米蘭站
Milan Station

In love with
Perfection Im...perfect
愛上完美，不完...美

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
ANNUAL REPORT 年報

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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. So, Stephen Hon Cheung
Mr. Lau Kin Hok
Mr. Fan Chun Wah, Andrew (appointed on 25 March 2013)

AUDIT COMMITTEE

Mr. So, Stephen Hon Cheung *(Chairman of audit committee)*
Mr. Lau Kin Hok
Mr. Fan Chun Wah, Andrew (appointed on 25 March 2013)

REMUNERATION COMMITTEE

Mr. Lau Kin Hok *(Chairman of remuneration committee)*
Mr. So, Stephen Hon Cheung
Mr. Fan Chun Wah, Andrew (appointed on 25 March 2013)
Mr. Yiu Kwan Tat
Mr. Wong Hiu Chor

NOMINATION COMMITTEE

Mr. Yiu Kwan Tat *(Chairman of nomination committee)*
Mr. So, Stephen Hon Cheung
Mr. Lau Kin Hok
Mr. Fan Chun Wah, Andrew (appointed on 25 March 2013)
Mr. Wong Hiu Chor

COMPANY SECRETARY

Mr. Chan Kwong Leung, Eric

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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Cayman Islands

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
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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
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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'S WEBSITE

www.milanstation.com.hk

STOCK CODE

1150

PRINCIPAL BANKERS

HONG KONG

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

THE PRC

China Construction Bank
DBS Bank (China) Limited

Financial Highlights

The following table sets forth certain financial ratio of Milan Station Holdings Limited (the “Company” or “Milan Station”) and its subsidiaries (collectively, the “Group”) as of the date for the years indicated:

	Notes	Year ended 31 December 2012	2011
Profitability ratio			
Gross profit margin *(%)*	1	**21.3%**	24.2%
Net profit/(loss) margin *(%)*	2	**(2.1)%**	5.5%
Return on assets *(%)*	3	**(3.4)%**	12.0%
Return on equity *(%)*	4	**(3.9)%**	12.9%
Liquidity ratio			
Current ratio	5	**5.4**	13.0
Quick ratio	6	**3.3**	7.5
Gearing ratio *(%)*	7	**8.9%**	0.1%
Inventory turnover days	8	**92.6**	66.6

Notes:

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

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

3. Return on assets is calculated based on the profit/(loss) for the year divided by the total assets at the end of the year and multiplied by 100%.

4. Return on equity is calculated based on the profit/(loss) for the year divided by total equity at the end of the year and multiplied by 100%.

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

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

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

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

Chairman's Statement

Dear Shareholders,

In 2012, the impact of European debt crisis continued to perplex the global economy, the elections of major economic powers led to unstable political situations, and with the U.S. economy teetering on the fiscal cliff, all of which had fuelled more uncertainties to the economic outlook. The unstable external economy dampened the consumer conation in the retail market and seriously bombarded the luxury goods market, thus posing severe challenges to the operations of the Group in Mainland China, Hong Kong and Macau last year.

Being a major business foothold of the Group, the Hong Kong market was dragged down by the economic slowdown in Mainland China with the decelerating growth in the number of Mainland China visitors to Hong Kong. Moreover, the depreciation of Euro currency had also diverted some consumers to buy luxury brand products directly in Europe which in turn affected the operation of the Group. Coupled with the maturely developed operation of the Group in Hong Kong and affected by higher base factors, the sales amount decreased by 27.4% to approximately HK$548.6 million.

Facing the short-term challenges from the operating environment, the management team actively sought for changes in marketing strategies and adjusted the operation model and product portfolio. Since the first half of last year, the Group leveraged on its smart marketing touch, discerned the changes in market taste and demand and increased sales amount through the sales promotion of mid-range and fast-moving products, thus compensating the negative impact brought by the sales slowdown of premium priced products. At the same time, the Group 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. As high rental posed tremendous pressure on general retailers in Hong Kong, during the year, the Group closely observed the changes of the rental market, reviewed and adjusted retail shop portfolio from time to time to ensure that retail shop locations are cost effective, and stringently controlled the rental costs at a certain level of sales income.

Furthermore, the Group established the first directly managed large scale online shopping platform (milanstation.net) in Hong Kong in October 2012. This platform enables consumers to enjoy their consumption anytime and anywhere without geographic restrictions, and the online shopping is becoming more and more matured and showing impressive sales performance. During the year, the Group's online sales contributed approximately HK$5.0 million.

As for the Mainland China market, uncertain external economic sentiments dampened the domestic consumer conation and caused a slowdown in growth of the Group's total sales in Mainland China market, representing a year-on-year increase of only 4.5% to approximately HK$79.4 million. Despite the slack market consumer sentiments last year, the development of domestic economy is still optimistic in the long term with the wealth of middle-class consumers accumulating continuously and national per capita income and consumption power increasing. The Group continued to progress its long-term development plan in Mainland China in an orderly and gradual manner and expanded the Mainland China market strategically. If including the new retail shops situating at Wangjing and Wangfujing in Beijing which commenced its business in September 2012 and January 2013 respectively, the Group is currently operating a total of five "Milan Station" retail shops in Beijing and Shanghai, laying a good foundation for further expansion in the Mainland China market. Moreover, the Group relocated the business of Gubei shop in Changning district, Shanghai, and is now looking for much better shop location in prime districts in Shanghai, so as to serve our target consumer group more effectively. In August 2012, the Group announced the setting up of a joint venture with an independent third party, with the purpose of jointly operating a retail shop under the brand "Milan Station" in Chengdu, Sichuan, earmarking a significant milestone for Milan Station as this is its first move into western China and an important step in our business expansion plan in Mainland China.

We have all along been relying on our professional and devoted management team in driving the businesses of the Group to be innovative in the development of luxury branded handbags retail business. With the needs from its business development, the Group recruited two professionals with extensive experience in luxury goods and retailing industry as Business Development Director and China General Manager in 2012 and the beginning of 2013 respectively, responsible for the development of the overseas and Mainland China markets. Their valuable experience in luxury goods retailing industry will help Milan Station to expand into business areas with more development potential.

Chairman's Statement

Looking into 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. Although Mainland China's economy was hindered by the slow recovery of the European and US economies, however, many large luxury brands are still rosy about Mainland China's luxury goods consumption market. The management believes that Milan Station's business will continue to benefit from the robust development of the luxury goods markets in Mainland China in the long run.

As a pioneer in the industry, over the years, Milan Station has accumulated higher brand awareness and reputation in which it enables Milan Station to maintain its competitiveness despite the increasingly competitive industry environment. To consolidate its leading position in Hong Kong luxury products market, Milan Station is committed to providing "Genuine and Certified" trendy products for its customers, for which we have formulated a series of stringent and systematic product certification programmes with a team of professionally trained staff responsible for executing the product inspection process. The Group will also continue to keep up with the changing market business environment to promote products sales through expanding sales channels, optimising the existing retail shop and product portfolio and reinforcing marketing and promotion activities.

The Group has consolidated its strength in the core business districts in Beijing and Shanghai in Mainland China, which supports its business expansion plan in Mainland China. The Group will continue to focus mainly on cities with relatively higher consumption power and growth potential, as well as premier business areas in cities where many international brands have established their presence. We will prudently select appropriate branch network for our retail shops and promote brand image through the opening of the planned Milan Station flagship shops. In preparing for the efficient business expansion, 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. In addition, the Group's online sales platform, namely milanstation.cc, was opened in December 2012, and is expected to grasp the opportunities from the rapid development of e-commerce in China.

In 2013, the macroeconomic environments are still braised by various uncertainties, but the Group remains cautiously optimistic regarding the long-term prospect. The Group will closely monitor the change in economic conditions to refine its positioning according to the situation. Meanwhile, the Group will further consolidate its existing leading position and poise for the improvement of the consumption market environment. We will continue to leverage on our strong brand strengths and our leading advantage in the industry to strengthen our leading position in major markets.

Finally, I would like to take this opportunity to express my gratitude to the fellow members of the Company's board of directors, the management and staff for their contributing efforts to Milan Station in the past year and to shareholders and customers for their continuous support to Milan Station. We will keep our efforts and take full advantage of the opportunity of business expansion to generate substantial returns to our shareholders in 2013 by adhering to the spirit of ever-going innovation and different new attempts in business development.

Yiu Kwan Tat
Chairman

Hong Kong, 25 March 2013

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 percentage points 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.

Management Discussion and Analysis

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% compared to 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 Main Board of The Stock Exchange of Hong Kong Limited ("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 mediums like the television, 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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				
	2012		2011		
	HK$ million	***Percentage of total revenue %***	*HK$ million*	*Percentage of total revenue %*	*Percentage change in 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 *HK$ million*	**Gross profit margin** *%*	Gross profit *HK$ million*	Gross profit margin *%*	Change *%*
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)

Management Discussion and Analysis

	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.

Management Discussion and Analysis

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 borrowings 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, current ratio and quick ratio 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.

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.

Management Discussion and Analysis

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 annual report. 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 the increased capital of 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 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.

Management Discussion and Analysis

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 and Senior Management

EXECUTIVE DIRECTORS

Mr. Yiu Kwan Tat, aged 44, is the Chairman and Chief Executive Officer of the Group and was appointed as an Executive Director on 1 November 2007. He founded the Group in 2001 and is the controlling shareholder of the Company. Prior to founding the Group, Mr. Yiu ran his own business in selling second-hand clothing. Since the establishment of the Group, he has acquired the experiences in the fashion retail industry focusing on the luxury branded handbags and apparel products retail industry. During the ten years with the Group, he has been responsible for the overall management and strategic development of the Group, in particular, including deciding the business model and product portfolio offered by the Group, formulating the marketing position and pricing strategy, determining the location of the Group's retail shops and expansion plan, formulating internal control guidelines of the Group covering the purchasing procedures, product examination and sales transactions process. He is the brother of Mr. Yiu Kwan Wai, Gary and Ms. Yiu Sau Wai.

Mr. Yiu Kwan Wai, Gary, aged 42, was appointed as an Executive Director on 13 October 2010 and the Managing Director of the Group. Prior to joining the Group in 2001, he has the experience in selling second-hand clothing. He joined the Group in 2001 and was a shop manager from 2004 to 2007. Being a shop manager, he was responsible for purchasing procedures and sales transactions process; performing the product examination and reviewing daily reports. Starting from 2007, he was promoted as a district manager of the Group. Since then, his main duties were supervising and monitoring the Group's retail operation and provide in-house training for the techniques to distinguish genuine products from counterfeit products and the procedures of checking anti-counterfeit features. He was promoted to chief operating officer of the Group in 2009 and is responsible for the overall management of the daily operation of the Group's retail shops. He is also a member of the design team of the Group and is responsible for the development of products under "MS" brand. Through his employment with the Group, he has acquired about ten years of experience in the fashion retail industry. He is the brother of Mr. Yiu Kwan Tat and Ms. Yiu Sau Wai.

Mr. Wong Hiu Chor, aged 55, was appointed as an Executive Director on 13 October 2010. He joined the Group as the chief financial officer in 2007 and is responsible for the overall financial planning and corporate management of the Group. He obtained a Master of Business Administration degree from the University of South Australia in 1999. Prior to joining the Group, he had worked in Wing Hang Bank, Limited for over 30 years from June 1976 to August 2007. During the period from December 1995 to August 2007, he worked as a manager in various branches of the bank responsible for overseeing the operation of the branch offices, providing corporate financing services and promoting other banking products to clients. He has extensive experience in the banking and finance industry.

Ms. Yiu Sau Wai, aged 39, was appointed as an Executive Director on 13 October 2010. Prior to joining the Group in 2001, Ms. Yiu worked as a general clerk in a decoration company from April 1996 to August 2001. She joined the Group in 2001 as a frontline sales working at the Group's retail shops. Starting from 2003, she became a shop manager and was responsible for purchasing procedures and sales transactions process; performing the product examination and reviewing daily reports. Since 2007, she was promoted as a district manager of the Group and was responsible for supervising and monitoring the Group's retail operation and provide in-house training for the techniques to distinguish genuine products from counterfeit products and the procedures of checking anti-counterfeit features. She was appointed to act as a general manager for the PRC region of the Group in 2008 and is responsible for supervising the Group's operation in the PRC and planning for the expansion of the Group's retail network in the PRC including identifying suitable locations in the PRC for its future retail shops. Through her employment with the Group, she has acquired about ten years of experience in the fashion retail industry. She is the sister of Mr. Yiu Kwan Tat and Mr. Yiu Kwan Wai, Gary.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Tam B Ray, Billy, aged 44, was appointed as a Non-executive Director on 28 April 2011. He has been a practicing solicitor in Hong Kong for over 15 years. He is currently a partner of Messrs. Ho & Tam. Mr. Tam holds a Bachelor Degree of Laws from the University of London, Bachelor Degree of the PRC Laws from Tsinghua University; and a Master Degree of Laws from The University of Hong Kong. He is an independent non-executive director of China Fortune Financial Group Limited, a company listed on the Main Board of the Stock Exchange and independent non-executive directors of M Dream Inworld Limited, China Natural Investment Company Limited and China AU Group Holdings Limited, all of which are listed on the Growth Enterprise Market of the Stock Exchange ("GEM"). Mr. Tam is also a non-executive director of Larry Jewelry International Company Limited, a company listed on the GEM.

Mr. Yuen Lai Yan, Darius, aged 43, was appointed as a Non-executive Director on 30 August 2012. Mr. Yuen graduated from the University of Southern California, USA, with a Bachelor of Science Degree in Accounting. He is a certified public accountant of the State of Illinois, USA. Mr. Yuen has over 20 years' experience in capital markets, finance, accounting and private equity. Mr. Yuen held positions at BNP Paribas Capital (Asia Pacific) Limited from 1999 to 2008 until he resigned as the managing director and head of equity capital markets department. He also held the position as the senior managing director and head of equity capital markets department at Bear Stearns Asia Limited in 2008. Mr. Yuen is currently a senior advisor at Lionrock Capital (Cayman) Limited and is also the founder and president of Sow Asia Foundation, a charity organisation in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. So, Stephen Hon Cheung, aged 57, was appointed as an Independent Non-executive Director on 28 April 2011. Mr. So holds a Bachelor Degree of Commerce from the University of British Columbia, Canada.

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

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

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

Mr. Lau Kin Hok, aged 47, was appointed as an Independent Non-executive Director on 28 April 2011. Mr. Lau holds an E.M.B.A. Degree from 長江商學院 (Cheung Kong Graduate School of Business).

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

Mr. Fan Chun Wah, Andrew, aged 34, was appointed as an Independent Non-executive Director on 25 March 2013. Mr. Fan is a practising certified public accountant in Hong Kong with over 7 years of experience. He holds a Bachelor Degree of Business Administration (Accounting and Finance) and a Bachelor Degree in Laws. Mr. Fan is a member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also a committee member of the tenth Chinese People's Political Consultative Conference of the Zhejiang Province, the fourth and fifth Chinese People's Political Consultative Conference of Shenzhen and the vice chairman of Zhejiang Province United Young Association. Mr. Fan is an independent non-executive director of Chuang's China Investments Limited, the shares of which are listed on the Main Board of the Stock Exchange, and CIG Yangtze Ports PLC, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange. Mr. Fan had been an independent non-executive director of Far East Holdings International Limited from October 2009 to March 2012, the shares of which are listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Chan Hon Leung, aged 42, is the chief marketing officer of the Group. He joined the Group as a shop manager in 2001 and was responsible for purchasing procedures and sales transactions process; performing the product examination and reviewing daily reports. In 2007, he was promoted to a district manager of the Group and was responsible for supervising and monitoring the Group's retail operation and provide in-house training for the techniques to distinguish genuine products from counterfeit products and the procedures of checking anti-counterfeit features. Since 2009, he was appointed to be chief marketing officer of the Group. He is now responsible for the overall management of marketing department which includes determining the product portfolio, formulating the marketing and pricing strategies of the Group. In addition, he is currently in charge of the in-house training courses including product knowledge and techniques for product examination. He is also a member of the design team of the Group and is responsible for the development of products under "MS" brand. Through his employment with the Group, he has acquired about ten years of experience in the fashion retail industry.

Ms. Wong Woon Yuk, Angela, aged 43, is the business development director of the Group. She joined the Group in 2012 and has extensive experience in running retail, wholesale, and even manufacturing in the US, European and Greater China market. She has worked with many huge customers in the US including Wal-Mart. Her experience and understanding in the fashion industry would be a great asset for the Group to develop and expand the Group's business globally. She holds a Bachelor Degree of Accounting from Golden Gate University in San Francisco and a Master Degree in Finance from Baruch College of City University of New York. Before joining the Group, she worked as the general manager and chief accountant for JCL Merchandising Company in USA which owned 14 multi-luxury brands retail shops nationwide from 1993 to 1997. She was also the chief operating officer and financial controller of a recognized global brand, Body Glove from 1997 to 2005 and she was relocated from USA to Hong Kong to handle all Body Glove businesses for Asian countries in 2001. She was also the chief operating officer for the global trademark owner of a German high-end fashion brand, Mondi from 2005 to 2011.

Directors and Senior Management

Mr. Choi Wai Kei, aged 39, is the General Manager (China) of the Group. He joined the Group in 2013 and has over seventeen years of experience in practical retail operations and sales management in Hong Kong, China and Southeast Asia. He is currently responsible for overseeing the Group's retail operation in certain cities in China.

Before joining the Group, he worked in the following companies:

– South China General Manager in High Fashion International Limited, a company listed on the Main Board of the Stock Exchange, from May 2011 to January 2013;

– National General Manager (Greater China) in Marchiori from October 2009 to April 2011; and

– Regional Sales Manager (China) in G2000 (Apparel) Limited from July 2005 to September 2009.

Ms. Chui Sze Man, aged 33, is the senior manager of business development department of the Group. She joined the Group in 2002 and was promoted to shop manager in 2004 and further to marketing manager and district manager in 2008 and 2010 respectively. In 2012, she was promoted to the senior manager of business development department of the Group. She obtained a Bachelor of Computer Engineering degree from the Hong Kong University of Science and Technology in 2001. She is the spouse of Mr. Yiu Kwan Wai, Gary.

Mr. Cheng Chung Yin, Bernardo, aged 45, is the district manager of the Group. He joined the Group in 2003 and was promoted to shop manager in 2007 and further to district manager in 2009. He is currently responsible for the management of the Group's retail operation in certain districts in Hong Kong. He obtained a Diploma in Management Studies awarded jointly by The Hong Kong Polytechnic University and The Hong Kong Management Association in 2001.

Mr. Lo Wai Shing, aged 39, is the chief financial officer of the Group. He joined the Group in 2007 and has over ten years of professional experience in accounting and auditing. Before joining the Group, he worked as the company secretary and qualified accountant for Tungda Innovative Lighting Holdings Limited from March 2007 to August 2007, a company listed on GEM. He was also an accounting manager in Wing Fung Group Holdings Limited from 6 February 2004 to 14 March 2007 and a management accountant in COFCO (Hong Kong) Limited from 1 September 2000 to 5 February 2004. He became a member of the Hong Kong Institute of Certified Public Accountants in 2005 and a fellow member of the Association of Chartered Certified Accountants in 2002. He obtained a Bachelor of Arts Degree from City University of Hong Kong in 1996.

CORPORATE GOVERNANCE PRACTICE

The board of directors (the "Board") of the Company is committed to maintaining high standards of corporate governance and recognizes the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) (the "CG Code") and Corporate Governance Code (effective from 1 April 2012) (the "Revised Code") in Appendix 14 of the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance practice.

During the year ended 31 December 2012 (the "Reporting Year"), the Company had complied with all applicable code provisions under the CG Code and the Revised Code save as disclosed below.

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

Code provision A.5.1 of the Revised 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 also fell 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 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 Revised Code.

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 to the Directors, all the Directors confirmed that they complied with the required standards as set out in the Model Code during the Reporting Year.

Corporate Governance Report

BOARD OF DIRECTORS

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

The Board currently consists of nine members, including four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. At least one of our Independent Non-executive Directors has the professional and accounting qualifications as required under the Listing Rules.

The Board schedules at least four regular meetings a year and also meets as and when required. During the Reporting Year, the Board held six regular meetings. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. Under code provision A.1.3 of the Revised Code, notice of at least 14 days should be given of a regular board meeting to all Directors to give all Directors an opportunity to attend. Two out of the six regular Board meetings were convened with less than 14 days' notice to facilitate the Directors' timely reaction and expeditious decision making process in respect of investment opportunity and internal affairs of the Group. All Board meetings, nevertheless, were duly convened and held in the way prescribed by the Articles of Association of the Company. The Board will do its best endeavour to meet the requirement of code provision A.1.3 of the Revised Code in future. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors. In addition to regular Board meetings, the Chairman of the Board met with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of the Executive Directors.

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

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

	Directors	**Number of attendance/ Eligible to attend**
Executive Directors	Yiu Kwan Tat *(Chairman and Chief Executive Officer)*	6/6
	Yiu Kwan Wai, Gary *(Managing Director)*	6/6
	Wong Hiu Chor	6/6
	Yiu Sau Wai	5/6
Non-executive Directors	Tam B Ray, Billy	5/6
	Yuen Lai Yan, Darius *(appointed on 30 August 2012)*	1/1
Independent Non-executive Directors	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	6/6
	So, Stephen Hon Cheung	6/6
	Lau Kin Hok	5/6

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

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

The Board members have no financial, business, family or other material/relevant relationship with each other except those disclosed in the director biographical details. Given the nature and business objectives of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of Directors and their respective biographies are set out on pages 21 to 23 of this annual report.

Pursuant to Article 84 of the Article of Association of the Company, at each annual general meeting of the Company one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting of the Company at least once every three year. All retiring Directors shall be eligible for re-election. All the Non-executive Directors (including the Independent Non-executive Directors) have been appointed for specific terms.

Article 83(3) of the Article of Association of the Company provides that (i) any director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the shareholders after his appointment and be subject to re-election at such meeting, and (ii) any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The attendance of the Directors at the Annual General Meeting held on 18 May 2012 is as follows:

	Directors	**Number of attendance/ Eligible to attend**
Executive Directors	Yiu Kwan Tat *(Chairman and Chief Executive Officer)*	1/1
	Yiu Kwan Wai, Gary *(Managing Director)*	1/1
	Wong Hiu Chor	1/1
	Yiu Sau Wai	1/1
Non-executive Directors	Tam B Ray, Billy	1/1
	Yuen Lai Yan, Darius *(appointed on 30 August 2012)*	0/0
Independent Non-executive Directors	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	1/1
	So, Stephen Hon Cheung	1/1
	Lau Kin Hok	1/1

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

During the Reporting Year, the newly appointed Director was given an induction after his appointment so as to ensure that he has appropriate understanding of the Group's business and of his duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Company provides regular updates on the business performance of the Group to the Directors. The Directors are continually updated on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices.

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills. The Company has devised a training record in order to assist the Directors to record the training they have undertaken and they are asked to submit a signed training record to the Company on quarterly basis.

During the Reporting Year, each individual Director has attended training courses or workshops relevant to his/her professional and/or duties as Director. A summary of the training they have received for the year ended 31 December 2012 is as follow:

	Directors	**Corporate Governance/ Updates on Laws, Rules & Regulations**	**Other trainings relevant to directors' responsibilities and/or duties**	**Reading materials**
Executive Directors	Yiu Kwan Tat *(Chairman and Chief Executive Officer)*	✓	✓	–
	Yiu Kwan Wai, Gary *(Managing Director)*	✓	✓	–
	Wong Hui Chor	✓	✓	–
	Yiu Sau Wai	✓	✓	–
Non-executive Directors	Tam B Ray, Billy	✓	✓	–
	Yuen Lai Yan, Darius *(appointed on 30 August 2012)*	✓	✓	✓
Independent Non-executive Directors	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	✓	✓	✓
	So, Stephen Hon Cheung	✓	✓	✓
	Lau Kin Hok	✓	✓	–

REMUNERATION COMMITTEE

The Remuneration Committee was established on 28 April 2011 with a specific written terms of reference in compliance with the CG Code. In alignment with the Revised Code requirements, the Board has approved and adopted the revised terms of reference on 20 January 2012. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

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

During the Reporting Year, the Remuneration Committee comprises five Directors, a majority of whom are Independent Non-executive Directors. The Remuneration Committee held two meetings.

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

	Remuneration Committee Members	**Number of attendance/ Eligible to attend**
Independent Non-executive Directors	Lau Kin Hok *(Chairman)*	2/2
	So, Stephen Hon Cheung	2/2
	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	2/2
Executive Directors	Yiu Kwan Tat	2/2
	Wong Hiu Chor	2/2

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

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

(2) reviewed the remuneration packages of the newly appointed Director and senior management with recommendations to the Board for approval.

Pursuant to code provision B.1.5 of the Revised Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration band	**Number of individuals**
Nil to HK$1,000,000	5

Details of the remuneration of each Director for the year ended 31 December 2012 are set out in note 8 to the financial statements.

NOMINATION OF DIRECTORS

The Nomination Committee was established on 20 January 2012 with a specific written terms of reference in compliance with the Revised Code. The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

During the Reporting Year, the Nomination Committee comprises five Directors, a majority of whom are Independent Non-executive Directors. The Nomination Committee held two meetings.

The members of the Nomination Committee and the attendance of each member during the Reporting Year are as follows:

	Nomination Committee Members	Number of attendance/ Eligible to attend
Executive Directors	Yiu Kwan Tat *(Chairman)*	2/2
	Wong Hiu Chor	2/2
Independent Non-executive Directors	Lau Kin Hok	2/2
	So, Stephen Hon Cheung	2/2
	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	2/2

During the Reporting Year, the Nomination Committee performed the following duties:

(a) reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and made recommendations on suitable changes to the Board to complement the Company's corporate strategy;

(b) identified individual suitably qualified to become Board members and made recommendation to the Board on the selection of individuals nominated for directorship;

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

(d) made recommendations to the Board on the appointment or re-appointment of Directors.

AUDIT COMMITTEE

The Audit Committee was established on 28 April 2011 with a specific written terms of reference in compliance with the CG Code. In alignment with the Revised Code requirements, the Board has approved and adopted the revised terms of reference on 20 January 2012. The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

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

During the Reporting Year, the Audit Committee held three meetings.

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

	Audit Committee Members	**Number of attendance/ Eligible to attend**
Independent Non-executive Directors	So, Stephen Hon Cheung *(Chairman)*	3/3
	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	3/3
	Lau Kin Hok	3/3

During the Reporting Year, the Audit Committee performed the following duties:

(a) reviewed and discussed with the management of the Company the accounting principles and practices adopted by the Group as well as financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2012 and the audited financial statements for the year ended 31 December 2011 with recommendation to the Board for approval;

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

(c) considered the independent auditors' independence and fee in relation to the unaudited interim financial statements of the Group for the six months ended 30 June 2012 and the audited financial statements of the Group for the year ended 31 December 2011.

All members of the Audit Committee possess in-depth experience in their own profession. The Chairman of the Audit Committee, Mr. So, Stephen Hon Cheung, possesses appropriate professional qualifications in finance and accounting and meets the requirements of Rule 3.21 of the Listing Rules. No member of the Audit Committee is a former partner of the existing auditing firm of the Company during one year after he ceases to be partner of the auditing firm.

AUDITORS' REMUNERATION

During the Reporting Year, the Group was charged HK$1,560,000 for auditing services and HK$493,000 for non-auditing services by the Company's auditors, Ernst & Young.

Services rendered	Fees paid/payable
	HK$'000
Audit services – annual audit	1,560
Non-audit services:	
Review of interim results	320
Taxation services	173
	2,053

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the corporate governance duties as set out below:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Revised Code and disclosure in the Corporate Governance Report.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

To indemnify Directors and officers of the Company against all costs, charges, losses, expenses and liabilities incurred by them in the execution of and discharge of their duties or in relation thereto, the Company has arranged insurance cover for this purpose.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 June 2012 and for the year ended 31 December 2012, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the Reporting Year have been prepared on a going concern basis.

The reporting responsibilities of the Company's external auditors, Ernst & Young, are stated in the "Independent Auditors' Report" on page 47 of this annual report.

CORPORATE GOVERNANCE MEASURES IN RELATION TO NON-COMPETITION UNDERTAKINGS

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

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

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

(b) The controlling shareholders had promptly provided all information necessary for the annual review by the Independent Non-executive Directors and the enforcement of the Deed of Non-Competition and provided to the Company a written confirmation relating to the compliance of the Deed of Non-Competition and made an annual declaration on compliance with the Deed of Non-Competition in the annual report of the Company for the year ended 31 December 2012.

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

INTERNAL CONTROLS

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

The Board has, through the Audit Committee, conducted regular reviews 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 independent internal control consultant conducted interim follow-up review and confirmed that the review results were satisfactory.

The internal audit department monitors compliance with policies and procedures and the effectiveness of internal control structures across the Group and its principal divisions. The internal audit department reports directly to the Audit Committee. In addition to its agreed work plan with the Audit Committee, the internal audit department conducts other special reviews as and when required. According to the 2012 internal audit reports, the internal control system of the Group and principal divisions has been functioning effectively and there was no significant weakness identified in the course of the internal audits and control reviews carried out during the Reporting Year.

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 Reporting Year, the Board has not been informed of any complaints or concerns over financial improprieties from staff.

COMPANY SECRETARY

The Company's secretarial functions are outsourced to external service provider. Mr. Lo Wai Shing, Chief Financial Officer of the Group, is the primary contact person of the Company with the external service provider.

According to the newly introduced Rule 3.29 of the Listing Rules, Mr. Chan Kwong Leung, Eric, the Company Secretary, has taken no less than 15 hours of the relevant professional training during the Reporting Year.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company established a shareholders' communication policy and reviews it on a regular basis to ensure its effectiveness. The Company communicates with the shareholders (the "Shareholders"), the potential investors or the investment community (collectively, the "Investors") of the Company mainly in the following ways:

(a) the holding of annual general meetings and extraordinary general meetings, if any, which may be convened for specific purpose and provide opportunities for the Shareholders and Investors to communicate directly with the Board;

(b) the publication of interim and annual reports, circulars, announcements and notice of shareholder meetings as required under the Listing Rules and/or press releases of the Company providing updated information of the Group; and

(c) the latest information of the Group will be available on the websites of the Stock Exchange and the Company.

The annual general meetings shall be called by notice of not less than 21 clear days and not less than 20 clear business days prior to the date of meetings and any extraordinary general meetings at which the passing a special resolution is to be considered shall be called by notice of not less than 21 clear days and not less than 10 clear business days prior to the date of meetings. All other extraordinary general meetings may be called by notice of not less than 14 clear days and not less than 10 clear business days prior to the date of meetings.

SHAREHOLDERS' RIGHTS

Convening an Extraordinary General Meeting by Shareholders

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself/herself/themsleves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Sending Enquiries and Proposals to the Board

Shareholder(s) may send in their enquiries and put forward proposals to the Board of the Company by sending the same to:

The Chairman
Milan Station Holdings Limited
Units 1-3, 4th Floor, Tower 1
South Seas Centre
No. 75 Mody Road
Kowloon, Hong Kong

OR

Email: ms_ir@milanstation.net

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

INVESTOR RELATIONS

There is no significant change in the Company's constitutional documents during the Reporting Year.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 48 to 107 of this annual report.

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).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 29 May 2013 to Friday, 31 May 2013 (both days inclusive), during which period no transfer of shares will be registered, for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Tuesday, 28 May 2013.

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

The proceeds from the listing, after deduction of related issuance expenses, amounted to HK$202.7 million.

As at 31 December 2012, the net proceeds of initial public offering ("IPO") had been utilised as follows:

	Actual net IPO proceeds upon the full exercise of the over-allotment option on 23 May 2011	Revised allocation on 2 November 2011	Amount utilised up to 31 December 2011	Balance as at 31 December 2011	Amount utilised for the year end 31 December 2012	Balance as at 31 December 2012
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Expansion of retail network in the PRC market	148.0	113.5	27.6	85.9	14.1	71.8
Decorating new retail shops, relocating and redecorating several existing shops in Hong Kong, Mainland China and Macau	12.0	12.0	1.7	10.3	3.8	6.5
Marketing and promotion of the Group	17.0	17.0	2.4	14.6	0.5	14.1
Design and development of private label "MS" brand products	4.0	4.0	–	4.0	–	4.0
Exploration of online sales channel	2.4	2.4	–	2.4	2.4	–
Staff training and development	2.8	2.8	–	2.8	0.3	2.5
Upgrading of the Group's information technology system	3.2	3.2	–	3.2	1.9	1.3
General working capital	13.3	10.3	–	10.3	–	10.3
Acquisition of the property for own use	–	37.5	–	37.5	37.5	–
	202.7	202.7	31.7	171.0	60.5	110.5

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 108 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year.

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2012 are set out in note 27(b) to the financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution amounted to approximately HK$307,385,000, representing the share premium account and capital reserve of the Company of approximately HK$728,102,000 in aggregate less the accumulated losses as at 31 December 2012 of approximately HK$420,717,000. Under the Companies Law, Cap. 22 (as amended) of the Cayman Islands, the share premium account and capital reserve of the Company is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account and capital reserve may also be distributed in the form of fully paid bonus shares.

DONATIONS

During the year, the Group made charitable contributions totalling HK$341,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2012, the Group's sales to the five largest customers and purchases from the five largest suppliers accounted for less than 30% of the Group's turnover and purchases, respectively.

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

DIRECTORS

The Directors of the Company during the year and up to the date of this annual report were:

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

Non-executive Directors:
Mr. Tam B Ray, Billy
Mr. Yuen Lai Yan, Darius (appointed on 30 August 2012)

Independent Non-executive Directors:
Mr. So, Stephen Hon Cheung
Mr. Lau Kin Hok
Mr. Fan Chun Wah, Andrew (appointed on 25 March 2013)
Mr. Ip Shu Kwan, Stephen (resigned on 15 March 2013)

Pursuant to Articles 84(1) and 84(2) of the Articles of Association, Ms. Yiu Sau Wai, Mr. Tam B Ray, Billy and Mr. Lau Kin Hok shall retire by rotation from office at the forthcoming annual general meeting. Each of Ms. Yiu Sau Wai, Mr. Tam B Ray, Billy and Mr. Lau Kin Hok, being eligible, will offer herself/himself for re-election at the forthcoming annual general meeting.

Pursuant to Article 83(3) of the Articles of Association, Mr. Yuen Lai Yan, Darius and Mr. Fan Chun Wah, Andrew shall retire from office at the forthcoming annual general meeting. Each of Mr. Yuen Lai Yan, Darius and Mr. Fan Chun Wah, Andrew, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 21 to 24 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing on 23 May 2011 (the "Listing Date"), which may be terminated by not less than 3 months' notice in writing served by either party on the other.

Each of Mr. Tam B Ray, Billy, Mr. Ip Shu Kwan, Stephen (resigned on 15 March 2013), Mr. So, Stephen Hon Cheung and Mr. Lau Kin Hok has signed a letter of appointment and is appointed for an initial term of 3 years commencing on the Listing Date, which may be terminated by not less than 1 month's notice in writing served by either party or the other.

Mr. Yuen Lai Yan, Darius, a Non-executive Director, has signed a letter of appointment and is appointed for an initial term of 1 year commencing on 30 August 2012, which may be terminated by not less than 1 month's notice in writing served by either party or the other.

Mr. Fan Chun Wah, Andrew, an Independent Non-executive Director, has signed a letter of appointment and is appointed for an initial term of 1 year commencing on 25 March 2013, which may be terminated by not less than 1 month's notice in writing served by either party or the other.

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

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

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

DIRECTORS' REMUNERATION

The Directors' ordinary remuneration shall be subject to Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions disclosed in note 28 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year ended 31 December 2012.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2012.

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

As at 31 December 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (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

	Number of shares held, capacity and nature of interest				Approximate percentage of issued share capital
Name of Director	Personal Interest	Corporate Interest	Family Interest	Total	
Mr. Yiu Kwan Tat ("Mr. Yiu")	–	487,500,000 *(Note)*	–	487,500,000	72.29%

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

Long positions in share options of the Company

	Number of share options			Approximate percentage of issued share capital
Name of Directors	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. So, Stephen Hon Cheung	200,000	–	200,000	0.03%
Mr. Lau Kin Hok	200,000	–	200,000	0.03%
Mr. Ip Shu Kwan, Stephen (resigned on 15 March 2013)	200,000	–	200,000	0.03%

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

Save as disclosed above, as at 31 December 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.

SHARE OPTIONS

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

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

Name or category of participant	Number of share options: At 1 January 2012	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2012	Date of grant of share options	Validity period of share options	Exercise price of share options HK$ per share
Executive Directors									
Mr. Yiu Kwan Tat	2,000,000	–	–	–	–	2,000,000	13-12-11	13-12-11 to 12-12-16	1.384
Mr. Yiu Kwan Wai, Gary	2,000,000	–	–	–	–	2,000,000	13-12-11	13-12-11 to 12-12-16	1.384
Ms. Yiu Sau Wai	2,000,000	–	–	–	–	2,000,000	13-12-11	13-12-11 to 12-12-16	1.384
Mr. Wong Hiu Chor	400,000	–	–	–	–	400,000	13-12-11	13-12-11 to 12-12-16	1.384
Non-executive Director									
Mr. Tam B Ray, Billy	200,000	–	–	–	–	200,000	13-12-11	13-12-11 to 12-12-16	1.384
Independent Non-executive Directors									
Mr. 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
Mr. Ip Shu Kwan, Stephen (resigned on 15 March 2013)	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	–	–	–	(750,000)	3,800,000	13-12-11	13-12-11 to 12-12-16	1.384
	11,750,000	–	–	–	(750,000)	11,000,000			

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

The Directors have estimated the values of the share options granted on 13 December 2011, calculated using the binomial model as at the date of grant of the options:

Grantees	Number of options held during the year	Theoretical value of share options
		HK$'000
Mr. Yiu Kwan Tat	2,000,000	984
Mr. Yiu Kwan Wai, Gary	2,000,000	984
Ms. Yiu Sau Wai	2,000,000	984
Mr. Wong Hiu Chor	400,000	197
Mr. Tam B Ray, Billy	200,000	98
Mr. Ip Shu Kwan, Stephen (resigned on 15 March 2013)	200,000	98
Mr. So, Stephen Hon Cheung	200,000	98
Mr. Lau Kin Hok	200,000	98
Other employees	3,800,000	1,872
	11,000,000	5,413

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

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

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

CONTRACT OF SIGNIFICANCE

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

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

As at 31 December 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	Number of ordinary shares held	Approximate percentage of issued share capital
Perfect One Enterprises Limited	Beneficial owner	487,500,000 *(Note)*	72.29%

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

Save as disclosed above, as at 31 December 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.

CONTINUING CONNECTED TRANSACTIONS

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

	Notes	**2012** HK$'000	2011 HK$'000
Rental expenses paid to related companies	(a)	**7,727**	6,266
Purchases from a related company	(b)	**76**	62
Renovation costs to a related company	(c)	**7,847**	2,716
Legal and professional expenses to a related company	(d)	**273**	250

Notes:

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

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

(c) Renovation costs to a related company, in which the husband of Ms. Yiu Sau Wai has beneficial interest, were made on mutually agreed terms.

(d) Legal and professional expenses to a related company, in which Mr. Tam B Ray, Billy is a partner, were made on mutually agreed terms.

The above transactions have complied with the requirements for continuing connected transactions under Chapter 14A of the Listing Rules.

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

Pursuant to the Listing Rules, the Independent Non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and (iv) have not exceeded the relevant maximum amount capped in accordance with the announcement of the Company dated 20 January 2012 and the prospectus of the Company dated 11 May 2011 (the "Prospectus").

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

SUFFICIENCY OF PUBLIC FLOAT

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

DEED OF NON-COMPETITION

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

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2012, save for certain derivations. The Corporate Governance Report is set out on pages 25 to 35 of this annual report.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the financial statements of the Group for the year ended 31 December 2012 and discussed with the management of the Company on auditing, internal control and financial reporting matters. Information on the composition of the Audit Committee is set out in the Corporate Governance Report on pages 25 to 35 of this annual report.

AUDITORS

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

On behalf of the Board

Yiu Kwan Tat
Chairman

Hong Kong, 25 March 2013

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Milan Station Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 48 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower,
1 Tim Mei Avenue,
Central,
Hong Kong
25 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	676,444	879,802
Cost of sales		(532,461)	(666,464)
Gross profit		143,983	213,338
Other income and gains	5	9,825	8,770
Selling expenses		(109,442)	(104,151)
Administrative and other operating expenses		(52,286)	(53,654)
Finance costs	6	(1,380)	(220)
PROFIT/(LOSS) BEFORE TAX	7	(9,300)	64,083
Income tax expense	10	(4,630)	(16,119)
PROFIT/(LOSS) FOR THE YEAR		(13,930)	47,964
Attributable to:			
Equity holders of the Company	11	(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	13	HK(2.06 cents)	HK7.70 cents

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
PROFIT/(LOSS) FOR THE YEAR		(13,930)	47,964
OTHER COMPREHENSIVE INCOME:			
Exchange differences on translation of foreign operations		871	393
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		(13,059)	48,357
Attributable to:			
Equity holders of the Company	11	(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	14	97,845	11,926
Deferred tax assets	24	1,928	1,928
Deposits	17	12,828	21,011
Total non-current assets		112,601	34,865
CURRENT ASSETS			
Inventories	18	115,386	154,163
Trade receivables	19	8,314	9,259
Prepayments, deposits and other receivables	17	18,875	22,624
Tax recoverable		10,260	1,017
Pledged deposits	20	21,597	1,503
Cash and cash equivalents	20	128,384	176,539
Total current assets		302,816	365,105
CURRENT LIABILITIES			
Accrued liabilities and other payables	21	18,758	21,102
Interest-bearing bank borrowings	22	36,743	–
Obligations under a finance lease	23	112	112
Tax payable		630	5,383
Provision	16	–	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
NON-CURRENT LIABILITIES			
Accrued liabilities and other payables	21	768	–
Obligations under a finance lease	23	51	163
Deferred tax liability	24	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	25	6,744	6,744
Reserves	27(a)	347,789	364,882
		354,533	371,626
Non-controlling interests		3,760	–
Total equity		358,293	371,626

YIU KWAN TAT
Director

WONG HIU CHOR
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	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	Non-controlling interests	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$'000	HK$'000	HK$'000
At 1 January 2011	–	–	10	(23,782)	836	319	–	156,212	133,595	–	133,595
Exchange differences arising on translation of foreign operations	–	–	–	–	–	393	–	–	393	–	393
Profit for the year	–	–	–	–	–	–	–	47,964	47,964	–	47,964
Total comprehensive income for the year	–	–	–	–	–	393	–	47,964	48,357	–	48,357
Acquisition of a subsidiary pursuant to the group reorganisation on 28 April 2011 (the "Reorganisation")	10	(10)	–	–	–	–	–	–	–	–	–
Transfer to statutory reserve	–	–	–	–	893	–	–	(893)	–	–	–
Capitalisation issue credited as fully paid conditional on the share premium account of the Company, being credited as a result of issuance of new shares to the public *(note 25)*	5,406	(5,406)	–	–	–	–	–	–	–	–	–
Issue of new shares to the public *(note 25)*	1,328	220,428	–	–	–	–	–	–	221,756	–	221,756
Share issue expenses	–	(19,049)	–	–	–	–	–	–	(19,049)	–	(19,049)
Equity-settled share option arrangements *(note 26)*	–	–	–	–	–	–	5,782	–	5,782	–	5,782
Interim 2011 dividend *(note 12)*	–	(10,250)	–	–	–	–	–	–	(10,250)	–	(10,250)
Special 2011 dividend *(note 12)*	–	(8,565)	–	–	–	–	–	–	(8,565)	–	(8,565)
At 31 December 2011 and 1 January 2012	6,744	177,148*	10*	(23,782)*	1,729*	712*	5,782*	203,283*	371,626	–	371,626
Exchange differences arising on translation of foreign operations	–	–	–	–	–	871	–	–	871	–	871
Loss for the year	–	–	–	–	–	–	–	(13,918)	(13,918)	(12)	(13,930)
Total comprehensive income/(expense) for the year	–	–	–	–	–	871	–	(13,918)	(13,047)	(12)	(13,059)
Contribution from a non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	3,772	3,772
Final 2011 dividend *(note 12)*	–	(4,046)	–	–	–	–	–	–	(4,046)	–	(4,046)
Transfer of share option reserve upon the lapse of share options	–	–	–	–	–	–	(369)	369	–	–	–
At 31 December 2012	6,744	173,102*	10*	(23,782)*	1,729 *	1,583*	5,413*	189,734*	354,533	3,760	358,293

* *These reserve accounts comprise the consolidated reserves of HK$347,789,000 (2011: HK$364,882,000) in the consolidated statement of financial position.*

Notes:

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

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

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

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(9,300)	64,083
Adjustments for:			
Bank interest income	5	(1,178)	(1,260)
Gain on disposal of items of property, plant and equipment	7	(1,029)	–
Write-off of items of property, plant and equipment	7	3,205	334
Provision for slow-moving inventories	7	7,411	8,039
Depreciation	7	8,646	4,717
Finance costs	6	1,380	220
Equity-settled share option expense	26	–	5,782
		9,135	81,915
Decrease/(increase) in inventories		31,366	(73,195)
Decrease in trade receivables		945	432
Decrease/(increase) in prepayments, deposits and other receivables		4,432	(8,121)
Increase/(decrease) in accrued liabilities and other payables		(2,663)	11,527
Decrease in provision		(1,407)	–
Cash generated from operations		41,808	12,558
Interest paid		(1,367)	(201)
Interest elements on finance lease rental payments		(13)	(19)
Hong Kong profits tax paid		(16,370)	(12,460)
Overseas taxes paid		(2,371)	(4,228)
Net cash flows from/(used in) operating activities		21,687	(4,350)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,178	1,260
Purchases of items of property, plant and equipment		(89,199)	(7,841)
Deposits for acquisition of a property	17	–	(7,500)
Decrease/(increase) in time deposits with original maturity of more than three months		20,000	(20,000)
Proceeds from disposal of items of property, plant and equipment		1,200	–
Net cash flows used in investing activities		(66,821)	(34,081)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	25	–	221,756
Share issue expenses		–	(19,049)
New bank loans		39,625	2,449
Repayment of bank loans		(2,882)	(8,185)
Increase in pledged time deposits		(20,094)	(3)
Dividends paid		(4,046)	(28,815)
Capital element of finance lease payables		(112)	(127)
Contribution from a non-controlling interest of a subsidiary		3,772	–
Net cash flows from financing activities		16,263	168,026

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(28,871)	129,595
Cash and cash equivalents at beginning of year		156,539	26,605
Effect of foreign exchange rate changes, net		716	339
CASH AND CASH EQUIVALENTS AT END OF YEAR		128,384	156,539
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		75,657	73,791
Non-pledged time deposits with original maturity of more than three months when acquired		–	20,000
Non-pledged time deposits with original maturity of less than three months when acquired		52,727	82,748
Cash and cash equivalents as stated in the consolidated statement of financial position	20	128,384	176,539
Less: Time deposit with original maturity of more than three months when acquired		–	(20,000)
Cash and cash equivalents as stated in the consolidated statement of cash flows		128,384	156,539

Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	144,000	555,000
Property, plant and equipment	14	166	–
Total non-current assets		144,166	555,000
CURRENT ASSETS			
Prepayments, deposits and other receivables	17	420	480
Due from subsidiaries	15	178,107	183,204
Cash and bank balances	20	302	460
Total current assets		178,829	184,144
CURRENT LIABILITIES			
Due to subsidiaries	15	741	33
Accrued liabilities and other payables	21	2,712	3,680
Total current liabilities		3,453	3,713
NET CURRENT ASSETS		175,376	180,431
Net assets		319,542	735,431
EQUITY			
Issued capital	25	6,744	6,744
Reserves	27(b)	312,798	728,687
Total equity		319,542	735,431

YIU KWAN TAT
Director

WONG HIU CHOR
Director

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 1 November 2007. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands and its principal place of business in Hong Kong is located at Units 1-3, 4/F, Tower 1, South Seas Centre, No. 75 Mody Road, Kowloon, Hong Kong.

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

In the opinion of the directors, the 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 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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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 these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

[1] *Effective for annual periods beginning on or after 1 July 2012*

[2] *Effective for annual periods beginning on or after 1 January 2013*

[3] *Effective for annual periods beginning on or after 1 January 2014*

[4] *Effective for annual periods beginning on or after 1 January 2015*

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

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

  (ii) has significant influence over the Group; or

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

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

Leasehold land under finance lease	Over the lease terms
Buildings	2%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and office equipment	20%
Motor vehicles	30%

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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

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

Leases

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

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

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

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

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

Provisions

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

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

Employee benefits

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

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

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

Share-based payments

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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

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

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

Impairment of assets

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for obsolete and slow-moving inventories

Management of the Group reviews an aging analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving items. During the years ended 31 December 2012 and 2011, the Group made 10% provision on the gross carrying value of handbags and other products that are aged over 90 days and 45 days, respectively. Additional 10% provision on the gross carrying value of the inventories will be made if another 90 days and 45 days passed for the handbags and other products, respectively, and so on. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change as a result of changes in market conditions. Such changes will have impact on the carrying amounts of inventories and the allowance of the inventories in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

4. OPERATING SEGMENT INFORMATION

The Group's principal activity is the retail 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.

4. OPERATING SEGMENT INFORMATION *(continued)*

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.

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:

	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

6. FINANCE COSTS

	Group	
	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

7. PROFIT/(LOSS) BEFORE TAX

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

		Group	
		2012	2011
	Note	HK$'000	HK$'000
Cost of inventories sold		532,461	666,464
Provision for slow-moving inventories		7,411	8,039
Depreciation	14	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 (note 8)):			
Wages and salaries		30,616	32,768
Pension scheme contributions		1,048	993
Equity-settled share option expense		–	2,241
		31,664	36,002

7. PROFIT/(LOSS) BEFORE TAX *(continued)*

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

	Group	
	2012	2011
	HK$'000	HK$'000
Auditors' remuneration	**1,560**	1,560
Write-off of items of property, plant and equipment	**3,205**	334
Gain on disposal of items of property, plant and equipment	**(1,029)**	–
Bank interest income	**(1,178)**	(1,260)

8. DIRECTORS' REMUNERATION

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

	Group	
	2012	2011
	HK$'000	HK$'000
Fees	**967**	548
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**8,501**	9,769
Pension scheme contributions	**56**	48
Equity-settled share option expense	**–**	3,541
	9,524	13,906

During the year ended 31 December 2011, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 26 to the financial statements. The fair value of such options, which had been recognised in the income statement was determined as at the date of grant and the amount included in the financial statements for the year ended 31 December 2011 was included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Equity-settled share option expense	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2012					
Mr. So, Stephen Hon Cheung ("Mr. So")	200	–	–	–	200
Mr. Ip Shu Kwan, Stephen ("Mr. Ip")	200	–	–	–	200
Mr. Lau Kin Hok ("Mr. Lau")	200	–	–	–	200
	600	–	–	–	600
Year ended 31 December 2011					
Mr. So	122	–	–	98	220
Mr. Ip	122	–	–	98	220
Mr. Lau	122	–	–	98	220
	366	–	–	294	660

Mr. So, Mr. Ip and Mr. Lau were appointed as the independent non-executive directors of the Company on 28 April 2011. On 15 March 2013, Mr. Ip resigned as an independent non-executive director of the Company.

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Equity-settled share option expense	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2012					
Executive directors:					
Mr. Yiu Kwan Tat ("Mr. Yiu")^	–	5,655	14	–	5,669
Mr. Yiu Kwan Wai, Gary	–	897	14	–	911
Ms. Yiu Sau Wai ("Ms. Yiu")	–	1,050	14	–	1,064
Mr. Wong Hiu Chor ("Mr. Wong")	–	899	14	–	913
	–	8,501	56	–	8,557
Non-executive directors:					
Mr. Tam B Ray, Billy ("Mr. Tam")	300	–	–	–	300
Mr. Yuen Lai Yan, Darius ("Mr. Yuen")	67	–	–	–	67
	367	8,501	56	–	8,924
Year ended 31 December 2011					
Executive directors:					
Mr. Yiu^	–	6,141	12	984	7,137
Mr. Yiu Kwan Wai, Gary	–	1,118	12	984	2,114
Ms. Yiu	–	1,355	12	984	2,351
Mr. Wong	–	1,155	12	197	1,364
	–	9,769	48	3,149	12,966
Non-executive director:					
Mr. Tam	182	–	–	98	280
	182	9,769	48	3,247	13,246

^ Mr. Yiu is also the chief executive officer of the Group.

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors *(continued)*

Mr. Tam and Mr. Yuen were appointed as non-executive directors of the Company on 28 April 2011 and 30 August 2012, respectively.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

During the year ended 31 December 2012, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2011: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2011: one) highest paid employee who is a non-director of the Company is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Salaries, bonuses, allowances and benefits in kind	**700**	898
Pension scheme contributions	**14**	12
Equity-settled share option expense	**–**	148
	714	1,058

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

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**–**	1
	1	1

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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

During the year ended 31 December 2012, no remuneration was paid by the Group to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

10. 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.

	Group	
	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 *(note 24)*	(115)	(697)
Total tax charge for the year	4,630	16,119

10. INCOME TAX EXPENSE *(continued)*

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

	Group	
	2012	2011
	HK$'000	HK$'000
Profit/(loss) before tax	(9,300)	64,083
Tax at the statutory tax rate	(3,094)	10,513
Adjustment in respect of current tax of previous periods	(46)	(164)
Income not subject to tax	(291)	(249)
Expenses not deductible for tax	1,401	3,491
Tax losses not recognised	5,954	2,398
Tax losses from previous periods utilised	(124)	(325)
Others	830	455
Tax charge at the Group's effective tax rate	4,630	16,119

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year includes a loss of HK$15,334,000 (2011: HK$17,647,000) which has been dealt with in the financial statements of the Company (note 27(b)).

12. 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.

13. 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 25) 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, including 24,374,000 ordinary shares issued on 26 May 2011 upon exercise of the over-allotment option (note 25(e)).

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

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2012					
Cost:					
At 1 January 2012	–	23,704	4,128	3,040	30,872
Additions	78,879	12,449	6,458	–	97,786
Disposals/write-offs	–	(7,719)	(604)	(1,707)	(10,030)
Exchange realignment	–	194	6	–	200
At 31 December 2012	78,879	28,628	9,988	1,333	118,828
Accumulated depreciation:					
At 1 January 2012	–	14,058	2,799	2,089	18,946
Depreciation charge for the year	783	6,185	1,001	677	8,646
Disposals/write-offs	–	(4,601)	(517)	(1,536)	(6,654)
Exchange realignment	–	42	3	–	45
At 31 December 2012	783	15,684	3,286	1,230	20,983
Net carrying amount:					
At 31 December 2012	78,096	12,944	6,702	103	97,845
At 31 December 2011	–	9,646	1,329	951	11,926
31 December 2011					
Cost:					
At 1 January 2011	–	16,934	3,871	3,040	23,845
Additions	–	7,213	628	–	7,841
Disposals/write-offs	–	(521)	(375)	–	(896)
Exchange realignment	–	78	4	–	82
At 31 December 2011	–	23,704	4,128	3,040	30,872
Accumulated depreciation:					
At 1 January 2011	–	11,089	2,432	1,242	14,763
Depreciation charge for the year	–	3,364	506	847	4,717
Disposals/write-offs	–	(420)	(142)	–	(562)
Exchange realignment	–	25	3	–	28
At 31 December 2011	–	14,058	2,799	2,089	18,946
Net carrying amount:					
At 31 December 2011	–	9,646	1,329	951	11,926
At 31 December 2010	–	5,845	1,439	1,798	9,082

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

Company

	Furniture, fixtures and office equipment
	HK$'000
31 December 2012	
At 1 January 2011, 31 December 2011 and 1 January 2012	–
Additions	203
At 31 December 2012	203
Accumulated depreciation:	
At 1 January 2011, 31 December 2011 and 1 January 2012	–
Depreciation charge for the year	37
At 31 December 2012	37
Net carrying amount:	
At 31 December 2012	166
At 31 December 2011	–

The Group's land and building with a net carrying amount of HK$78,096,000 (2011: Nil) is situated in Hong Kong and is held under a long term lease. They were pledged to secure a general banking facility granted to the Group (note 22).

The net carrying amount of the Group's motor vehicle held under a finance lease amounted to HK$103,000 (2011: HK$158,000) as at 31 December 2012.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**555,000**	555,000
Less: Impairment[#]	**(411,000)**	–
	144,000	555,000

[#] As at 31 December 2012, an impairment of HK$411,000,000 (2011: Nil) was recognised for investments in subsidiaries with gross carrying amount of HK$555,000,000 (2011: Nil) because the fair value of the subsidiaries, which was determined by the directors with reference to the valuation report performed by Asset Appraisal Limited, a firm of professionally qualified valuers, was less than their carrying amounts.

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

Particulars of the principal subsidiaries are as follows:

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

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Milan Station Properties Holdings Limited	Hong Kong	HK$10,000	–	100	Property holding
米蘭站亞太零售（北京）有限公司*	The PRC/Mainland China	RMB32,000,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
米蘭站商業（上海）有限公司* ("MS (SH)") Note 1	The PRC/Mainland China	RMB14,000,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (ChengDu) Limited ("MS (CD)") #, Note 2	Hong Kong	HK$14,286	–	70	Dormant

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

\# This entity was newly incorporated during the year.

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

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

1. During the year ended 31 December 2012, pursuant to the minutes of a meeting of the board of directors of MS (SH) on 18 December 2012, the registered capital of MS (SH) was authorised to increase from RMB14,000,000 to RMB34,000,0000. Subsequent to the end of the reporting period, the Group has fully injected the increased capital of RMB20,000,000 (equivalent to approximately HK$25,000,000) to MS (SH).

2. 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"), MS (CD). 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, Start 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 report. 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.

16. PROVISION

MS (Asia), an indirect wholly-owned subsidiary of the Company, entered into a non-cancellable operating lease contract (the "Contract") with a landlord (the "Landlord") in relation to its retail shop (the "Retail Shop") with an original term of two years in May 2009. The Retail Shop was closed down in November 2009. On 6 August 2010, a notice was issued by MS (Asia) to the Landlord in relation to the early termination of the Contract. The Landlord considered MS (Asia) had repudiated the Contract and a statement of claim against MS (Asia) for the remaining outstanding minimum lease payments 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 of HK$557,000 between the carrying amount of the provision at 31 December 2011 of HK$1,407,000 and the Final Payment as "Other income" in the consolidated income statement.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Prepayments	3,795	4,720	283	255
Deposits	22,122	30,311	–	94
Other receivables	5,786	8,604	137	131
	31,703	43,635	420	480
Less: Non-current portion	(12,828)	(21,011)	–	–
	18,875	22,624	420	480

At 31 December 2012 and 2011, the balances of deposits and other receivables were neither past due nor impaired. Financial assets included in the above balances for which there was no recent history of default.

During the year ended 31 December 2011, the Group entered into a sale and purchase agreement with an independent third party to acquire a property situated in Hong Kong at a consideration of HK$75,000,000. As at 31 December 2011, a deposit of HK$7,500,000 was paid for such acquisition and was recorded as a non-current deposit. The transaction was completed on 10 January 2012 and such balance was transferred to "Property, plant and equipment" thereafter.

18. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Goods held for resale	115,386	154,163

19. TRADE RECEIVABLES

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

	Group	
	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:

	Group	
	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.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	75,657	73,791	302	460
Pledged time deposits	21,597	1,503	–	–
Time deposits with original maturity of less than three months when acquired	52,727	82,748	–	–
Time deposit with original maturity of more than three months when acquired	–	20,000	–	–
	149,981	178,042	302	460
Less: Time deposits pledged for bank loan and bank overdraft facilities *(Note 22)*	(21,597)	(1,503)	–	–
Cash and cash equivalents	128,384	176,539	302	460

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$3,178,000 (2011: HK$4,877,000). RMB is not freely convertible into other currencies. Under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

21. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Accrued liabilities	6,721	10,404	1,632	3,534
Other payables	8,605	7,218	1,080	146
Deposit received	4,200	3,480	–	–
	19,526	21,102	2,712	3,680
Less: non-current portion	(768)	–	–	–
	18,758	21,102	2,712	3,680

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

22. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group 2012	Group 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 RMB 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.

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

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).

23. OBLIGATIONS UNDER A FINANCE LEASE

The Group leases a motor vehicle under a finance lease. At 31 December 2012, the total future minimum lease payments under the finance lease and its present value were as follows:

Group	Minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Present value of minimum lease payments
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Amounts payable:				
Within one year	119	125	112	112
In the second year	52	119	51	112
In the third to fifth years, inclusive	–	52	–	51
Total minimum finance lease payments	171	296	163	275
Future finance charges	(8)	(21)		
Total net finance lease payables	163	275		
Portion classified as current liabilities	(112)	(112)		
Non-current portion	51	163		

24. DEFERRED TAX

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

Deferred tax assets

	Depreciation in excess of related depreciation allowance	Provision for inventories	Losses available for offsetting against taxable profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	584	561	86	1,231
Deferred tax credited/(debited) to the income statement during the year *(note 10)*	(61)	844	(86)	697
At 31 December 2011, 1 January 2012 and 31 December 2012	523	1,405	–	1,928

Deferred tax liability

	Depreciation allowance in excess of related depreciation
	HK$'000
At 1 January 2011, 31 December 2011 and 1 January 2012	177
Deferred tax credited to the income statement during the year *(note 10)*	(115)
At 31 December 2012	62

Certain subsidiaries of the Group have tax losses arising in Hong Kong in total of HK$54,379,000 (2011: HK$24,817,000) as at 31 December 2012 that are available indefinitely for offsetting against their future taxable profits. Deferred tax assets have not been recognised in respect of these losses as these subsidiaries have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

24. DEFERRED TAX *(continued)*

Deferred tax liability *(continued)*

Pursuant to the PRC Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. In estimating the withholding tax on dividends expected to be distributed by the Group's subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made assessment based on factors which included a dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future. As at 31 December 2012 and 2011, no deferred tax has been recognised for withholding tax that would be payable on the unremitted earnings of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute their earnings accrued after 1 January 2008 in the foreseeable future.

25. 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

25. 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 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 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

25. SHARE CAPITAL *(continued)*

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.

26. SHARE OPTION SCHEME

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

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

26. SHARE OPTION SCHEME *(continued)*

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

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

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

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

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

	2012		2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	HK$ per share	'000	HK$ per share	'000
At 1 January	1.384	11,750	–	–
Granted during the year	–	–	1.384	11,750
Lapsed during the year	1.384	(750)	–	–
At 31 December	1.384	11,000	1.384	11,750

26. SHARE OPTION SCHEME *(continued)*

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

2012 **Number of options**	**Exercise price**	**Exercise period**
'000	**HK$** **per share**	
11,000	1.384	13-12-11 to 12-12-16

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

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

The fair value of equity-settled share options granted during the year ended 31 December 2011 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used:

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

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

No other feature of the options granted was incorporated into the measurement of fair value. At the end of the reporting period, the Company had 11,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 11,000,000 additional ordinary shares of the Company and additional share capital of HK$110,000 and share premium of HK$15,114,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 11,000,000 share options outstanding under the Scheme, which represented approximately 1.63% of the Company's shares in issue as at that date.

27. RESERVES

(a) Group

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

(b) Company

	Share premium account	Capital reserve	Share option reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	–	–	–	(193)	(193)
Loss for the year and total comprehensive expense for the year	–	–	–	(9,050)	(9,050)
Acquisition of a subsidiary pursuant to the Reorganisation	–	554,990	–	–	554,990
Capitalisation issue as credited as fully paid conditional on the share premium account of the Company, being credited as a result of issuance of new shares to the public *(note 25)*	(5,406)	–	–	–	(5,406)
Issue of new shares to the public *(note 25)*	220,428	–	–	–	220,428
Share issue expenses	(19,049)	–	–	–	(19,049)
Equity-settled share option arrangements *(note 26)*	–	–	5,782	–	5,782
Interim 2011 dividend *(note 12)*	(10,250)	–	–	–	(10,250)
Special 2011 dividend *(note 12)*	(8,565)	–	–	–	(8,565)
At 31 December 2011 and 1 January 2012	177,158	554,990	5,782	(9,243)	728,687
Loss for the year and total comprehensive expense for the year	–	–	–	(411,843)	(411,843)
Transfer of share option reserve upon the lapse of share options	–	–	(369)	369	–
Final 2011 dividend *(note 12)*	(4,046)	–	–	–	(4,046)
At 31 December 2012	173,112	554,990	5,413	(420,717)	312,798

The loss of HK$411,843,000 (2011:HK$9,050,000) for the year ended 31 December 2012 included impairment of interest in subsidiaries of the Company of HK$411,000,000 (2011: Nil) and management fee income from subsidiaries of approximately HK$14,491,000 (2011: HK$8,597,000).

The Company's capital reserve represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation prior to the shares of the Company were listed on the Stock Exchange on 23 May 2011 (the "Listing"), over the nominal value of the Company's shares issued in exchange therefor.

28. RELATED PARTY TRANSACTIONS

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

	Notes	2012 HK$'000	2011 HK$'000
Rental expenses paid to related companies	(a)	7,727	6,266
Purchases from a related company	(b)	76	62
Renovation costs to a related company	(c)	7,847	2,716
Legal and professional expenses to a related company	(d)	273	250

Notes:

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

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

(c) Renovation costs to a related company, in which the husband of Ms. Yiu has beneficial interest, were made on mutually agreed terms.

(d) Legal and professional expenses to a related company, in which Mr. Tam is a partner, were made on mutually agreed terms.

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

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

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

	2012 HK$'000	2011 HK$'000
Short term employee benefits	11,012	11,959
Post-employment contributions	87	72
Equity-settled share option expense	–	3,789
	11,099	15,820

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

28. RELATED PARTY TRANSACTIONS *(continued)*

(iii) During the year ended 31 December 2011, the bank loans and overdrafts 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. The personal guarantees and the corporate guarantee have been released after the Listing.

(iv) During the year ended 31 December 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 have been released after the Listing.

(v) Pursuant to undertakings 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 Company's listing prospectus dated 11 May 2011.

29. CONTINGENT LIABILITIES

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

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

	Group		Company	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Guarantee given to a bank in connection with facilities granted to:				
A subsidiary	–	–	–	10,000

As at 31 December 2011, none of the banking facilities granted to a subsidiary that is subject to guarantee given to a bank by the Company were utilised.

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group sub-leases a property under operating lease arrangements. The lease for this property is negotiated for a term of one year (2011: two years). The term of the lease also requires the tenant to pay a security deposit. As at 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**8,400**	6,960

(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 five years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**55,476**	62,534	**2,040**	1,980
In the second to fifth years, inclusive	**65,408**	60,473	**4,692**	–
More than five years	**–**	1,855	**–**	–
	120,884	124,862	**6,732**	1,980

31. COMMITMENTS

In addition to the commitments detailed elsewhere in these financial statements and the operating lease commitments detailed in note 30 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2012	2011
	HK$'000	HK$'000
Contracted, but not provided for:		
Additions of property, plant and equipment	243	69,878

32. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

Save as disclosed in note 17, the Group also has the following non-cash transaction. During the year ended 31 December 2012, a reinstatement cost of HK$1,087,000 (2011: Nil) was capitalised as property, plant and equipment, which remained unpaid and was included in accrued liabilities and other payables as at 31 December 2012.

33. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

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

	Group		Company	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	8,314	9,259	–	–
Financial assets included in prepayments, deposits and other receivables	27,908	30,410	137	225
Due from subsidiaries	–	–	178,107	183,204
Pledged deposits	21,597	1,503	–	–
Cash and cash equivalents	128,384	176,539	302	460
	186,203	217,711	178,546	183,889

33. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial liabilities

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

	Group		Company	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Due to subsidiaries	–	–	741	33
Financial liabilities included in accrued liabilities and other payables	10,075	7,822	1,530	596
Interest-bearing bank borrowings	36,743	–	–	–
Obligations under a finance lease	163	275	–	–
	46,981	8,097	2,271	629

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

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

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

	Increase in interest rate (basis points)	Decrease in profit before tax HK$'000
Year ended 31 December 2012	100	367
Year ended 31 December 2011	N/A	N/A

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

Foreign currency risk

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

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

	Increase/ (decrease) in RMB/Euro rate	Increase/ (decrease) in profit before tax
	%	HK$'000
Year ended 31 December 2012		
If HK$ weakens against RMB	5	(74)
If HK$ strengthens against RMB	(5)	74
If HK$ weakens against Euro	5	106
If HK$ strengthens against Euro	(5)	(106)
Year ended 31 December 2011		
If HK$ weakens against RMB	5	(244)
If HK$ strengthens against RMB	(5)	244
If HK$ weakens against Euro	5	105
If HK$ strengthens against Euro	(5)	(105)

Credit risk

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables, and cash and cash equivalents and pledged deposits are disclosed in notes 19 and 20 to the financial statements.

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

Liquidity risk

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

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

Group

	31 December 2012		
	On demand and less than 1 year	Over 1 year	Total
	HK$'000	HK$'000	HK$'000
Financial liabilities included in accrued liabilities and other payables	9,307	768	10,075
Interest-bearing bank borrowings*	36,818	–	36,818
Obligations under a finance lease	119	52	171
	46,244	820	47,064

	31 December 2011		
	On demand and less than 1 year	Over 1 year	Total
	HK$'000	HK$'000	HK$'000
Financial liabilities included in accrued liabilities and other payables	7,822	–	7,822
Obligations under a finance lease	125	171	296
	7,947	171	8,118

* Included in interest-bearing bank borrowings is a bank loan of HK$34,618,000 as at 31 December 2012, which contains a repayment on demand clause giving the lender the unconditional right to call the loan at any time and therefore, for the purpose of the above maturity profile, the amount is classified as 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, as 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$3,260,000 (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.

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

Liquidity risk *(continued)*

Company

	31 December 2012		
	On demand and less than 1 year	Over 1 year	Total
	HK$'000	HK$'000	HK$'000
Due to subsidiaries	741	–	741
Financial liabilities included in accrued liabilities and other payables	1,530	–	1,530
	2,271	–	2,271

	31 December 2011		
	On demand and less than 1 year	Over 1 year	Total
	HK$'000	HK$'000	HK$'000
Due to a subsidiary	33	–	33
Financial liabilities included in accrued liabilities and other payables	596	–	596
	629	–	629

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

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

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

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2013.

Five Years Financial Summary

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

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	676,444	879,802	730,259	611,273	511,998
Cost of sales	(532,461)	(666,464)	(555,599)	(467,609)	(371,546)
Gross profit	143,983	213,338	174,660	143,664	140,452
Other income and gains	9,825	8,770	935	536	2,025
Selling expenses	(109,442)	(104,151)	(84,091)	(71,028)	(61,854)
Administrative and other operating expenses	(52,286)	(53,654)	(24,681)	(24,597)	(23,231)
Finance costs	(1,380)	(220)	(187)	(381)	(244)
PROFIT/(LOSS) BEFORE TAX	(9,300)	64,083	66,636	48,194	57,148
Income tax expense	(4,630)	(16,119)	(12,326)	(9,031)	(11,120)
PROFIT/(LOSS) FOR THE YEAR	(13,930)	47,964	54,310	39,163	46,028
Attributable to:					
Equity holders of the Company	(13,918)	47,964	54,310	39,163	46,028
Non-controlling interests	(12)	–	–	–	–
	(13,930)	47,964	54,310	39,163	46,028

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	415,417	399,970	165,894	157,152	139,832
TOTAL LIABILITIES	(57,124)	(28,344)	(32,299)	(63,608)	(43,460)
NON-CONTROLLING INTERESTS	(3,760)	–	–	–	–
	354,533	371,626	133,595	93,544	96,372

Notes:

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

(ii) The consolidated results of the Group for each of the two years ended 31 December 2011 and 2012 and the consolidated assets and liabilities of the Group as at 31 December 2011 and 2012 are those set out on pages 48 to 50 of this annual report. Such summary was prepared as if the current structure of the Group had been in existence throughout the year ended 31 December 2011.

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

2012

ANNUAL REPORT 年報

米蘭站控股有限公司

MILAN STATION HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1150

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