Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

MILAN STATION HOLDINGS LIMITED
米 蘭 站 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1150)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2012 was approximately HK$676.4 million, representing a decrease of 23.1% from approximately HK$879.8 million for the year ended 31 December 2011.

- Gross profit for the year ended 31 December 2012 was approximately HK$144.0 million, representing a decrease of 32.5% from approximately HK$213.3 million for the year ended 31 December 2011.

- Loss attributable to equity holders of the Company for the year ended 31 December 2012 was approximately HK$13.9 million, as compared to a profit of approximately HK$48.0 million for the year ended 31 December 2011.

- The Board does not recommend the payment of final dividend for the year ended 31 December 2012.

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of Milan Station Holdings Limited (the "Company") presents the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012 together with the comparative figures for the preceding financial year as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

		2012	2011
	Notes	***HK$'000***	*HK$'000*
REVENUE	*4*	**676,444**	879,802
Cost of sales		**(532,461)**	(666,464)
Gross profit		**143,983**	213,338
Other income and gains	*4*	**9,825**	8,770
Selling expenses		**(109,442)**	(104,151)
Administrative and other operating expenses		**(52,286)**	(53,654)
Finance costs	*5*	**(1,380)**	(220)
PROFIT/(LOSS) BEFORE TAX	*6*	**(9,300)**	64,083
Income tax expense	*7*	**(4,630)**	(16,119)
PROFIT/(LOSS) FOR THE YEAR		**(13,930)**	47,964
Attributable to:			
Equity holders of the company		**(13,918)**	47,964
Non-controlling interests		**(12)**	–
		(13,930)	47,964
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
– Basic and diluted	*9*	**(HK2.06 cents)**	HK7.70 cents

Details of the dividends are disclosed in note 8 to the announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**(13,930)**	47,964
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translating foreign operations	**871**	393
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR	**(13,059)**	48,357
Attributable to:		
Equity holders of the company	**(13,047)**	48,357
Non-controlling interests	**(12)**	–
	(13,059)	48,357

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**97,845**	11,926
Deferred tax assets		**1,928**	1,928
Deposits		**12,828**	21,011
Total non-current assets		**112,601**	34,865
CURRENT ASSETS			
Inventories		**115,386**	154,163
Trade receivables	*11*	**8,314**	9,259
Prepayments, deposits and other receivables		**18,875**	22,624
Tax recoverable		**10,260**	1,017
Pledged deposits		**21,597**	1,503
Cash and cash equivalents		**128,384**	176,539
Total current assets		**302,816**	365,105
CURRENT LIABILITIES			
Accrued liabilities and other payables		**18,758**	21,102
Interest-bearing bank borrowings	*12*	**36,743**	–
Obligations under a finance lease		**112**	112
Tax payable		**630**	5,383
Provision	*13*	**–**	1,407
Total current liabilities		**56,243**	28,004
NET CURRENT ASSETS		**246,573**	337,101
TOTAL ASSETS LESS CURRENT LIABILITIES		**359,174**	371,966

	Notes	**2012**	2011
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Accrued liabilities and other payables		**768**	–
Obligations under a finance lease		**51**	163
Deferred tax liability		**62**	177
Total non-current liabilities		**881**	340
Net assets		**358,293**	371,626
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*14*	**6,744**	6,744
Reserves		**347,789**	364,882
		354,533	371,626
Non-controlling interests		**3,760**	–
Total equity		**358,293**	371,626

Notes:

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 address of the Company is 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 year.

In the opinion of the directors, the ultimate holding company of the Company is Perfect One Enterprises Limited ("Perfect One"), which was 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 (collectively referred to as the "Group") for the year ended 31 December 2012. 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.

The consolidated financial statements for the year ended 31 December 2011 have been prepared in accordance with the merger method of accounting on the basis as if the Company has always been the holding company of its subsidiaries because the Company and the companies then comprising the Group were under common control before and after the group reorganisation as disclosed in the prospectus of the Company dated 11 May 2011. Accordingly, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2011 include the results and cash flows of all companies then comprising the Group, as if the then group structure had been in existence throughout the year ended 31 December 2011, or since their respective dates of incorporation, where this is a shorter period.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it 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 revised HKFRSs for the first time for the current year's 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*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the above revised HKFRSs has had no significant financial effect on the financial statements.

3. 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 locations of the customers, and the non-current assets information is based on the locations of the assets.

	Hong Kong	Macau	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2012				
Revenue from external customers	**548,575**	**48,400**	**79,469**	**676,444**
Non-current assets	**94,109**	**127**	**6,686**	**100,922**
Capital expenditure	**94,778**	**169**	**2,839**	**97,786**
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

The non-current asset 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 (2011: Nil) and no information about major customers is presented accordingly.

4. 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:

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**676,444**	879,802
Other income and gains		
Bank interest income	**1,178**	1,260
Gain on disposal of items of property, plant and equipment	**1,029**	–
Gross rental income	**6,960**	6,670
Others	**658**	840
	9,825	8,770
	686,269	888,572

5. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest on:		
Bank overdrafts	**–**	12
Bank loans wholly repayable:		
Within five years	**121**	189
Over five years	**1,246**	–
Finance lease	**13**	19
	1,380	220

6. PROFIT/(LOSS) BEFORE TAX

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

	2012	2011
	HK$'000	*HK$'000*
Cost of inventories sold	**532,461**	666,464
Provision for slow-moving inventories	**7,411**	8,039
Depreciation	**8,646**	4,717
Minimum lease payments under operating leases in respect of land and buildings	**67,096**	64,252
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	**30,616**	32,768
Pension scheme contributions	**1,048**	993
Equity-settled share option expense	**–**	2,241
	31,664	36,002
Gain on disposal of items of property, plant and equipment	**(1,029)**	–
Bank interest income	**(1,178)**	(1,260)

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits 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% (2011: 25%) on their taxable profits. Macau complementary tax has been provided at progressive rates up to a maximum of 12% (2011: 12%) on the estimated taxable profits.

	2012	2011
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**4,427**	12,890
Overprovision in prior years	**(102)**	(243)
Current – Elsewhere		
Charge for the year	**364**	4,090
Underprovision in prior years	**56**	79
Deferred	**(115)**	(697)
Total tax charge for the year	**4,630**	16,119

8. DIVIDENDS

	2012	2011
	HK$'000	*HK$'000*
Interim – Nil (2011: HK1.52 cents) per ordinary share	**–**	10,250
Special – Nil (2011: HK1.27 cents) per ordinary share	**–**	8,565
	–	18,815
Proposed final – Nil (2011: HK0.60 cent) per ordinary share	–	4,046

No dividend was proposed during the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period.

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amount is based on the loss for the year attributable to equity holders of the Company of HK$13,918,000 (2011: profit of HK$47,964,000) and the ordinary shares of 674,374,000 (2011: weighted average number of ordinary shares of 622,513,677) 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 14)* as if the shares had been in issue throughout the year ended 31 December 2011, 132,788,000 ordinary shares issued in connection with the listing of the Company's ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including 24,374,000 ordinary shares issued on 26 May 2011 upon exercise of the over-allotment option.

No adjustment has been made to the basic earnings/(loss) per share amount presented for the years ended 31 December 2012 and 2011 as the share options in issue during those years have no dilutive effect.

10. PROPERTY, PLANT AND EQUIPMENT

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

11. 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. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on invoice date, is as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 1 month	**6,465**	9,259
1 to 2 months	**1,326**	–
2 to 3 months	**523**	–
	8,314	9,259

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**8,125**	9,259
1 to 2 months past due	**189**	–
	8,314	9,259

All receivables that were neither past due nor impaired relate to receivables from a number of customers for whom there was no recent history of default.

12. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	**Maturity**	**2012**	2011
	(%)		***HK$'000***	*HK$'000*
Current				
Bank loan – secured	3.75 (2011: N/A)	On demand	**34,618**	–
Bank loan – unsecured	7.20 (2011: N/A)	2013	**2,125**	–
			36,743	–

As at 31 December 2012, except for a bank loan of approximately HK$2,125,000 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$34,618,000 (2011: Nil) as at 31 December 2012 containing a repayment on demand clause is included within current interest-bearing bank borrowings and analysed into bank loans payable within one year or on demand.

Based on the maturity terms of the bank loans, the amounts repayable in respect of the bank loans are: HK$5,385,000 (2011: Nil) repayable within one year or on demand as at 31 December 2012; HK$3,385,000 (2011: Nil) repayable in the second year as at 31 December 2012; HK$10,945,000 (2011: Nil) repayable in the third to fifth years, inclusive, as at 31 December 2012; and HK$17,028,000 (2011: Nil) repayable beyond five years as at 31 December 2012.

All borrowings of the Group bear interest at floating interest rates for the year ended 31 December 2012.

As at 31 December 2012, the bank loan facilities were supported by:

(i) a pledge of the Group's land and building with a carrying amount of HK$78,096,000 (2011: Nil);

(ii) a corporate guarantee executed by a subsidiary of the Company to the extent of HK$37,500,000 (2011: Nil); and

(iii) the pledge of bank deposits of HK$21,597,000 (2011: HK$1,503,000).

13. 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 year ended 31 December 2012, 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 consolidated income statement.

14. SHARE CAPITAL

	2012	2011
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.01 each	**20,000**	20,000
Issued and fully paid:		
674,374,000 (2011: 674,374,000) ordinary shares of HK$0.01 each	**6,744**	6,744

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, 1 January 2012 and 31 December 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
Performa 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 31 December 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"), the then equity holder of the Company, 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.

(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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Market overview

The Euro-zone's sovereign debt crisis continued to cast a shadow on the global economy during the first half of 2012, although the situation eased slightly over the second half of the year. Moreover, many countries were holding elections for new governments in the second half of 2012, and the fiscal cliff clouded the economy of the United States. The market outlook still remained uncertain. Against the backdrop of difficult global macroeconomic environment, 2012 was a year full of challenges for the retail sector in both Mainland China and Hong Kong. The major regions of the Group's operations were affected by external economic factors as consumer sentiments there were dampened. The luxury goods market was particularly hard-hit. Therefore, the growth of consumer markets in Mainland China, Hong Kong and Macau slowed down during the year under review.

Hong Kong retail market

Affected by such factors as unstable external economy and China's decelerating economic growth, Hong Kong's GDP growth slowed down to 4.1% in 2012. The city's consumer sentiment and thus its retail market were affected by these factors. Retail sales growth was slowing down when stimulation effect of the Mainland China visitors and the Individual Visit Scheme was ebbing away. Total sales of the retail sector saw an increase of only 9.8% over 2011, which was mainly driven by the sales of sundry consumer durables and electronic products. Even during the period from October to December of 2012 when Hong Kong's unemployment rate stood at a low level of 3.3%, the consumption of Hong Kong people was focused on personal and daily necessities. The luxury goods market was undergoing a lot of challenges.

Mainland China retail market

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, China's GDP recorded an increase of only 7.8% in 2012, the lowest recorded in the past eleven years. Uncertainties in the economic environment hurts consumer confidence, especially those in the first and second-tier cities. The growths of overall retail sales and luxury goods consumption were slowing down significantly. The total retail sales in 2012 amounted to approximately RMB21 trillion, representing a growth of 14.3%, which was 2.8% lower than the retail sales growth of the previous year. However, the growth of Mainland China's market for luxury goods decelerated significantly from 30.0% in 2011 to approximately 7.0% in 2012. Excluding the pricing factor, the disposable income per capita of the country's urban residents increased by 9.6% in 2012. Overall, China's enormous consumption power was whittled away by the weakened consumer sentiment, even though the disposable income of the affluent population saw a continuous growth.

Macau retail market

Although Macau's economy was also affected by the macroeconomic environment, the management believes the city's gaming and tourism industry were still able to develop steadily. The overall revenue from gaming in Macau was approximately MOP305.2 billion in 2012, up 13.4% over the previous year. Macau also saw a continuous increase in visitor arrivals. The visitor arrivals increased by 0.3% to approximately 28.1 million in 2012. Mainland China accounted for 60.2% of the visitor arrivals. Stimulated by the continuous increase in visitor arrivals, the retail industry was developing vigorously. At the same time, various five-star hotels and large shopping centers and casinos were completed one after another, and thereby successfully attracted more international renowned brands to enter Macau so that luxury goods market has been further expanded.

BUSINESS REVIEW

During the year ended 31 December 2012, the operating environment was very tough for the luxury goods retail sector where the business operation of the Group was significantly affected. The "Milan Station" and "France Station" retail shops operated under the Group had a total of 15 shops in Hong Kong, Mainland China and Macau and one discount outlet in Hong Kong. Total revenue amounted to approximately HK$676.4 million, down by approximately 23.1% that of the year ended 31 December 2011. Revenues contributed by Hong Kong, Mainland China and Macau markets were 81.1%, 11.7% and 7.2% respectively of the total. Gross profit margins excluded provision for slow-moving inventories, inventories written off and other cost of the Group's operations in Hong Kong, Mainland China and Macau were 20.9%, 27.7% and 30.4% respectively. As the consumer markets in Hong Kong and Mainland China were affected by weakened consumer sentiment in 2012, the luxury handbags retail market continued to slow down. In addition, selling expenses and finance costs increased for the year ended 31 December 2012. As a result, the Group recorded a loss of approximately HK$13.9 million for the year ended 31 December 2012.

Hong Kong

Since the Company was successfully listed on the Stock Exchange, its unique operation model has been extensively recognised by the market and investors, and many local and overseas operators were attracted to join the competition. Competitive pressure was mounting on the business of the Group. However, as a pioneer in the industry, the Group has over the years built a high reputation and increased the market's awareness of its brand. This has enabled the Group to maintain its edge in the competitive industry environment. Also, the Group is committed to providing "Genuine and Certified" trendy products for its customers. To fulfill the mission, the Group has formulated a series of stringent and systematic product certification programmes and has formed a team of professionally trained staff responsible for executing the product inspection process. These measures have helped the Group to consolidate its position and drive its continuous growth.

The Group's business in Hong Kong has matured and with a higher base factor in 2011. As a result of the continuing slowdown in retail market for luxury bags in 2012, revenue of its Hong Kong business amounted to approximately HK$548.6 million during the year under review, representing a decrease of 27.4% as compared to the previous year. Although visitor arrivals in Hong Kong from Mainland China continued to grow during the year, the structure of the visitor arrivals changed significantly. The proportion of visitors from Mainland China's second-tier cities in the country's total visitor arrivals to Hong Kong increased from 43.0% in 2011 to 65.0% in 2012. However, visitors from second-tier cities of the PRC had relatively lower purchasing powers than those customers originating from the first-tier cities of the PRC, and mostly bought mid-priced products. At the same time, owing to the depreciation of Euro currency, more Mainland China tourists prefer to buy luxury brands directly in Europe, and this also affected the sales of high-priced luxury goods. To cope with the changes, the Group adjusted its product portfolio during the year according to market demand, adding more affordable goods such as mid-priced and fast-moving products to increase sales. During the year ended 31 December 2012, the proportion of sales of the Group's products with prices ranging from HK$10,001 to HK$30,000 to its total sales in Hong Kong increased to 17.6% in 2012 from 14.4% in 2011, and the proportion of sales of its products with prices ranging from HK$30,001 to HK$50,000 to its total sales in Hong Kong was slightly increased to 5.8% in 2012 from 4.9% in 2011. This fully demonstrated the sound marketing sense of the Group's management team, and highlighted their ability to cater for market changes and consumers' changing taste and preference. Furthermore, the Group carried out inventory and cash flow management proactively, and opened one discount outlet in the vicinity of the shop at Chatham Road in Tsim Sha Tsui (as the lease was expired, the business of this discount outlet was closed down in mid-December 2012, which was moved to Sharp Street East in Causeway Bay to continue its operation) with the purpose of improving inventory turnover and alleviating the inventory pressure.

The Group reviewed and adjusted its retail shop portfolio from time to time to adopt to changing market environment, as well as optimised the sales strategy on different retail shops and raised their efficiency to enhance their competitiveness in different regions. During the year ended 31 December 2012, to cope with the rising rental costs, the Group selected the sites for shops on a more stringent basis to control its rents at healthy and rational target level. As such, the Group's "France Station" retail shop at Percival Street in Causeway Bay was moved to Sharp Street East in Causeway Bay *(Note 1)* when its lease was expired in May 2012. The pedestrian flow and sales performance of "France Station" was affected because it took time to regain its traction after relocation following the suspension of its business operation for one and a half months during the replacement period in mid 2012. Moreover, "France Station" was impacted by the ongoing renovation works of Times Square in Causeway Bay and the construction works at Sharp Street East in Causeway Bay. Besides, the Group also closed a retail shop in Yuen Long because of low efficiency, in order to improve the overall performance of its retail shops.

Furthermore, the Group also actively expanded its diversified sales channels, included the opening of sales counters on cruise, and also opened sales counters with two duty-free shops in Hong Kong. As the operating costs of these sales channels are relatively low, it will help to further alleviate rental pressure and cover more consumer communities.

To enhance its brand image and consolidate its corporate reputation and leading market position, the Group had implemented the comprehensive and multi-channel advertising and promotion strategies. The Group continued to cooperate with various banks and shops to provide credit card shopping benefits, host various sales promotion events and offer discount benefits to members registered under the "Milan Station Loyalty Membership Scheme". It also stepped up its marketing efforts by organising promotional activities through various traditional medium like the televisions, radio stations and magazines, and new medium such as the social media networks, search engines and websites, and placed various outdoor billboards advertisements in commercial districts, MTR stations and public transports with high pedestrian traffic to enhance its brand marketing. The Group participated in sponsoring movies and recreational activities to reach its target markets, including the Grasshopper VS Softhard Concert (「草蜢森巴大戰軟硬FANS」演唱會), the "Lu Chen Magic World Tour – Hong Kong" (劉謙世界魔術巡迴之旅香港站), and the charity movie premieres of "A Simple Life" and "Spider Man". The Group also introduced discount benefits in important festivals, such as Easter, Mother's Day, Labour Day, National Day and Christmas holidays to attract customers. As at 31 December 2012, the registered members of "Milan Station Loyalty Membership Scheme" totalled to 12,775.

Milan Station also actively participated in social welfare activities, and made total donations of HK$341,000 to the charities, including "The Community Chest", "Hong Kong Early Psychosis Intervention Society" and "Heifer", to fulfill its corporate social responsibility.

In order to enhance the fun of shopping and provide more consumption channels for more customers while mitigating the overall rental pressure to enhance profitability, the Group had cooperated with a major online platform operator to develop the Group's online sales platform since July 2011. Its operation became more and more mature and showed impressive sales performance. In view of the online market having a great development potential with cost effectiveness, the Group established its first directly managed large online shopping platform (milanstation.net) in Hong Kong in October 2012. The Group uploaded photos and information of in-season products and hot-sale products to the online shopping platform for consumers' reference when they shop online. This let consumers enjoy shopping anytime and anywhere. During the year ended 31 December 2012, the Group's online sales contributed approximately HK$5.0 million in revenue. Meanwhile, the Group continued to actively explore new sales channels and marketing strategies in order to boost product sales.

Note 1: The lease agreement of the "France Station" shop at Percival Street in Causeway Bay was expired on 22 May 2012. The shop was moved to Sharp Street East in Causeway Bay where the rent is more cost-effective.

Mainland China

During the year ended 31 December 2012, affected by sluggish consumer sentiment in Mainland China, the overall sales performance of the Group's businesses in the country was lower than that of the previous year. The Group's two Shanghai-based retail shops in Jingan and Changning districts commenced their businesses in the second half of 2011. However, the retail shop in Changning district ceased business in November 2012 due to its lower-than-expected sales performance. Another new retail shop at Wangjing in Beijing commenced its business in September 2012. However, the shops' sales performances were affected by the prevailing macroeconomic environment. Total sales of the Group's businesses in Mainland China increased by 4.5% to approximately HK$79.4 million in 2012. Nevertheless, the contribution of the above three new shops had successfully enlarged the proportion of the Group's Mainland China business in the total revenue for the year. At the end of 2012, the Group operated four "Milan Station" retail shops in two major cities, Beijing and Shanghai, in Mainland China.

In 2008, the Group started to develop the second-hand luxury brand market in Mainland China and grasped the country's consumer market conditions. Meanwhile, it accumulated extensive experience in the procurement and sales of second-hand handbag products there. The Group successfully penetrated the markets of the country's two major cities, i.e. Beijing and Shanghai. Its business in Mainland China was gradually establishing a strong foothold. The Group slowed down the pace of business development according to market conditions during the year ended 31 December 2012 and prudently looked for locations in target cities for its new shops. It reviewed the sales performance and efficiency of its retail shops regularly and adjusted its retail shop portfolio on a timely basis.

During the year ended 31 December 2012, through its indirectly wholly-owned subsidiary Milan Station (PRC) Limited ("MS (PRC)"), the Group entered into an agreement with an independent third party to establish a joint venture in Hong Kong to operate retail shops under the brand "Milan Station" in Chengdu, the PRC. The Group was poised for expanding its PRC business further, which marked a significant milestone for the Group as this is its first move into Western China and an important step in the Group's PRC expansion plan. The first retail shop under the joint venture is expected to commerce operation in Chengdu in the second quarter of 2013.

In addition, in view of the lower-than-expected sales performance of the retail shop in Changning district, Shanghai, the Group adjusted its retail shop portfolio in a timely manner and planned to open a new retail shop at the prime district in Shanghai where pedestrian traffic is high and flourishing.

To further strengthen the brand advantages of "Milan Station", the Group held various marketing initiatives in Mainland China which could help promote brand image and stimulate sales. The major marketing promotion activities comprised the cooperation with other renowned luxury brands, financial institutions and luxury goods websites, as well as hosting exhibitions to display and sell the Group's products, aiming at enhancing the brand image and enabling promotion effectiveness.

Macau

The Group operated one "Milan Station" retail shop in Rua de S. Domingos, Macau. The shop benefited from the steady development of the local gaming and tourism sectors and its total sales in 2012 increased by 1.0% to approximately HK$48.4 million on the back of a stable performance.

FINANCIAL REVIEW

Revenue

During the year under review, revenue decreased to approximately HK$676.4 million, representing a decrease of 23.1% as compared to approximately HK$879.8 million recorded last year. Handbags were the most important product category for the Group, representing over 98.3% of the total revenue of the Group. The revenue generated from the sales of unused products decreased from approximately HK$487.2 million recorded last year, representing 55.4% of the total revenue of the Group, to approximately HK$386.4 million during the year under review, representing 57.1% of the total revenue of the Group.

Revenue generated from the sales of premium priced products above HK$50,000 decreased from approximately HK$506.7 million during last year, representing 57.6% of the total revenue of the Group, to approximately HK$336.6 million during the year under review, representing 49.8% of the total revenue of the Group.

Since most of the retail shops under the brand name of "Milan Station" are located in Hong Kong, the source of revenue also concentrates in the Hong Kong market. For the year ended 31 December 2012, the revenue generated from the Hong Kong market was approximately HK$548.6 million, representing approximately 81.1% of the total revenue of the Group for the year. Revenue generated from Mainland China market increased from approximately HK$76.0 million during last year to approximately HK$79.4 million during the year under review.

The table below sets out the breakdown of the Group's revenue recorded for the years ended 31 December 2012 and 2011 by product categories, by price range of products and by geographical locations and their respective percentages to the total revenue of the Group:

	For the year ended 31 December				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	**665.0**	**98.3**	873.3	99.3	(23.9)
Other products	**11.4**	**1.7**	6.5	0.7	75.4
Total	**676.4**	**100.0**	879.8	100.0	(23.1)
By product categories (unused and second-hand products)					
Unused products	**386.4**	**57.1**	487.2	55.4	(20.7)
Second-hand products	**290.0**	**42.9**	392.6	44.6	(26.1)
Total	**676.4**	**100.0**	879.8	100.0	(23.1)
By price range of products					
Within HK$10,000	**176.8**	**26.1**	194.8	22.1	(9.2)
HK$10,001 – HK$30,000	**123.5**	**18.3**	135.9	15.5	(9.1)
HK$30,001 – HK$50,000	**39.5**	**5.8**	42.4	4.8	(6.8)
Above HK$50,000	**336.6**	**49.8**	506.7	57.6	(33.6)
Total	**676.4**	**100.0**	879.8	100.0	(23.1)
By geographical locations					
Hong Kong	**548.6**	**81.1**	755.9	85.9	(27.4)
The PRC [(1)]	**79.4**	**11.7**	76.0	8.6	4.5
Macau	**48.4**	**7.2**	47.9	5.5	1.0
Total	**676.4**	**100.0**	879.8	100.0	(23.1)

(1) The first and second retail shops in Mainland China, located at China Central Place, Beijing and Sanlitun Road, Beijing, commenced their business in October 2008 and August 2010, respectively. The third and fourth retail shops in Mainland China, located at Jingan District, Shanghai and Changning District, Shanghai, commenced their business in August 2011 and December 2011, respectively. The fifth retail shop in Mainland China, located at Wangjing, Beijing, commenced its business in September 2012. The retail shop located at Changning District, Shanghai was closed down in November 2012.

Cost of sales

For the year ended 31 December 2012, cost of sales for the Group was approximately HK$532.4 million, decreased by 20.1% year-on-year. Cost of sales mainly consisted of cost of inventories sold by the Group's suppliers.

Gross profit and gross profit margin

As the consumer markets in both Hong Kong and China were affected by weakened consumer sentiment in 2012, revenue of the Group together with the gross profit and gross profit margin dropped in 2012. Gross profit of the Group for the year under review decreased by HK$69.3 million to approximately HK$144.0 million, with its gross profit margin decreased by 2.9 percentage points to 21.3%.

By price range of products, gross profit and gross profit margin of premium priced products of above HK$50,000 were significantly affected. Gross profit dropped from HK$110.3 million to HK$56.9 million, representing a decrease of 48.4%, and gross profit margin dropped by 4.9 percentage points respectively for the year under review. High price tag handbags were hit in the slowing down of luxury products market. However, the gross profit margin for handbags products with price ranging from HK$30,001 to HK$50,000 was able to maintain at a stable level, reflecting that the products in this price range became more affordable to consumers when compared with those premium-priced products.

The table below sets out the breakdown of the Group's gross profit and gross profit margin for the years ended 31 December 2012 and 2011 by product categories, price range of products and geographical locations:

	For the year ended 31 December				
	2012		2011		
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin	Change
	HK$ million	***(%)***	*HK$ million*	*(%)*	*(%)*
By product categories (handbags and other products)					
Handbags [1]	**148.2**	22.3	219.4	25.1	(32.5)
Other products [1]	**3.0**	26.3	1.9	29.2	57.9
Less: provision for slow-moving inventories, inventories written off and other costs	**(7.2)**		(8.0)		
Total	**144.0**	21.3	213.3	24.2	(32.5)
By product categories (unused and second-hand products)					
Unused products [1]	**67.5**	17.5	101.6	20.9	(33.6)
Second-hand products [1]	**83.7**	28.9	119.7	30.5	(30.1)
Less: provision for slow-moving inventories, inventories written off and other costs	**(7.2)**		(8.0)		
Total	**144.0**	21.3	213.3	24.2	(32.5)

	For the year ended 31 December				
	2012		2011		
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin	Change
	HK$ million	***(%)***	*HK$ million*	*(%)*	*(%)*
By price range of products					
Within HK$10,000 [(1)]	**54.2**	30.7	65.5	33.6	(17.3)
HK$10,001 – HK$30,000 [(1)]	**31.9**	25.8	36.9	27.2	(13.6)
HK$30,001 – HK$50,000 [(1)]	**8.2**	20.8	8.6	20.3	(4.7)
Above HK$50,000 [(1)]	**56.9**	16.9	110.3	21.8	(48.4)
Less: provision for slow-moving inventories, inventories written off and other costs	**(7.2)**		(8.0)		
Total	**144.0**	21.3	213.3	24.2	(32.5)
By geographical locations					
Hong Kong [(1)]	**114.5**	20.9	180.3	23.9	(36.5)
The PRC [(1) and (2)]	**22.0**	27.7	25.6	33.7	(14.1)
Macau[(1)]	**14.7**	30.4	15.4	32.2	(4.5)
Less: provision for slow-moving inventories, inventories written off and other costs	**(7.2)**		(8.0)		
Total	**144.0**	21.3	213.3	24.2	(32.5)

(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 their business in October 2008 and August 2010, respectively. The third and fourth retail shops in Mainland China, located at Jingan District, Shanghai and Changning District, Shanghai, commenced their business in August 2011 and December 2011, respectively. The fifth retail shop in Mainland China, located at Wangjing, Beijing, commenced its business in September 2012. The retail shop located at Changning District, Shanghai was closed down in November 2012.

Inventory analysis

The Group's total inventories as at 31 December 2012 and 2011 were HK$115.4 million and HK$154.2 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:

	31 December	
	2012	2011
	HK$'000	*HK$'000*
Aging of inventories (handbags products)		
0 to 90 days	**73,411**	93,184
91 to 180 days	**14,570**	40,730
181 days to 1 year	**16,741**	16,943
Over 1 year	**9,467**	2,529
Total	**114,189**	153,386

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:

	31 December	
	2012	2011
	HK$'000	*HK$'000*
Aging of inventories (other products)		
0 to 45 days	**639**	291
46 to 90 days	**194**	248
91 days to 1 year	**358**	235
Over 1 year	**6**	3
Total	**1,197**	777

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:

	31 December	
	2012	2011
	HK$'000	*HK$'000*
Aging of inventories (handbags products over HK$50,000)		
0 to 90 days	**40,982**	61,949
91 to 180 days	**6,536**	29,725
181 days to 1 year	**9,854**	9,416
Over 1 year	**3,927**	398
Total	**61,299**	101,488

Other income and gains

During the year ended 31 December 2012, other income and gains amounted to approximately HK$9.8 million, increased by HK$1.0 million as compared to last year, this was primarily attributable to the income of HK$1.0 million generated from gain on disposal of property, plant and equipment.

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 2012, selling expenses of the Group were approximately HK$109.4 million, representing 16.2% of its revenue (2011: approximately HK$104.2 million, representing 11.8% 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 fixed assets written off due to the closure of a retail shop at Shanghai during the year ended 31 December 2012.

Of the selling expenses, approximately HK$5.5 million were advertising expenses, increased by approximately HK$1.0 million as compared to last year, accounting for approximately 0.8% of total turnover, representing an increase of 0.3 percentage point as compared to approximately 0.5% 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 commercial districts with high pedestrian traffic, etc.

Administrative and other operating expenses

Administrative and other operating expenses of the Group for the year ended 31 December 2012 amounted to approximately HK$52.3 million, decreased slightly by approximately HK$1.4 million as compared to last year on year-on-year basis, representing approximately 7.7% of the turnover. The Group's administrative and other operating expenses mainly consisted 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 consisted of interest expenses on bank borrowing and a finance lease. Finance costs increased from approximately HK$0.2 million in 2011 to approximately HK$1.4 million in the year ended 31 December 2012, which was mainly attributable to amount of the Group's interest-bearing bank borrowings increased in 2012.

Loss attributable to equity holders

Loss attributable to equity holders of the Company for the year ended 31 December 2012 was approximately HK$13.9 million, as compared to a profit of approximately HK$48.0 million for the year ended 31 December 2011. Loss per share attributable to equity holders was approximately HK2.1 cents for the year ended 31 December 2012, as compared to earnings per share attributable to equity holders of approximately HK7.7 cents for the year ended 31 December 2011.

Employees and remuneration policy

As at 31 December 2012, the Group had a total of 158 employees (2011: 159 employees). The Group's remuneration policy was 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 was reviewed by the Board from time to time. Emoluments of Directors were reviewed by the remuneration committee and recommended to the Board for approval after considering the Group's operating results, individual performance and comparing with market conditions.

Liquidity and financial resources

As at 31 December 2012, the Group had total interest-bearing bank borrowings of approximately HK$36.7 million (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 prevailing commercial lending rates. The Group's land and building were pledged to secure the bank borrowings. It was expected that all the borrowings would be repaid by internal generated funds.

As at 31 December 2012, the Group's total balance of cash and cash equivalents, total liabilities and shareholders' equity were approximately HK$128.4 million, HK$57.1 million and HK$354.5 million respectively (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 31 December 2012 were approximately 8.9%, 5.4 and 3.3, respectively (2011: 0.1%, 13.0 and 7.5, respectively). The Group's current ratio and quick ratio dropped in 2012 mainly due to the increase in interest-bearing bank borrowings that included in current liabilities. Based on the Group's steady cash inflow from operations and coupled with its existing cash on hand, the Group had adequate financial resources to fund its future expansion.

Notes:

1. Gearing ratio is calculated based on the borrowings and obligations under a finance lease divided by total assets at the end of the year 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 year.

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 year.

Pledge of assets

As at 31 December 2012, the Group's land and building 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 carried on its trading transactions mainly in Hong Kong dollars, Renminbi ("RMB") and United States ("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 31 December 2012, the Group did not have any significant contingent liabilities.

Capital commitments

The Group's capital commitments including property, plant and equipment amounted to approximately HK$0.2 million and HK$69.9 million as at 31 December 2012 and 2011 respectively.

Future plans relating to the material investment

On 22 August 2012, 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 formation of a joint venture (the "Joint Venture"), Milan Station (Chengdu) Limited. 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, Star Continent subscribed, and MS (PRC) procured the Joint Venture to issue, a total of 4,286 ordinary shares of HK$1 each of the Joint Venture at the issue price of HK$1 per share on 22 August 2012, whereupon and following the completion of such subscription, the Joint Venture was held as to 70% by MS (PRC) and 30% by Star Continent. Following the establishment of the Joint Venture, MS (PRC) and Star Continent procured the Joint Venture to establish a wholly-foreign-owned enterprise under the business name "包包站貿易（成都）有限公司" ("包包站") in Chengdu, the PRC, with a total investment of RMB30,000,000 and a total registered capital of RMB15,000,000, which will be contributed by MS (PRC) and Star Continent through the Joint Venture in the proportion of RMB10,500,000 (equivalent to HK$13,125,000) and RMB4,500,000 (equivalent to HK$5,625,000). As at 31 December 2012, MS (PRC) and Star Continent have contributed HK$8,792,000 and HK$3,768,000 to the Joint Venture, respectively, for the purpose of injecting capital into 包包站, which was not yet completed at the date of this announcement. 包包站 obtained the business licence on 5 February 2013. Further details of the formation of the Joint Venture were disclosed in an announcement made by the Company on 22 August 2012.

During the year ended 31 December 2012, pursuant to the minutes of a meeting of the board of directors of 米蘭站商業(上海)有限公司 ("MS (SH)") on 18 December 2012, the registered capital of MS(SH) was authorised to increase from RMB14,000,000 to RMB34,000,000. Subsequent to the end of the reporting period, the Group has fully injected RMB20,000,000 (equivalent to approximately HK$25,000,000) to MS (SH).

OUTLOOK

In 2013, the global macroeconomic environment is still affected by various uncertainties which are expected to pose serious challenges to the markets of luxury goods and the overall retail markets in Mainland China and Hong Kong. However, as political situations in many countries begin to stabilise gradually following the general elections by the end of 2012, and the investment markets in Mainland China and Hong Kong are showing signs of recovery, the markets of luxury goods in Mainland China and Hong Kong are expected to grow in the coming year. The central government of Mainland China expects the country to record an economic growth of approximately 7.5% in 2013. The moderate economic recovery will further boost the sales of high-end products in Mainland China. With the emergence of Mainland China's middle class and their increasing demand for brands and tastes, their consumption power will continue to drive the growth of the market for high-end luxury brand handbags in the long run. As a result, as the momentum of Mainland China's steady economic development remains unchanged, the Group is still prudently optimistic about the outlook of the luxury goods markets in Mainland China and Hong Kong in the forthcoming year.

Development strategy

Looking ahead, the Group will continue with its core strategy of consolidating its leading market position in Hong Kong and prudently developing the markets in Mainland China. Although Mainland China's economy was hindered by the slow recovery of the European and US economies, many large luxury brands are still confident about Mainland China's luxury goods market and continue to increase their investments in the country. This may reflect the robustness of the consumer markets in Asia, especially Mainland China.

As the principal place of the Group's business, Hong Kong remains the Group's core market. In light of the intensifying market competition, the Group will continue to keep up with the changing market business environment to consolidate its leading position in Hong Kong's market for luxury products. It will do so by exploring and expanding sales channels with cost effectiveness, optimising the existing retail shop and product portfolio, reinforcing marketing and promotion activities, and improving the marketing strategies based on consumption characteristics in different regional markets. Although an increasing number of Mainland China consumers go shopping directly in Europe, the Group believes that the low-tax environment and the sophisticated tourist facilities of Hong Kong will inevitably attract more Mainland China tourists to the city. The Group will capitalise on changes in consumers' lifestyle and continue to identify more popular mid-priced and fast-moving products to cater to consumers' ever-changing tastes in order to increase its sales volume and profits. The Group will also grasp market opportunities and make new attempts in the core business of the second-hand luxury branded handbags. The Group will also purchase products with limited editions and sell them when economy upturns in the future so as to enhance its competitiveness in the second-hand luxury branded handbags market in Hong Kong.

Having benefited from the steady development of tourism and gaming industries in Macau, the business of the Group in the region achieved a stable growth. As such, the management will study the feasibility of further expanding its business in Macau. As the consumer community is having high consumption powers, the Group plans to open specialty counters in the VIP Lounge of the premier casinos in Macau and negotiations with the relevant co-operating parties are in progress.

The valuable experience in developing the retail business in Beijing and Shanghai has strengthened the Group's confidence in expanding the market in Mainland China. Besides the sales network in the core business districts in Beijing and Shanghai, the Group will identify other cities in Mainland China with growth potential to expand its sales network and will prudently choose locations for its new stores to expand its business of retailing mid-priced and high-end second-hand branded handbags. The Group will focus mainly on 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 addition, the Group will adopt a new shop opening strategy in 2013, that is to open retail shops in Mainland China by way of co-operation with local co-operating parties. The Group is negotiating with several potential co-operating parties regarding the details of cooperation opportunities and sets a target of opening several retail shops on a consignment management operation basis in Southern China in 2013.

Further to the above, the Group also actively explores and seeks the possibility of joint development of overseas markets with potential partners, with the initial target at the south-eastern countries at this stage.

The Group believes that improvement of the shop image will help promote and enhance its brand image. It plans to open Milan Station flagship shops in Beijing, Shanghai and Chengdu. Milan Station has enjoyed relatively high brand recognition in cities such as Beijing and Shanghai. The Group will continue to further enhance the Mainland China consumers' awareness and acceptance of second-hand branded products through media coverage, public relations, marketing, and promotions. This will expand the Group's potential customer base and lay a good foundation for the Group to expand into other cities in Mainland China.

Furthermore, the Group will actively expand new sales channels, especially the internet sales platform. Free of geographical limits, the online sales platform will enable the Group to expand its market share and sales at lower operating costs. Apart from the continuing cooperation with website operators, the Group will invest more in its own online shopping platform to enhance its brand value and enjoy higher flexibility on website management. The Group will continue to enrich product portfolios of the online sales operation to cater for the consumer needs in different markets. The Group's online shopping platform, namely milanstation.cc, was opened in December 2012. With the growing popularity of internet in Mainland China, the rapid development of e-commerce in Mainland China shall bring new opportunities for the luxury goods retailing sector. The contribution of the Group's online sales is expected to increase correspondingly.

The Group has already started to invest its resources to develop its own brands. The management will organise a team to visit Europe, and locate suitable manufacturers in Italy to establish handbags of its own brand with high quality but reasonable prices which will be purely manufactured in Italy.

The Group will closely monitor the economic conditions to refine its strategy and business plans. Looking ahead, we will continue to leverage on our strong brand and advantage in the industry to strengthen our leading position in major markets and prudently develop the Mainland China market to strive for higher returns to our shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors (the "Model Code"). Having made specific enquiry of the Directors, all the Directors confirmed that they complied with the required standards as set out in the Model Code during the year ended 31 December 2012.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 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 31 December 2012, approximately HK$92.2 million had been utilised, of which approximately (i) HK$41.7 million was applied for expansion of retail network in the PRC market; (ii) HK$5.5 million was applied for decorating new retail shops, relocating and redecorating several existing shops in Hong Kong, Mainland China and Macau; (iii) HK$2.9 million was applied for marketing and promotion of the business of the Group; (iv) HK$2.4 million was applied for exploration of online sales channel; (v) HK$1.9 million was applied for upgrading of the Group's information technology system, (vi) HK$0.3 million was applied for staff training and development; and (vii) HK$37.5 million was applied for acquisition of a property for the Group's own use.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2012, the Company had complied with all applicable provisions under the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "Code") as set out in Appendix 14 to the Listing Rules except for the following deviations.

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 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 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.

Code provision A.5.1 of the Code requires the nomination committee of listed issuers to comprise a majority of independent non-executive directors. Subsequent to the resignation of Mr. Ip Shu Kwan, Stephen ("Mr. Ip") on 15 March 2013, the nomination committee of the Company did not comprise a majority of independent non-executive directors.

Rule 3.10(1) of the Listing Rules provides that every board of directors of listed issuers must include at least three independent non-executive directors. Moreover, Rule 3.21 of the Listing Rules provides that the audit committee of a listed issuer must comprise a minimum of three members. Further, Rule 3.25 of the Listing Rules provides that a listed issuer must establish a remuneration committee which comprises a majority of independent non-executive directors. Subsequent to Mr. Ip's resignation on 15 March 2013, the Company did not have three independent non-executive Directors. The members of the audit committee and the remuneration committee of the Company have also fallen below the required number under Rules 3.10(1), 3.21 and 3.25 of the Listing Rules respectively.

On 25 March 2013, the Board has appointed Mr. Fan Chun Wah, Andrew ("Mr. Fan") as the independent non-executive director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Following Mr. Fan's appointment, the Company has fully complied with the requirements of Rules 3.10(1), 3.21 and 3.25 of the Listing Rules and the code provision A.5.1 of the Code.

REVIEW OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 31 December 2012 and the accounting principles and practices adopted by the Group during the year under review and matters of auditing, internal controls and financial reporting have been discussed with the management and reviewed by the Audit Committee.

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 December 2012 (2011: a final dividend of HK0.6 cent per ordinary share).

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.milanstation.com.hk. The 2012 annual report containing all information required by the Listing Rules will be published on the above websites and dispatched to the shareholders of the Company by the end of April 2013.

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

Hong Kong, 25 March 2013

As at the date of this announcement, the Board comprises Mr. YIU Kwan Tat, Mr. YIU Kwan Wai, Gary, Mr. WONG Hiu Chor and Ms. YIU Sau Wai as executive Directors; Mr. TAM B Ray, Billy and Mr. YUEN Lai Yan, Darius as non-executive Directors; and Mr. SO, Stephen Hon Cheung, Mr. LAU Kin Hok and Mr. FAN Chun Wah, Andrew as independent non-executive Directors.