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

2013
INTERIM REPORT 中期報告

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Tam B Ray, Billy
Mr. Yuen Lai Yan, Darius

Independent non-executive Directors

Mr. So, Stephen Hon Cheung
Mr. Fan Chun Wah, Andrew (appointed on 25 March 2013)
Mr. Mui Ho Cheung, Gary (appointed on 31 May 2013)

AUDIT COMMITTEE

Mr. So, Stephen Hon Cheung
(Chairman of audit committee)
Mr. Fan Chun Wah, Andrew (appointed on 25 March 2013)
Mr. Mui Ho Cheung, Gary (appointed on 31 May 2013)

REMUNERATION COMMITTEE

Mr. Fan Chun Wah, Andrew (appointed on 25 March 2013)
(Chairman of remuneration committee)
Mr. So, Stephen Hon Cheung
Mr. Mui Ho Cheung, Gary (appointed on 31 May 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. Fan Chun Wah, Andrew (appointed on 25 March 2013)
Mr. Mui Ho Cheung, Gary (appointed on 31 May 2013)
Mr. Wong Hiu Chor

AUDITORS

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

LEGAL ADVISOR AS TO HONG KONG LAW

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

COMPANY SECRETARY

Mr. Chan Kwong Leung, Eric

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

Corporate Information

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 1-3, 4th Floor, Tower 1
South Seas Centre
No.75 Mody Road
Kowloon, Hong Kong

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
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

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

Condensed Consolidated Income Statement

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Milan Station Holdings Limited (the "Company") presents the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2013 (the "Period") together with the comparative figures for the corresponding period in 2012 and the relevant explanatory notes as set out below. The interim results for the Period are unaudited, but have been reviewed by the audit committee (the "Audit Committee") of the Company.

		For the six months ended 30 June	
	Notes	**2013**	2012
		(Unaudited)	(Unaudited)
		HK$'000	HK$'000
REVENUE	5	**328,502**	374,336
Cost of sales		**(259,653)**	(296,268)
Gross profit		**68,849**	78,068
Other income and gains	5	**4,890**	4,654
Selling expenses		**(57,017)**	(54,085)
Administrative and other operating expenses		**(25,837)**	(25,550)
Finance costs	6	**(747)**	(638)
PROFIT/(LOSS) BEFORE TAX	7	**(9,862)**	2,449
Income tax expense	8	**(492)**	(2,063)
PROFIT/(LOSS) FOR THE PERIOD		**(10,354)**	386
Attributable to:			
Equity holders of the Company		**(10,315)**	386
Non-controlling interests		**(39)**	–
		(10,354)	386
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
– Basic and diluted	10	**HK(1.5 cents)**	HK0.06 cent

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

Condensed Consolidated Statement of Comprehensive Income

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT/(LOSS) FOR THE PERIOD	**(10,354)**	386
OTHER COMPREHENSIVE INCOME/(EXPENSE):		
Other comprehensive income to be reclassified to income statement in subsequent periods:		
Exchange differences arising on translation of foreign operations	**348**	(152)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	**(10,006)**	234
Attributable to:		
Equity holders of the Company	**(9,979)**	234
Non-controlling interests	**(27)**	–
	(10,006)	234

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2013	31 December 2012
		(Unaudited)	(Audited)
		HK$'000	HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**100,845**	97,845
Deferred tax assets		**1,928**	1,928
Deposits		**16,677**	12,828
Total non-current assets		**119,450**	112,601
CURRENT ASSETS			
Inventories		**137,297**	115,386
Trade receivables	11	**7,723**	8,314
Prepayments, deposits and other receivables		**22,758**	18,875
Tax recoverable		**10,249**	10,260
Pledged deposits		**21,818**	21,597
Cash and cash equivalents		**82,163**	128,384
Total current assets		**282,008**	302,816
CURRENT LIABILITIES			
Trade payables	12	**1,127**	–
Accrued liabilities and other payables		**17,176**	18,758
Interest-bearing bank borrowings	13	**33,002**	36,743
Obligations under a finance lease		**106**	112
Tax payable		**1,111**	630
Total current liabilities		**52,522**	56,243
NET CURRENT ASSETS		**229,486**	246,573
TOTAL ASSETS LESS CURRENT LIABILITIES		**348,936**	359,174
NON-CURRENT LIABILITIES			
Accrued liabilities and other payables		**587**	768
Obligations under a finance lease		**–**	51
Deferred tax liability		**62**	62
Total non-current liabilities		**649**	881
Net assets		**348,287**	358,293
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	14	**6,744**	6,744
Reserves		**337,810**	347,789
		344,554	354,533
Non-controlling interests		**3,733**	3,760
Total equity		**348,287**	358,293

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Issued capital	Share premium account	Capital reserve	Merger reserve	Statutory reserve fund	Exchange fluctuation reserve	Share option reserve	Retained profits	Total	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 2013	6,744	173,102	10	(23,782)	1,729	1,583	5,413	189,734	354,533	3,760	358,293
Exchange differences arising on translation of foreign operations	–	–	–	–	–	336	–	–	336	12	348
Loss for the period	–	–	–	–	–	–	–	(10,315)	(10,315)	(39)	(10,354)
Total comprehensive income/(expense) for the period	–	–	–	–	–	336	–	(10,315)	(9,979)	(27)	(10,006)
Transfer of share option reserve upon the lapse of share options	–	–	–	–	–	–	(197)	197	–	–	–
At 30 June 2013	6,744	173,102*	10*	(23,782)*	1,729*	1,919*	5,216*	179,616*	344,554	3,733	348,287

* *These reserve accounts comprise the consolidated reserves of HK$337,810,000 (30 June 2012: HK$361,070,000) in the condensed 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.

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

	Attributable to equity holders of the Company										
	Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000 (note a)	Merger reserve HK$'000 (note b)	Statutory reserve fund HK$'000 (note c)	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 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	–	–	–	–	–	(152)	–	–	(152)	–	(152)
Profit for the period	–	–	–	–	–	–	–	386	386	–	386
Total comprehensive income/(expense) for the period	–	–	–	–	–	(152)	–	386	234	–	234
Transfer of share option reserve upon the lapse of share options	–	–	–	–	–	–	(172)	172	–	–	–
Final 2011 dividend (note 9)	–	(4,046)	–	–	–	–	–	–	(4,046)	–	(4,046)
At 30 June 2012	6,744	173,102*	10*	(23,782)*	1,729 *	560*	5,610*	203,841*	367,814	–	367,814

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	**(34,457)**	40,461
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(7,746)**	(29,233)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(4,018)**	(23,415)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(46,221)**	(12,187)
Cash and cash equivalents at beginning of period	**128,384**	156,539
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**82,163**	144,352
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**82,163**	77,076
Non-pledged time deposit with original maturity of three months or less when acquired	**–**	67,276
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	**82,163**	144,352

Notes to Condensed Consolidated Interim Financial Statements

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 1 November 2007. The registered office 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 subsidiaries of the Company are principally engaged in the retailing of handbags, fashion accessories and embellishments. There were no significant changes in the nature of the Group's principal activities during the Period.

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2013 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). 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.

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2012, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include Hong Kong Accounting Standards and Interpretations) in the current period for the first time as disclosed in note 3 below.

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

The Group has adopted the following new and revised HKFRSs for the first time for the current period's condensed consolidated interim financial statements:

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

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

4. OPERATING SEGMENT INFORMATION

The Group's principal activity is the retailing of handbags, fashion accessories and embellishments. Since it is the only operating segment of the Group, no further analysis thereof is presented. In determining the Group's geographical information, the revenue information is based on the locations of 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
For the six months ended 30 June 2013				
Revenue from external customers	261,644	34,863	31,995	328,502
Non-current assets	95,503	66	5,741	101,310
Capital expenditure	6,184	12	2,228	8,424

	Hong Kong	Macau	Mainland China	Total
	HK$'000	HK$'000	HK$'000	HK$'000
For the six months ended 30 June 2012				
Revenue from external customers	304,633	26,477	43,226	374,336
Non-current assets	90,847	86	11,825	102,758
Capital expenditure	87,159	–	125	87,284

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

Information about major customers

No customer of the Group has individually accounted for over 10% of the Group's total revenue during the Period (six months ended 30 June 2012: 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:

	For the six months ended 30 June	
	2013	2012
	(Unaudited) HK$'000	(Unaudited) HK$'000
Revenue		
Sale of goods	328,502	374,336
Other income and gains		
Bank interest income	676	552
Gross rental income	4,200	3,480
Others	14	622
	4,890	4,654
	333,392	378,990

6. FINANCE COSTS

	For the six months ended 30 June	
	2013	2012
	(Unaudited) HK$'000	(Unaudited) HK$'000
Interest on:		
Bank overdrafts	–	1
Bank loans wholly repayable:		
Within five years	109	–
Over five years	635	631
Finance lease	3	6
	747	638

7. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**259,653**	296,268
Provision for slow-moving inventories	**–**	6,716
Depreciation	**5,421**	3,576
Minimum lease payments under operating leases in respect of land and buildings	**35,924**	34,721
Employee benefit expenses (excluding directors' remuneration)		
Wages and salaries	**15,137**	15,402
Pension scheme contributions	**529**	541
	15,666	15,943
Write-off/loss on disposal of items of property, plant and equipment	**1**	550
Bank interest income	**(676)**	(552)

8. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the period ended 30 June 2013. During the period ended 30 June 2012, Hong Kong profits tax had been provided on the estimated assessable profit arising in Hong Kong at the rate of 16.5%. Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in the PRC was 25% for the periods ended 30 June 2013 and 2012 on their taxable profits. Macau complementary tax has been provided at progressive rates up to a maximum of 12% on the estimated taxable profits.

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current charge for the period		
– Hong Kong	**–**	863
– Elsewhere	**492**	1,200
Total tax charge for the period	**492**	2,063

9. DIVIDENDS

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interim – Nil (six months ended 30 June 2012: Nil)	**–**	–

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Dividend paid during the period		
Final dividend in respect of the financial year ended 31 December 2012 – Nil (six months ended 30 June 2012: HK0.6 cent per ordinary share)	**–**	4,046

10. 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 Period attributable to equity holders of the Company of HK$10,315,000 (six months ended 30 June 2012: profit of HK$386,000) and the ordinary shares of 674,374,000 (six months ended 30 June 2012: ordinary shares of 674,374,000) in issue during the Period.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the six months ended 30 June 2013 and 2012 as the share options in issue during those periods have no dilutive effect.

11. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	30 June 2013	31 December 2012
	(Unaudited) HK$'000	(Audited) HK$'000
Within 1 month	7,323	6,465
1 to 2 months	400	1,326
2 to 3 months	–	523
	7,723	8,314

12. TRADE PAYABLES

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

	30 June 2013	31 December 2012
	(Unaudited) HK$'000	(Audited) HK$'000
Within 1 month	1,127	–

13. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	30 June 2013	31 December 2012
			(Unaudited)	(Audited)
	(%)		HK$'000	HK$'000
Current				
Bank loan – secured	3.75 (31 December 2012: 3.75)	On demand	33,002	34,618
Bank loan – unsecured	N/A (31 December 2012: 7.2)	2013	–	2,125
			33,002	36,743

As at 30 June 2013, the interest-bearing borrowing is denominated in Hong Kong dollars. As at 31December 2012, except for a bank loan of approximately HK$2,125,000 which was denominated in Renminbi and repayable within one year, the remaining interest-bearing borrowing was denominated in Hong Kong dollars.

The Group's secured bank loan in the amount of HK$33,002,000 (31 December 2012: HK$34,618,000) as at 30 June 2013 containing a repayment on demand clause is included within current interest-bearing bank borrowings and analysed into bank loan payable within one year or on demand.

Based on the maturity terms of the bank loans, the amounts repayable in respect of the bank loans are: HK$3,319,000 (31 December 2012: HK$5,385,000) repayable within one year or on demand as at 30 June 2013; HK$3,448,000 (31 December 2012: HK$3,385,000) repayable in the second year as at 30 June 2013; HK$11,153,000 (31 December 2012: HK$10,945,000) repayable in the third to fifth years, inclusive, as at 30 June 2013; and HK$15,082,000 (31 December 2012: HK$17,028,000) repayable beyond five years as at 30 June 2013.

The borrowings of the Group bear interest at floating interest rates for the period ended 30 June 2013.

As at 30 June 2013, the bank loan facilities were supported by:

(i) the pledge of the Group's land and building with a carrying amount of HK$77,704,000 (31 December 2012: HK$78,096,000);

(ii) a corporate guarantee executed by a subsidiary of the Company to the extent of HK$37,500,000 (31 December 2012: HK$37,500,000); and

(iii) the pledge of bank deposits of HK$21,818,000 (31 December 2012: HK$21,597,000).

Notes to Condensed Consolidated Interim Financial Statements

14. SHARE CAPITAL

	30 June 2013	31 December 2012
	(Unaudited) HK$'000	(Audited) HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.01 each	**20,000**	20,000
Issued and fully paid:		
674,374,000 (31 December 2012: 674,374,000) ordinary shares of HK$0.01 each	**6,744**	6,744

15. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group sub-leases a property under operating lease arrangement. The lease for this property is negotiated for a term of one year. The term of the lease also requires the tenant to pay a security deposit.

As at 30 June 2013, the Group had total future minimum lease receivables under non-cancellable operating lease of HK$4,200,000 (31 December 2012: HK$8,400,000) falling due within one year.

(b) As lessee

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

As at 30 June 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2013	31 December 2012
	(Unaudited) HK$'000	(Audited) HK$'000
Within one year	**78,479**	55,476
In the second to fifth years, inclusive	**114,722**	65,408
More than five years	**3,075**	–
	196,276	120,884

16. COMMITMENTS

In addition to the operating lease arrangements detailed in note 15 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2013	31 December 2012
	(Unaudited) HK$'000	(Audited) HK$'000
Contracted, but not provided for:		
Additions of property, plant and equipment	**1,094**	243

17. RELATED PARTY TRANSACTIONS

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

	Notes	For the six months ended 30 June 2013	2012
		(Unaudited) HK$'000	(Unaudited) HK$'000
Rental expenses paid to related companies	(a)	**5,520**	3,828
Purchases from a related company	(b)	**78**	19
Renovation costs to a related company	(c)	**2,332**	6,752
Legal and professional expenses to a related company	(d)	**486**	189

Notes:

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

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

(c) 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 B Ray, Billy is a partner, were made on mutually agreed terms.

17. RELATED PARTY TRANSACTIONS *(continued)*

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

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short-term employee benefits	**5,856**	5,386
Post-employment contributions	**60**	38
	5,916	5,424

18. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments 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:

	30 June 2013	31 December 2012
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Trade receivables	**7,723**	8,314
Financial assets included in prepayments, deposits and other receivables	**35,126**	27,908
Pledged deposits	**21,818**	21,597
Cash and cash equivalents	**82,163**	128,384
	146,830	186,203

18. 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:

	30 June 2013	31 December 2012
	(Unaudited) HK$'000	(Audited) HK$'000
Trade payables	1,127	–
Financial liabilities included in accrued liabilities and other payables	12,230	10,075
Interest-bearing bank borrowings	33,002	36,743
Obligations under a finance lease	106	163
	46,465	46,981

The carrying amounts of each of the financial assets and financial liabilities approximate to their fair values as at 30 June 2013 and 31 December 2012.

19. APPROVAL OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 29 August 2013.

Management Discussion and Analysis

MARKET OVERVIEW

In the first half year of 2013, the US economy showed signs of recovery from the trough. However, against the backdrop of the lingering European debt crisis and worries about the scale of Fed's retreat from quantitative easing, or QE, China's economic growth was dragged down by these uncertainties. Under such uncertain economic environment, consumer sentiments in Hong Kong and Mainland China remained suppressed, which to a larger extent affected the luxury goods retail sector. During the Period, among the three regions where the Group has retail business operations, it is envisaged retail business operations in Hong Kong and Mainland China were more adversely affected by the negative market conditions.

HONG KONG'S RETAIL MARKET

In the first quarter of 2013, Hong Kong's economy grew a healthy 2.8% from a year ago. In the retail market, the domestic consumer demand and demand from visitors continued to lend some certain support to the retail sales. However, the consumption habit of mainland visitors under the Individual Visit Scheme had changed, they shifted to mid-to-low priced brands and products, such as cosmetics, clothing and shoes. As a result, the demand for high-value luxury goods continued to shrink during the Period and exerted greater pressure on the luxury handbag sector. The high-value luxury goods sector is relatively more sensitive to economic cycle, and the pessimistic external economic environment during the Period continued to suppress the investment and consumption sentiment of the affluent class.

MAINLAND CHINA'S RETAIL MARKET

During the Period, not only did external market conditions drag on China's economic growth, but also the austerity control measures imposed by the Chinese government that gradually took effect. According the National Bureau of Statistics, China's GDP grew by 7.6% in the first half of 2013 and decelerated from the growth rate recorded during the same period of last year, while the slowdown was more visible on a quarter-on-quarter basis, indicating that the country's economy is moving out from a high-growth stage. Although consumer's overall spending power continued to improve, affected by a weakened luxury spending domestically, the consumer's attitude toward high-value luxury goods has changed. Total retail sales of consumer goods for the first six months of 2013 were approximately RMB1.9 trillion, representing a growth of 13.3% over the same period last year, which were 0.4 percentage point lower than the growth rate of the same period last year.

MACAU'S RETAIL MARKET

Despite the fact that Macau's economy was also affected by the macroeconomic environment, the city's gaming and tourism industries achieved a stable growth. Overall revenue from gaming in Macau was approximately MOP172.0 billion in the first half year of 2013, up by 15.2% over the same period last year. Macau also saw a continuous increase in visitor arrival number. The visitor arrivals increased by 4.2% year-on-year to approximately 14.1 million in the first half year of 2013, whereas Mainland China accounted for 62.9% of the total visitor arrivals. Stimulated by the continuous increase in visitor arrivals to Macau, the retail sector blossomed. While more five-star hotels, large shopping centers and casinos were completed one after another, more high-end consumers and more international brands were attracted to Macau, creating more opportunities for the luxury goods sector.

BUSINESS REVIEW

During the Period, given the uncertainties in the global economy and the slowdown of China's economy, the attitude towards spending on luxury goods of consumers in the Group's major operating regions became more conservative, which therefore affected the business of the Group. Despite this, the Group managed to cope with these challenges by adjusting its product mix, expanding its diversified sales channels and overseas markets. During the Period, the "Milan Station" and "France Station" retail shops operated under the Group had a total of 16 shops in Hong Kong, Mainland China and Macau and one discount outlet in Hong Kong. Total revenue for the six months ended 30 June 2013 amounted to approximately HK$328.5 million, down by approximately 12.2% over the same period last year. The Group recorded a loss of approximately HK$10.4 million as the overheads during the Period were slightly increased together with decreased in revenue comparable to that of the same period last year.

Revenues contributed by Hong Kong, Mainland China and Macau markets were 79.6%, 9.8% and 10.6% of the Group's total revenue respectively. Gross profit margins excluding the provisions for slow-moving inventories, inventories write-off and other costs of the Group's operations in Hong Kong, Mainland China and Macau were 19.5%, 24.7% and 31.8% respectively.

Hong Kong

As a pioneer in establishing a trading platform for luxury brand handbags, the unique business model of the Group has been extensively recognised by the market and investors. Along with the higher reputation and awareness of its brands established over the years, the Group had maintained its leading position under the difficult business environment. The Group adhered to its commitment of providing "Genuine and Certified" trendy products for its customers, for which the Group has formulated a series of stringent and systematic product certification programmes and formed a team of professionally trained staff responsible for executing the product inspection process. These measures helped the Group to consolidate its position and drive its growth under the adverse environment.

In the first half year of 2013, with the continuous slowdown of retail market for luxury handbags in Hong Kong, sales of the Group's Hong Kong business decreased by approximately 14.1% to approximately HK$261.6 million. The contributions derived from Hong Kong included a total of 11 retail stores of "Milan Station", "France Station" and one discount outlet, online sales platforms under cooperative operation and directly managed by the Group, and products sales by other new sales channels.

In counteracting the weak consumption sentiment and the structural changes in luxury handbag consumption pattern, the Group continued to focus on the marketing of low-to-mid priced and fast-moving products to increase its sales. During the Period, 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 21.7% from 15.7% of the same period last year, with sales increased 18.8% to approximately HK$56.8 million; 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 increased to 6.3% for the Period from 5.5% of the same period last year.

In addition, the Group also actively expanded its diversified and cost-effective sales channels to mitigate the overall rental pressure to maintain profitability, while enabling more consumers to enjoy the fun of shopping on the sales platform of Milan Station.

The online shopping business is one of the new businesses which the Group focuses on developing in recent years. The Group began to cooperate with a large online platform operator in July 2011 in order to sell the products of the Group through its online sales platform; and the first large online shopping platform, milanstation.net, which is directly managed by the Group in Hong Kong, was launched in October 2012. For the six months ended 30 June 2013, online sales of the Group contributed approximately HK$6.1 million, representing an increase of 190.5% over the same period last year. This result was encouraging. The online shopping business is free of geographical limit, enabling the Group to access more new consumer groups with different purchasing habits. During the Period, under the active promotion and marketing by the Group, site visits recorded for the online shopping platform increased substantially. As consumers became more confident in online shopping, the prices of products sold through the online shopping platform of the Group are increasing gradually. The Group is glad to see the satisfactory development of its online shopping business, and while continuing to optimise its business strategies and online product mix, it will increase the information for its in-season products and hot-selling products to consolidate and improve the performance of its online shopping business.

Besides its online shopping business, the Group also actively explored other innovative sales channels. Including the newly-opened sales counters on two cruises in June this year, the Group operated sales counters on three cruises and one duty-free shop in Hong Kong at the end of the Period. These channels mainly sell mid-priced products and contributed a sales amount of approximately HK$2.7 million in the first half year of 2013.

Hong Kong's retail sector has been facing pressure from rising rents. Because of this, the Group continued to review and adjust its retail shops mix based on the changing market condition, and optimised the marketing strategies and efficiency of these retail shops in order to improve the competitiveness in all districts. After moving "France Station" retail shop to Sharp Street East in Causeway Bay last December, the Group also relocated "Milan Station" retail shop at Haiphong Road, Tsimshatsui in April 2013. These efforts helped the Group to maintain the overall rental cost at the target level while improving efficiency of its retail business.

In addition, by complementing with other innovative sales channels, the Milan Station discount outlet opened at Sharp Street East in Causeway Bay last December helped to offload its slow-moving inventories during the Period. The Group will actively employ various measures to strengthen the inventory and cash flow management.

With the changing market demands and the changes in sales ratios of each of our product categories, plus the active expansion of our diversified sales channels, the Group is therefore evaluating the current inventory provision policy and is considering the needs of revising the inventory provision policy of the Group in future to enable the reasonable and accurate reflection of the operating conditions of the Group. Before the new provision policy came into conclusion, the existing provision policy was still applied throughout the Period. Appropriate provision on inventory has been assessed and where necessary, accounted for in the financial statements for the Period.

To continue enhancing its brand image and consolidate its corporate reputation and leading market position, the Group implemented the diversified and multi-channel advertising and promotion strategies. The Group continued to cooperate with various banks, hotels 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 organised promotional activities through various traditional media channels, including the television and magazines, and placed various outdoor billboards advertisements in commercial districts, MTR stations and public transports with high pedestrian traffic to enhance its brand marketing. To facilitate the development of the online business, the Group stepped up its promotion efforts on new medium such as placing advertisements on the social media platforms and search engines, and cooperated with various popular local and overseas websites and blogs. The Group also sponsored the graduation fashion show of the School of Design of The Hong Kong Polytechnic University as a way to demonstrate its commitment to corporate social responsibility and support to young fashion designers.

As at 30 June 2013, the registered members of "Milan Station Loyalty Membership Scheme" reached a total of 13,433.

Mainland China

During the first half year of 2013, as affected by the economic slowdown, consumer sentiment in Mainland China remained sluggish. Augmented by the domestic weakened consumption on premium luxury goods, these had affected the sales of premium value products in retail stores in Mainland China to a certain extent. Therefore, the overall sales amount in Mainland China dropped by 25.9% to approximately HK$32.0 million from the corresponding period last year. The sales revenue was contributed by the five "Milan Station" retail shops in Beijing and Shanghai as well as the products sold on the online shopping platform (milanstation.cc) opened in last December in Mainland China.

In the first half year of 2013, the Group actively prepared for the opening of new shops in the second half of the year and also the development in cities outside Beijing and Shanghai, and continued to strengthen its market position in Beijing and Shanghai. The Group's retail sales growth in Mainland China in the first half year was lacklustre when compared with the corresponding period last year. The sales in Mainland China accounted for about 9.8% of the total sales of the Group.

Despite the temporary impact from the current market conditions on its China business, the Group adhered to its long-term development targets in Mainland China. During the Period, the Group strengthened its operation capacity in Mainland China and is currently identifying partners in order to lay a solid foundation for the further development in other cities in future. The works in the first half year of 2013 included improving the competitiveness and quality of the Chinese team, enhancing the professional training on products sales and procurement for frontline staff, exploring cities with potential and actively negotiating with domestic department stores for more favourable lease terms to lower rents.

The Group will continue to exercise a pre-cautionary attitude in identifying suitable retail locations in target cities and regularly review the sales performance and efficiency of each shop and make appropriate adjustment to the retail shop portfolio.

To further strengthen the brand advantages of "Milan Station", the Group launched various marketing campaigns in Mainland China through outdoors media, magazines and newspapers and co-operations with financial institutions. At the same time, it also conducted offline publicity campaigns in best attempts to promote its brand image and boosts sales.

Macau

In the first half year of 2013, the Group's business performance in Macau was outstanding. For the six months ended 30 June 2013, by benefiting from the development of local gaming and tourism sectors, the total sales increased by 31.7% to approximately HK$34.9 million over the same period of last year. The increase was mainly attributable to the products sales in exclusive clubhouses in Macau. In addition, the "Milan Station" retail shop of the Group in Rua de S. Domingos, Macau also recorded a stable performance.

The Group continued to cooperate with exclusive clubhouses in Macau during the period and sold premium value branded handbags to target clients with satisfactory performance. It clearly demonstrated the management's insight into premium consumer market and the innovative operation strategies, which will enable the Group to capture new market opportunities.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

During the Period, total revenue decreased to approximately HK$328.5 million, representing a decrease of 12.2% as compared to approximately HK$374.3 million recorded in the corresponding period last year. Handbags were the most important product category for the Group, representing over 98.6% of the total revenue of the Group. The revenue generated from the sales of unused products decreased from approximately HK$217.3 million recorded in the corresponding period last year, representing 58.1% of the total revenue of the Group, to approximately HK$186.0 million during the Period, representing 56.6% of the total revenue of the Group.

Revenue generated from the sales of premium priced products above HK$50,000 decreased from approximately HK$200.1 million during the corresponding period last year, representing 53.5% of the total revenue of the Group, to approximately HK$155.6 million during the Period, representing 47.4% 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 six months ended 30 June 2013, the revenue generated from the Hong Kong market was approximately HK$261.6 million, representing approximately 79.6% of the total revenue of the Group for the Period. Revenue generated from Mainland China market decreased from approximately HK$43.2 million during the corresponding last year to approximately HK$32.0 million during the Period.

The table below sets out the breakdown of the Group's revenue recorded for the six months ended 30 June 2013 and 2012 by product categories, by price range of products and by geographical locations and their respective approximate percentages to the total revenue of the Group:

	For the six months ended 30 June				
	2013		2012		
	HK$ million	Percentage of total revenue %	HK$ million	Percentage of total revenue %	Percentage change in revenue %
By product categories (handbags and other products)					
Handbags	323.9	98.6	367.3	98.1	(11.8)
Other products	4.6	1.4	7.0	1.9	(34.3)
Total	328.5	100.0	374.3	100.0	(12.2)
By product categories (unused and second-hand products)					
Unused products	186.0	56.6	217.3	58.1	(14.4)
Second-hand products	142.5	43.4	157.0	41.9	(9.2)
Total	328.5	100.0	374.3	100.0	(12.2)

	For the six months ended 30 June				
	2013		2012		
	HK$ million	Percentage of total revenue %	HK$ million	Percentage of total revenue %	Percentage change in revenue %
By price range of products					
Within HK$10,000	**81.9**	**24.9**	91.4	24.4	(10.4)
HK$10,001 – HK$30,000	**71.7**	**21.8**	61.8	16.5	16.0
HK$30,001 – HK$50,000	**19.3**	**5.9**	21.0	5.6	(8.1)
Above HK$50,000	**155.6**	**47.4**	200.1	53.5	(22.2)
Total	**328.5**	**100.0**	374.3	100.0	(12.2)
By geographical locations					
Hong Kong	**261.6**	**79.6**	304.6	81.4	(14.1)
The PRC	**32.0**	**9.8**	43.2	11.5	(25.9)
Macau	**34.9**	**10.6**	26.5	7.1	31.7
Total	**328.5**	**100.0**	374.3	100.0	(12.2)

Cost of sales

For the six months ended 30 June 2013, cost of sales of the Group was approximately HK$259.7 million, decreased by 12.4% year-on-year. Cost of sales mainly consists 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 Mainland China were affected by weakened consumer sentiment in the first half of 2013, sales of the Group were affected with the gross profit decreasing correspondingly. Gross profit of the Group for the Period decreased by approximately HK$9.3 million to approximately HK$68.8 million, with its gross profit margin remained stable.

By price range of products, gross profit of premium priced products of above HK$50,000 were significantly affected. Gross profit dropped from HK$35.4 million to HK$26.5 million, representing a decrease of 25.1%, and gross profit margin slightly dropped by 0.7 percentage points for the Period. High price tag handbags were hit in the slowing down of luxury products market. However, the gross profit for handbags products with price ranging from HK$10,001 to HK$30,000 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.

Management Discussion and Analysis

The table below sets out the breakdown of gross profit and gross profit margin of the Group for the six months ended 30 June 2013 and 2012 by product categories, price range of products and geographical locations:

	For the six months ended 30 June				
	2013		2012		
	Gross profit HK$ million	Gross profit margin %	Gross profit HK$ million	Gross profit margin %	Change %
By product categories (handbags and other products)					
Handbags[1]	68.9	21.3	83.2	22.7	(17.2)
Other products[1]	1.2	26.1	1.7	24.3	(29.4)
Less: provision for slow-moving inventories, inventories written off and other costs	(1.3)		(6.8)		
Total	68.8	20.9	78.1	20.9	(11.9)
By product categories (unused and second-hand products)					
Unused products[1]	32.1	17.3	39.1	18.0	(17.9)
Second-hand products[1]	38.0	26.7	45.8	29.2	(17.0)
Less: provision for slow-moving inventories, inventories written off and other costs	(1.3)		(6.8)		
Total	68.8	20.9	78.1	20.9	(11.9)
By price range of products					
Within HK$10,000[1]	23.6	28.8	28.9	31.6	(18.3)
HK$10,001 – HK$30,000[1]	16.4	22.9	16.2	26.2	1.2
HK$30,001 – HK$50,000[1]	3.6	18.7	4.4	21.0	(18.2)
Above HK$50,000[1]	26.5	17.0	35.4	17.7	(25.1)
Less: provision for slow-moving inventories, inventories written off and other costs	(1.3)		(6.8)		
Total	68.8	20.9	78.1	20.9	(11.9)

	For the six months ended 30 June				
	2013		2012		
	Gross profit HK$ million	Gross profit margin %	Gross profit HK$ million	Gross profit margin %	Change %
By geographical locations					
Hong Kong[(1)]	**51.1**	**19.5**	64.3	21.1	(20.5)
The PRC[(1)]	**7.9**	**24.7**	12.5	28.9	(36.8)
Macau[(1)]	**11.1**	**31.8**	8.1	30.6	37.0
Less: provision for slow-moving inventories, inventories written off and other costs	**(1.3)**		(6.8)		
Total	**68.8**	**20.9**	78.1	20.9	(11.9)

(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%.

Inventory analysis

The Group's total inventories as at 30 June 2013 and 31 December 2012 were approximately HK$137.3 million and HK$115.4 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 30 June 2013 and 31 December 2012:

	As at 30 June 2013 HK$'000	As at 31 December 2012 HK$'000
Aging of inventories (handbags products)		
0 to 90 days	**85,711**	73,411
91 to 180 days	**25,750**	14,570
181 days to 1 year	**16,459**	16,741
Over 1 year	**7,600**	9,467
Total	**135,520**	114,189

The following table sets forth an aging analysis of inventories for the Group's other products as at 30 June 2013 and 31 December 2012:

	As at 30 June 2013 HK$'000	As at 31 December 2012 HK$'000
Aging of inventories (other products)		
0 to 45 days	**502**	639
46 to 90 days	**856**	194
91 days to 1 year	**410**	358
Over 1 year	**9**	6
Total	**1,777**	1,197

The following table sets forth an aging analysis of inventories for the Group's premium priced handbag products over HK$50,000 as at 30 June 2013 and 31 December 2012:

	As at 30 June 2013 HK$'000	As at 31 December 2012 HK$'000
Aging of inventories (handbags products over HK$50,000)		
0 to 90 days	**38,731**	40,982
91 to 180 days	**12,578**	6,536
181 days to 1 year	**7,778**	9,854
Over 1 year	**4,092**	3,927
Total	**63,179**	61,299

Other income and gains

Other income and gains amounted to approximately HK$4.9 million, slightly increased by HK$0.2 million as compared to the corresponding period last year.

Selling expenses

The major items of the Group's selling expenses include rent and rates, employee benefit expenses for sales staff and bank credit card charges. For the six months ended 30 June 2013, selling expenses of the Group were approximately HK$57.0 million, representing 17.4% of its revenue (six months ended 30 June 2012: approximately HK$54.1 million, representing 14.4% of revenue). Selling expenses continued to grow during the Period, mainly due to an increase in rent and rates of retail shops.

Of the selling expenses, approximately HK$2.9 million were advertising expenses, increased by approximately HK$0.3 million as compared to the same period last year, accounting for approximately 0.9% of total turnover, representing an increase of 0.2 percentage points as compared to approximately 0.7% recorded during the corresponding period last year. It was mainly attributable to the Group's active implementation of diversification and multi-channel development in advertising and promotional strategies that strengthened the brand image and sales of products, including the television and magazines, as well as outdoor billboards located in commercial business districts with high pedestrian traffic, etc. To facilitate the development of the online business, the Group stepped up its promotion efforts on new medium such as placing advertisements on the social media platforms and search engines, and cooperated with various popular local and overseas websites and blogs.

Administrative and other operating expenses

Administrative and other operating expenses of the Group for the six months ended 30 June 2013 amounted to approximately HK$25.8 million, increased by approximately HK$0.2 million as compared to the corresponding period last year, representing approximately 7.9% of the turnover. The Group's administrative and other operating expenses mainly consist of directors' remuneration, employee benefit expenses for the senior management and administrative staff, as well as legal and professional expenses.

Finance costs

Finance costs of the Group mainly consists of interest expenses on bank borrowings, overdrafts, and finance leases. Finance costs slightly increased from approximately HK$638,000 in the first half year of 2012 to approximately HK$747,000 in the current period.

Loss attributable to equity holders

Loss attributable to equity holders of the Group for the six months ended 30 June 2013 was approximately HK$10.3 million, as compared to a profit of approximately HK$0.4 million for the period ended 30 June 2012. Loss per share attributable to equity holders was approximately HK1.5 cents for the six months ended 30 June 2013, as compared to the earnings per share attributable to equity holders of approximately HK0.06 cent for the six months ended 30 June 2012.

Employees and remuneration policy

As at 30 June 2013, the Group had a total of 142 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 (the "Remuneration Committee") of the Company and recommended to the Board for approval after considering the Group's operating results, individual performance and comparing with marketing conditions.

Management Discussion and Analysis

Liquidity and financial resources

As at 30 June 2013, the Group had total interest-bearing bank borrowing of approximately HK$33.0 million (31 December 2012: HK$36.7 million). The borrowing is denominated in Hong Kong dollars. The bank loan bears interest at prevailing commercial lending rates. The Group's land and building were pledged to secure the bank borrowing. It is expected that the borrowing will be repaid by internal generated funds.

As at 30 June 2013, the Group's total balance of cash and cash equivalents, total liabilities and shareholders' equity were approximately HK$82.2 million, HK$53.2 million and HK$344.6 million respectively (31 December 2012: approximately HK$128.4 million, HK$57.1 million and HK$354.5 million respectively). The Group's gearing ratio *(Note 1)*, current ratio *(Note 2)* and quick ratio *(Note 3)* as at 30 June 2013 were approximately 8.2%, 5.4 and 2.8 respectively (31 December 2012: 8.9%, 5.4 and 3.3 respectively). The Group's gearing ratio and quick ratio dropped in the six months ended 30 June 2013 mainly due to the repayment of interest-bearing borrowings, and decrease in cash and cash equivalents respectively.

Notes:

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

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

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

Pledge of assets

At 30 June 2013, the Group's land and building and the Group's bank deposits of HK$21.8 million were pledged to banks to secure the bank borrowing and general banking facilities granted to the Group.

Foreign exchange policy

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

Contingent liabilities

As at 30 June 2013, the Group did not have any significant contingent liabilities.

Capital commitments

The Group's capital commitments on property, plant and equipment amounted to approximately HK$1.1 million and HK$0.2 million as at 30 June 2013 and 31 December 2012 respectively.

OUTLOOK

The macroeconomic environment does not show signs of obvious improvement, while the markets for luxury goods spending and overall retail markets in Mainland China and Hong Kong will continue to endure challenges. Although economic growth in Mainland China tends to be steady, the continuous increase in national income will incubate tremendous consumption power. With the emergence of Mainland China's middle class and their increasing demand for brands and tastes, these factors will drive the long-term growth of the market for high-end luxury brand handbags. As a result, as the momentum of Mainland China's steady economic development remains unchanged, the Group remains cautiously optimistic about the outlook of the luxury goods markets in Mainland China and Hong Kong.

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. At the same time, the Group will explore and expand cost effective marketing channels, and make new attempts in the core business of the second-hand luxury branded handbags retailing.

The Group will continue to review the ever-changing market environments in Hong Kong, the principal place of the Group's business, and consolidate its leading position in this core market through optimising the retail shops and product portfolio, reinforcing marketing and promotion activities, and improving the marketing strategies. To reinforce the overall effectiveness of the retail network, the Group will focus on enhancing the strengths of anchor shops with strategic locations, monitoring closely the sales performance and efficiency of other shops, and adjusting the retail shops portfolio in the future.

China's two largest cities, Beijing and Shanghai, are the Group's strategic footholds in Mainland China markets and pillars of success of its Mainland China's businesses. The Group plans to establish Milan Station's flagship shops at the existing shop located at China Central Place, Beijing and expected to commence business by the end of 2013. It will enhance the Group's brand image and market position in Mainland China. Meanwhile, the Group will also continue to identify partners in every city with growth potential in Mainland China according to the new shop-opening strategy to open new shops on a consignment management operation basis or by way of joint venture through leveraging on their market strengths, network and market knowledge in local markets, allowing Milan Station to enter successfully into the markets in different regions and expand Milan Station's sales networks in Mainland China. The Group will prudently select the cities to enter, which have a higher per capita income and purchasing power, and the key business districts in close proximity to the retail outlets of international brands.

By sustaining the negotiating results underpinned by the Group with the existing co-operating parties in the first half of the year, it is expected that new shops in Chengdu and Jiangmen in Guangdong province will smoothly commence their operations in the second half year. The branch shop in Jiangmen will operate its business on a consignment management operation basis, while the branch shop in Chengdu will operate its business by joint venture and will become the Group's first branch shop in the south-western region.

In view of the rapid development of e-commerce in China and the online shopping trend by Mainland China consumers becoming popular, the Group will continue to invest more resources in the development of its online shopping platform and establish a comprehensive luxury branded handbag online trading platform in Mainland China markets to complement the Group's overall development in the mainland markets. In view of Mainland China's vast territory, the Group is now studying a total solution for online customers to receive and deliver goods to cater for the consumer needs of different cities. The Group expects that the successful development of online shopping platform in Mainland China will bring a significant increase in supply of valuable handbag products for the Group, which will facilitate tremendously to the Group's long term business development.

In addition to accelerating the development of online sales business, the Group will also actively expand the innovative cost effective new sales channels, including exclusive clubhouses in Macau and cruises etc., to develop its diversified sales network and further mitigate the rental pressure to be faced by the Group.

By grasping consumers' changing lifestyle and catering for consumers' increasing demand for middle-priced and fast-moving products, the Group began to invest more resources to develop its own brand last year to establish handbags under its own brand with high quality but at reasonable prices which are purely manufactured in Italy. A batch of products of its own brand which are purely manufactured in Italy will be launched in Hong Kong around the third quarter or the fourth quarter this year, targeting middle and low price markets.

Apart from this, the Group will also actively seek potential co-operating parties to jointly tap overseas markets. In July 2013, the Group opened its first branch shop in Orchard Road, Singapore, the first shop outside Mainland China, Hong Kong and Macau. The shop mainly sells high-value and unused products. The Group will continue to study actively in selecting locations in the Singapore market to open other branch shops with Singaporean partners.

Faced with an increasingly difficult operating environment, the Group will pay close attention to the changing market environment and devise detailed strategic deployment to patiently pave the way for future development. The Group has all along been consolidating its established strengths under adverse conditions. By leveraging on its advantages such as brand strengths and leading industry position accumulated for years, professional management team and matured retail networks, the Group expects to harvest fruitful results when economic conditions improve, bringing profitable return to our shareholders.

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

As at 30 June 2013, the Directors and the chief executive of the Company 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 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	–	487,500,000 *(Note)*	–	487,500,000	72.29%

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

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%

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

Save as disclosed above, as at 30 June 2013, 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 adopted by the Company on 28 April 2011 (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The movements in share options granted under the Scheme during the six months ended 30 June 2013 are shown below:

Name or category of participant	Number of share options: At 1 January 2013	Granted during the period	Exercised during the period	Expired during the period	Lapsed during the period	At 30 June 2013	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. 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
Mr. Lau Kin Hok (resigned on 31 May 2013)	200,000	–	–	–	(200,000)	–	13-12-11	13-12-11 to 12-12-16	1.384
	7,200,000	–	–	–	(400,000)	6,800,000			
Other employees									
In aggregate	3,800,000	–	–	–	–	3,800,000	13-12-11	13-12-11 to 12-12-16	1.384
	11,000,000	–	–	–	(400,000)	10,600,000			

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

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

As at 30 June 2013, shareholders of the Company (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 Kwan Tat. By virtue of the SFO, Mr. Yiu Kwan Tat is deemed to be interested in the entire 487,500,000 shares held by Perfect One Enterprises Limited.

Save as disclosed above, as at 30 June 2013, 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

The proceeds from the Listing, after deduction of related issuance expenses, amounted to approximately HK$202.7 million. Up to 30 June 2013, approximately HK$120.9 million has been utilised, of which (i) HK$66.3 million was applied for expansion of retail network in the PRC market; (ii) HK$7.3 million was applied for decorating new retail shops, relocating and redecorating several existing shops in Hong Kong, Mainland China and Macau; (iii) HK$2.9 million was applied for marketing and promotion of the Group; (iv) HK$2.4 million was applied for exploration of online sales channel; (v) HK$2.6 million was applied for upgrading of the Group's information technology system; (vi) HK$0.4 million was applied for staff training and development; (vii) HK$37.5 million was applied for acquisition of a property for the Group's own use; and (viii) HK$1.5 million was applied for general working capital.

Additional Information

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2013, the Company had complied with all applicable provisions under the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules save as disclosed below.

Code provision A.1.3 of the CG Code requires that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. During the Period, one out of the four regular Board meetings was 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 endeavor to meet the requirement of code provision A.1.3 of the CG Code in future.

Code provision A.2.1 of the CG 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 the operations 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 CG 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 (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 issuer 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 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 an independent non-executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. 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 CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2013.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Mr. So, Stephen Hon Cheung (chairman), Mr. Fan Chun Wah, Andrew and Mr. Mui Ho Cheung, Gary. The Audit Committee has reviewed with the management of the Company the financial statements of the Group for the six months ended 30 June 2013 and the accounting principles and practices adopted by the Group during the Period and discussed with the management of the Company on internal control and financial reporting matters.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee with written terms of reference in compliance with the Listing Rules. The Remuneration Committee comprises five members, a majority of whom are independent non-executive Directors, namely Mr. Fan Chun Wah, Andrew (chairman), Mr. So, Stephen Hon Cheung, Mr. Mui Ho Cheung, Gary, Mr. Yiu Kwan Tat and Mr. Wong Hiu Chor. The Remuneration Committee formulates the Company’s remuneration policy of Directors and senior management, reviews and determines their remuneration packages and makes recommendations to the Board regarding the remuneration of Directors and senior management.

NOMINATION COMMITTEE

The Company has established a Nomination Committee with written terms of reference in compliance with the Listing Rules. The Nomination Committee comprises five members, a majority of whom are independent non-executive Directors, namely Mr. Yiu Kwan Tat (chairman), Mr. So, Stephen Hon Cheung, Mr. Fan Chun Wah, Andrew, Mr. Mui Ho Cheung, Gary and Mr. Wong Hiu Chor.

INTERNAL CONTROL

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

The Board has, through the Audit Committee, conducted review of the effectiveness of the internal control system of the Group covering the Group’s corporate governance, internal control, financial, operational (including information security) and compliance functions.

The Board approved and adopted the Inside Information Policy during the Period which sets out guidelines to the Directors and senior management of the Group to ensure inside information of the Group would be disseminated to the public in equal and timely manner in accordance with applicable laws and regulations.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

Additional Information

UPDATED INFORMATION OF DIRECTOR

Pursuant to Rule 13.51B of the Listing Rules, the changes in information of Directors during the Period are as follow:

CHANGES IN DIRECTORS

Name of Directors	Details of changes
Mr. Ip Shu Kwan, Stephen	Resigned as an independent non-executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee on 15 March 2013
Mr. Fan Chun Wah, Andrew	Appointed as independent non-executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee on 25 March 2013 and became the chairman of the Remuneration Committee on 31 May 2013
Mr. Lau Kin Hok	Resigned as an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee on 31 May 2013
Mr. Mui Ho Cheung, Gary	Appointed as an independent non-executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee on 31 May 2013

CHANGES IN DIRECTORS' EMOLUMENTS

The emoluments of the Directors are determined by the Board with reference to the Company's performance and profitability, and the prevailing market conditions.

With effect from 1 January 2013, the Directors' entitlement to director fee and emoluments (which will be pro-rata to the period of services in the year of their appointments) for the year ending 31 December 2013 are as follows:

Name of Directors	Emoluments HK$'000
Mr. Yiu Kwan Tat	5,046
Mr. Yiu Kwan Wai, Gary	843
Mr. Wong Hiu Chor	843
Ms. Yiu Sau Wai	1,064
Mr. Ip Shu Kwan, Stephen (resigned on 15 March 2013)	41
Mr. Lau Kin Hok (resigned on 31 May 2013)	84

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

Hong Kong, 29 August 2013

米蘭站
Milan Station

2013
INTERIM REPORT 中期報告

米蘭站控股有限公司
MILAN STATION HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1150

網購 始動

www.milanstation.net