market promotion activities and marketing consumption education etc. While expanding the Group's potential customer base, this will also lay a good foundation for the Group's expansion into other cities in Mainland China.

Furthermore, the Group will actively expand the internet sales platform business by fully leveraging on the advantage of the no-boundaries characteristic of the online sales platform, which it will enable the Group to expand its market share and sales at lower operating costs. Apart from continuing cooperation with website operators, the Group is continuously exploring the feasibility of developing its own online purchasing platform to enhance its brand value and website management flexibility. At the same time, the Group will continue to enrich product portfolios of the online sales operation to cater for the consumer needs in different markets. Moreover, Milan Station will capture the opportunities under the current economic environment to be prepared in purchasing products with limited editions and with appreciation potential at competitive prices so as to sell them when economy upturns in the future.

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

As at 30 June 2012, 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 of Hong Kong Limited (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 (the "Model Code") 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

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

Notes:

- 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.
- 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			Approximate percentage of issued share capital
	Personal Interest	Family Interest	Total	
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 30 June 2012, 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.

Additional Information

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. The movements in share options granted under the share option scheme adopted by the Company on 28 April 2011 during the six months ended 30 June 2012 are shown below:

Name or category of participant	Number of share options						At 30 June 2012	Date of grant of share options	Validity period of share options	Exercise price of share options HK\$ per share
	At 1 January 2012	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period	Lapsed during the period				
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	-	-	-	-	(350,000)	4,200,000	13-12-11	13-12-11 to 12-12-16	1.384
	11,750,000	-	-	-	-	(350,000)	11,400,000			

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

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

As at 30 June 2012, 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 <i>(Note 1)</i>	-	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 <i>(Note 2)</i>	2,000,000 <i>(Note 3)</i>	489,500,000	72.59%

Notes:

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.
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.
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 30 June 2012, 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.

Additional Information

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

The proceeds from the Listing, after deduction of related issuance expenses, amounted to approximately HK\$202.7 million. Up to 30 June 2012, approximately HK\$88.3 million has been utilised, of which (i) HK\$41.7 million was applied for expansion of retail network in Mainland China market; (ii) HK\$3.3 million was applied for relocating a total of three existing shops in Hong Kong; redecorating a total of eight existing shops in Hong Kong, Mainland China and Macau; and decorating one new retail shop in Hong Kong; (iii) HK\$2.7 million was applied for marketing and promotion of the Group; (iv) HK\$2.4 million was applied for exploration of online sales channel; (v) HK\$0.6 million was applied for upgrade of the Group's information technology system; (vi) HK\$0.1 million was applied for staff training and development; and (vii) HK\$37.5 million was applied for acquisition of a property for own use.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2012, the Company had complied with all applicable provisions under the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) (collectively the "Code") as set out in Appendix 14 to the Listing Rules save as disclosed below.

Code provision A.2.1 of the Code requires the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Mr. Yiu Kwan Tat ("Mr. Yiu") is the chairman and the chief executive officer of the Company. The Board believes that this structure of having Mr. Yiu acting as both the chairman and the chief executive officer of the Group is conducive 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 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 throughout the six months ended 30 June 2012.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Mr. So, Stephen Hon Cheung (Chairman), Mr. Ip Shu Kwan, Stephen and Mr. Lau Kin Hok. The Audit Committee has reviewed with the management of the Company the financial statements of the Group for the six months ended 30 June 2012 and discussed with the management of the Company on auditing, internal control and financial reporting matters.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee with written terms of reference in compliance with the Listing Rules. The Remuneration Committee comprises five members, a majority of whom are independent non-executive Directors, namely Mr. Lau Kin Hok (Chairman), Mr. So, Stephen Hon Cheung, Mr. Ip Shu Kwan, Stephen, Mr. Yiu Kwan Tat and Mr. Wong Hiu Chor. The Remuneration Committee formulates the Company's remuneration policy of Directors and senior management, reviews and determines their remuneration packages and makes recommendations to the Board regarding the remuneration of Directors and senior management.

NOMINATION COMMITTEE

The Company has established a Nomination Committee on 20 January 2012 with written terms of reference in compliance with the Listing Rules. The Nomination Committee comprises five members, a majority of whom are independent non-executive Directors, namely Mr. Yiu Kwan Tat (Chairman), Mr So, Stephen Hon Cheung, Mr. Ip Shu Kwan, Stephen, 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 for directors, in particular the chairman and the chief executive.

Additional Information

INTERNAL CONTROL

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 risk of failure in operational systems and achievements of the Group's business objectives.

The Board has, through the Audit Committee, conducted 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 Board acknowledged the deficiencies and weakness previously identified in the Group's internal control system. Further to the internal control review conducted in March 2012 for the year ended 31 December 2011, the independent internal control consultant conducted further follow-up review throughout the six months ended 30 June 2012. Based on the results of their follow-up reviews, none of these deficiencies or weaknesses was concluded as material and the independent internal control consultant confirmed that the results of these measures as implemented were satisfactory.

The Group has a formal whistle-blowing policy to encourage and guide its staff to raise serious concerns internally in a responsible manner, without fear of retribution. During the period under review, the Board has not been informed any feedback from staff.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: interim dividend and special dividend of HK1.52 cents and HK1.27 cents per ordinary share, respectively).

UPDATED INFORMATION OF DIRECTOR

Pursuant to Rule 13.51B of the Listing Rules, the change in information of Director is as follows:

Mr. Yuen Lai Yan, Darius has been appointed as a non-executive Director on 30 August 2012.

By Order of the Board
Milan Station Holdings Limited
Yiu Kwan Tat
Chairman

Hong Kong, 30 August 2012