出 EXIT 米蘭站 Milan Station ®

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
ANNUAL REPORT 年報

Contents

Corporate *Information*

BOARD OF DIRECTORS

Executive Directors

Mr. Yiu Kwan Tat *(Chairman and Chief Executive Officer)*
Mr. Yiu Kwan Wai, Gary *(Managing Director)*

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
Mr. Mui Ho Cheung, Gary

AUDIT COMMITTEE

Mr. So, Stephen Hon Cheung *(Chairman of audit committee)*
Mr. Fan Chun Wah, Andrew
Mr. Mui Ho Cheung, Gary

REMUNERATION COMMITTEE

Mr. Fan Chun Wah, Andrew
(Chairman of remuneration committee)
Mr. So, Stephen Hon Cheung
Mr. Mui Ho Cheung, Gary
Mr. Yiu Kwan Tat

NOMINATION COMMITTEE

Mr. Yiu Kwan Tat *(Chairman of nomination committee)*
Mr. So, Stephen Hon Cheung
Mr. Fan Chun Wah, Andrew
Mr. Mui Ho Cheung, Gary

COMPANY SECRETARY

Mr. Chan Kwong Leung, Eric

AUTHORISED REPRESENTATIVES

Mr. Yiu Kwan Wai, Gary
Mr. Chan Kwong Leung, Eric

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 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

Corporate *Information*

AUDITORS

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

LEGAL ADVISER AS TO HONG KONG LAW

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

COMPANY WEBSITE

www.milanstation.com.hk

STOCK CODE

1150

PRINCIPAL BANKER

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") and its subsidiaries (collectively, the "Group") as of the date for the years indicated:

	Notes	Year ended 31 December **2013**	 2012
Profitability ratio			
Gross profit margin *(%)*	1	**22.0%**	21.3%
Net loss margin *(%)*	2	**(5.4)%**	(2.1)%
Return on assets *(%)*	3	**(10.0)%**	(3.4)%
Return on equity *(%)*	4	**(11.8)%**	(3.9)%
Liquidity ratio			
Current ratio	5	**4.6**	5.4
Quick ratio	6	**2.0**	3.3
Gearing ratio *(%)*	7	**7.2%**	8.9%
Inventory turnover days	8	**88.7**	92.4

Notes:

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

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

3. Return on assets is calculated based on the 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 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 2013, European debt crisis and the United States Federal Reserve's move to gradually withdraw the quantitative easing cast uncertainty over the global economic recovery. The clouded prospect for the global economy affected consumer sentiment in general, and ultimately dealt a severe blow to the Group's luxury handbag operations in Hong Kong and Mainland China.

In Hong Kong, where the Group has its principal operations, the economy was picking up but the retail sector had to cope with the significant changes in the traveling patterns and spending habits of the mainland Chinese visitors to Hong Kong. Their purchasing power decreased, with the demand gradually shifting from luxury products to low- and mid-priced brand products or daily necessities. As a result, the business of the Group was directly affected to a certain extent. The annual sales at the Group's operations in Hong Kong amounted to approximately HK$543.3 million, decreased by 1.0%, when compared with the corresponding period last year.

Facing a tough operating environment, the Group actively developed cost-effective and innovative sales channels, and adjusted product mix, with efforts focused on promoting mid-priced products and fast-moving goods. The move enabled us to compensate for the negative impact of the slowdown in sales of high-priced products. While teaming up with a major online platform operator to sell the Group's products, we also directly managed and operated the Group's online store (milanstation.net), so as to extend our reach to a new and wider group of consumers of different age groups and with different buying habits. The number of page views and revenue of the online shopping platform climbed up steadily. The overall sales at the online platform during the year surged by 210.0% to approximately HK$15.5 million, which were encouraging results.

Meanwhile, the Group kept abreast of the changes in the rental market during the year, and reviewed and adjusted the outlet portfolio from time to time, in order to ensure that the site selected for the outlets met the requirements for cost effectiveness. We also actively worked with a number of business partners to identify retail points with potential. For instance, we set up and operate additional sales counters on three large cruises to sell mid-priced products. In view of the immense market potential of such emerging sales channels like the sales counters on cruises, the Group will actively explore a wide variety of new sales channels.

In the Mainland China market, the country's slowing economic growth partly dampened the consumer sentiment. In addition, more and more mainland tourists chose to buy luxury brand products directly in the European countries and online shopping is gaining in popularity. All these factors affected the Group's total sales in the Mainland China market. Our sales there fell by 18.8% to approximately HK$64.5 million. To enhance our brand image and extend our geographic reach in the country, we opened a store in Middle Huaihai Road, Shanghai in August 2013, and expanded and upgraded our store in China Central Place, Beijing to a large flagship store of Milan Station. In addition, the Group has also been seeking business partners for joint ventures or franchised stores to develop Milan Station's sales network outside Beijing and Shanghai. For instance, it has formed a joint venture with J&C (Asia) Limited to engage in online purchase and sale of unused or second-hand branded handbags and fashion products under the "Milan Station" brand and trademark. Currently, the joint venture is making smooth progress in business, marking a milestone in our business development in the country.

The Group's Macau operations continued to benefit from the growth in the local gaming and tourism, and recorded growth thanks to our success in selling high-priced products which targeted customers with high spending power in exclusive clubhouses in Macau. The Group's total sales in the city for the year jumped significantly by 69.6% to approximately HK$82.1 million. Moreover, the Group opened its first store outside Greater China in Singapore in August 2013. Revenue from the store accounted for approximately 1.2% of the total revenue of the Group during the period. By joining hands with partners in Singapore, we will continue to actively identify locations in the local market for opening other outlets that sell mid- and high-priced goods and second-hand goods, in an effort to speed up its overseas business expansion.

Chairman's *Statement*

Looking ahead to 2014, the global economy is expected to continue its slow recovery and will still be volatile. The Group will remain cautiously optimistic about its prospects for the long term. We will continue to monitor and promptly adapt to the changes in the economic environment with opportune initiatives, and will reinforce our competitive advantages to capture opportunities in the improving consumer market in the future.

We will consolidate our market leadership in Hong Kong, and at the same time take a prudent approach to develop the Mainland China market. This is our core development strategy. Furthermore, we will explore, broaden and diversify cost-effective sales channels and experiment with new approaches to the core business of retailing second-hand luxury branded handbags.

Considering the rapid development of e-commerce in Mainland China and the smooth progress in its own online procurement platform, the Group will commit more resources to developing its online shopping platform in Mainland China in the coming year. It will also work out a product portfolio which is more suitable for collection and sales on the online trading platform in order to meet the needs of consumers from different regions and cities. At the same time, the Group will continue to vigorously explore cost-effective, innovative sales channels including cruises and the exclusive clubhouses in Macau. To satisfy the demand for high-quality mid-priced handbags and fast-moving products, we will roll out our own-brand bag products under "MS" which are made in Italy. We will also make timely adjustments to our marketing strategy.

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 contribution to Milan Station in the past year and to shareholders and customers for their long-lasting support to Milan Station. We will keep up our efforts and expand business to capture the opportunity and to generate substantial returns to our shareholders in 2014 with innovative spirit and readiness to experiment with different approaches to business development.

Yiu Kwan Tat
Chairman

Hong Kong, 31 March 2014

Management *Discussion and Analysis*

MARKET OVERVIEW

The European debt crisis and concerns over the U.S. Federal Reserve's plan to taper its quantitative easing continued to cast uncertainty over the global economy during the year ended 31 December 2013. On the other hand, mainland Chinese tourists preferred to buy brand name luxury goods directly in Europe, diverting some of the demand from the country and Hong Kong. Consequently, the Group's high-end handbag retail business in Mainland China and Hong Kong was inevitably affected to a certain extent.

HONG KONG RETAIL MARKET

In 2013, Hong Kong's economy continued an upward trend with a growth of 3% in gross domestic product (GDP). Nevertheless, the city's retail market growth slowed down. Although approximately 40.7 million mainland tourists visited Hong Kong in 2013, which represented an increase of 16.7% compared to 2012, the tourists' tour and spending patterns changed apparently. Mainland China tourists were spending less time staying in Hong Kong compared to what they did in 2012. Those who did not stay overnight rose by 19.5% to about 23.7 million, accounting for more than half of the total arrivals from the mainland in 2013. This directly affected the spending by tourists in Hong Kong. Meanwhile, consumption pattern of tourists under the Individual Visit Scheme had changed as their demand for luxury goods had decreased and had been shifting to low– and mid-priced brand products or daily necessities such as electronic intelligent products, cosmetics, apparels and shoes, hence directly affecting the sales in the luxury handbags sector.

MAINLAND CHINA RETAIL MARKET

According to the National Bureau of Statistics of China, the country's GDP growth was 7.7% in 2013, hitting a 14-year low. Total retail sales of consumer goods grew by 13.1% to RMB23.4 trillion. The growth was 1.2 percentage points less than that for 2012, marking the slowest annual growth rate since 2005. The growth rate of China's luxury goods market in 2013 increased by only 2%, which was 5 percentage points below what was already perceived to be a low growth rate in 2012. The data indicated that China's luxury goods market was slowing down in terms of the growth rate.

MACAU RETAIL MARKET

Although Macau's economy was also affected by the headwinds in the global economy, the steady growth of the city's gaming and tourism industries continued to drive its economy in 2013. Revenues from Macau's gaming sector totaled approximately MOP360.7 billion in 2013, up by 18.6% over 2012. In 2013, the visitor arrivals hit approximately 29.3 million, another new high which represented a growth of 4%. In particular, mainland tourists accounted for 63.5% of the total visitor arrivals to the city. Stimulated by the continuous increase in visitor arrivals to Macau, the retail sector flourished. With more five-star hotels, large shopping centers and casinos completed, more high-end consumers were attracted to Macau and more international brands entered the market there, bringing more opportunities for the luxury goods sector.

Management *Discussion and Analysis*

BUSINESS REVIEW

For the year ended 31 December 2013, China's economic growth was decelerating despite the global economic recovery. As a result, consumers became more cautious about spending on luxury goods in the regions where the Group had major operations. This made the operating environment difficult. To cope with the subdued market sentiment, the Group managed to sustain its operation and further development by optimising its product mix, consolidating its conventional retail network, diversifying its sales channels, and introducing more mid-priced consumer products and fast-moving products into its offerings.

During the year, the Group's "Milan Station" and "France Station" outlets had a total of 17 stores in Hong Kong, Mainland China and Macau and one discount outlet in Hong Kong. Total revenue amounted to approximately HK$698.0 million, up by approximately 3.2% over 2012. The Group recorded a loss of approximately HK$38.0 million (2012: loss of approximately HK$13.9 million) for the year due to continued slowdown in the retail market for luxury handbags, dampened consumer sentiment and increase of selling expenses. Revenues contributed by markets in Hong Kong, Mainland China and Macau accounted for 77.8%, 9.2% and 11.8% of the Group's total revenue respectively while other markets (including Singapore) contributed 17.2%. Gross profit margins of the Group's operations in Hong Kong, Mainland China and Macau were 19.2%, 30.8% and 32.8% respectively.

Operations in Hong Kong

As a pioneer in establishing a trading platform for luxury brand handbags, the Group has gained good brand reputation and has fostered awareness of its brands since its establishment. With an unique and up-to-date business model, which is widely recognised by the market and investors, the Group has maintained its leading position even in the difficult business environment. The Group remains committed to providing genuine and certified trendy products for its customers. The Group has formulated a series of stringent and systematic product certification programs and formed a team of professionally trained staff responsible for executing the product inspection process. These measures helped the Group consolidate its position and drive its business growth under the adverse operating environment.

During the year under review, sales of the Group's Hong Kong business decreased by 1.0% over last year to approximately HK$543.3 million because of the continuous slowdown in the demand for luxury handbags and in the overall retail market in Hong Kong. The sales revenue was derived from its 11 retail stores in Hong Kong including those of "Milan Station", "France Station" and one discount outlet, its online sales platforms which were under cooperative operation and directly managed by the Group, and other new sales channels.

In response to the changes in the market environment and consumption pattern, the Group continued to adjust its product mix and focused its marketing efforts on mid-priced and fast-moving products to increase its sales. Products in the price range of HK$10,001 to HK$30,000 accounted for 23.1% of the Group's total sales in Hong Kong in 2013, up from 17.6% in 2012. Sales of such products of the Group increased by 30.1% to HK$125.3 million in the city. Meanwhile, products in the price range of HK$30,001 to HK$50,000 accounted for 6.1% of the Group's total sales in Hong Kong in 2013, up from 5.7% in 2012.

Management *Discussion and Analysis*

Hong Kong's retail sector remained under the pressure of rising rents, which had already been high. In order to mitigate the rental pressure on operating costs, the Group actively expanded cost-efficient sales channels during the year. The Group cooperated with a large online platform operator to sell the Group's products through its online sales platform, and the Group directly managed and operated an online shop (milanstation.net). The online shopping business is one of the key businesses which the Group focuses on developing in recent years. The online shopping business is free of geographical boundary, enabling the Group to gain access to new consumer groups with different purchasing habits. With active promotional and marketing campaigns by the Group, site visits and revenues recorded by the online shopping platform increased steadily. During the year, the Group achieved an encouraging performance with revenue from online sales surging by 210.0% over last year to approximately HK$15.5 million. As online shopping is gaining the trust of consumers, the Group will continue to improve its business strategies and optimise its online product mix. It will provide information about its in-season products and plans to introduce more mid- and high-priced products into its online sales platform to reinforce and improve the performance of its online shopping business.

To cope with the surging rental cost, the Group was actively exploring other innovative sales channels. Currently, the Group operated sales counters on three cruises, which have huge potential for growth. These channels mainly sell mid-priced products and registered approximately HK$8.8 million of sales in 2013 which is satisfactory. Moreover, the Group launched promotional activities in May and December 2013, that helped clear the slowly-moving inventory. The Group will actively enhance the management of inventory of high-priced handbags and cash flow.

To continue enhancing its brand image and consolidate its corporate reputation and leading market position, the Group has adopted diversified and multi-channel advertising and promotion strategies. The Group continued to cooperate with various banks, hotels and retail partners to provide credit card shopping benefits, host various sales promotion events and offer sales discounts to members registered under the "Milan Station Loyalty Membership Scheme". To date, there are 14,699 members registered under the membership scheme. On the other hand, the Group also organised promotional activities through various traditional media channels, including television and magazines, and placed various outdoor billboards advertisements in commercial districts, MTR stations and public transports with high pedestrian or commuter traffic to enhance its brand marketing. To facilitate the development of the online shopping business, the Group stepped up its promotional efforts in new media. While placing advertisements on the social media platforms and search engines, the Group also cooperated with various popular local and overseas websites. The Group also sponsored the fashion show by the graduates of the School of Design of The Hong Kong Polytechnic University as a way to demonstrate its commitment to corporate social responsibility and its support to young fashion designers, thereby polishing the image of "Milan Station" as a leading brand of fashion and trend.

Operations in Mainland China

Throughout 2013, economic development in China slowed down. With increasing number of Mainland visitors opting to purchase branded luxury products directly from Europe and the emerging trend of online shopping, the Group's retail shops in China took a hit in their sales of high-priced products. The Group's businesses in China recorded a decrease in overall sales of 18.8% to approximately HK$64.5 million when compared to that in 2012. Sales from the business in China accounted for approximately 9.2% of the Group's overall sales, with sales revenue contributed by its six "Milan Station" stores in two major cities, Beijing and Shanghai, as well as by product sales on the Group's online shopping platform in China (milanstation.cc).

Management *Discussion and Analysis*

The Group started to develop the second-hand luxury brand market in Mainland China since 2008 and has grasped the country's consumer market conditions. Meanwhile, it has accumulated extensive experience in the procurement and sales of second-hand handbag products. In 2013, the Group had been actively preparing for the grand opening of its new shop in Middle Huaihai Road, Shanghai in August and the expansion of the existing shop in China Central Place, Beijing into a mega flagship store of Milan Station with a view to improving the Group's brand image and enhancing its market presence in China. The Beijing flagship store is expected to commence business in the first half of 2014.

As preparation works for expansion into other cities in China other than Beijing and Shanghai, the Group had studied the potential cities so as to identify joint venture or consignment management partners who could diversify Milan Station's sales network in China. The Group also adjusted its retail shop portfolio according to the sales performance and efficiency of each retail shop on a timely basis.

In October 2013, the Group announced the formation of a joint venture with J&C (Asia) Limited, which would be engaged in the online procurement and sales of unused and second-hand luxury branded handbags and apparel products under the brand name and trademark of "Milan Station". In the meantime, the development of the joint venture is progressing smoothly and its brand new trading channel is expected to be well-received by consumers.

During the year, the Group further enhanced the brand equity of "Milan Station" in China through outdoor media, printed magazines and newspaper and cooperation with financial institutions on advertising and promotions. Meanwhile, it continued to improve the competitive strength and quality of its work team in the country, and stepped up the advanced professional training of frontline staff in products sales and procurement. This laid a solid foundation for the commencement of offline publicity campaigns with an aim of enhancing the Group's brand image and sales.

Operations in Macau

In 2013, the Group's business in Macau continued to benefit from the growth of the local gaming and tourism sectors and recorded satisfactory operating performance. For the year ended 31 December 2013, total sales were surged by 69.6% to approximately HK$82.1 million. The growth was attributable to the sales of the Group's high-priced products, which targeted customers with high spending power in exclusive clubhouses in Macau. In addition, the "Milan Station" retail shop of the Group in Rua de S. Domingos, Macau also reported solid sales results.

Overseas Operations

In August 2013, the Group's first branch outside China, Hong Kong and Macau was launched in Orchard Road, Singapore. The shop's main offerings were high-priced and unused products. For the year ended 31 December 2013, the shop achieved revenue of approximately HK$8.1 million, representing approximately 1.2% of the Group's total revenue for the period. Working alongside with its cooperation partner in Singapore, the Group will continue to find suitable locations for establishing other branches to sell mid– and high-priced and second-hand goods in the local market.

Management *Discussion and Analysis*

FINANCIAL REVIEW

Revenue

During the year under review, revenue increased to approximately HK$698.0 million, representing an increase of 3.2% as compared to approximately HK$676.4 million recorded last year. Handbags were the most important product category for the Group, representing over 98.9% of the total revenue of the Group. The revenue generated from the sales of unused products increased from approximately HK$386.4 million recorded last year, representing 57.1% of the total revenue of the Group, to approximately HK$437.4 million during the year under review, representing 62.7% 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 2013, the revenue generated from the Hong Kong market was approximately HK$543.3 million, representing approximately 77.8% of the total revenue of the Group for the year. Revenue generated from Mainland China market decreased from approximately HK$79.4 million during last year to approximately HK$64.5 million during the year under review. Revenue generated from Macau market increased from approximately HK$48.4 million during last year to approximately HK$82.1 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 2013 and 2012 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				
	2013		2012		
		Percentage of total revenue		*Percentage of total revenue*	*Percentage change in revenue*
	HK$ million	**%**	*HK$ million*	*%*	*%*
By product categories (handbags and other products)					
Handbags	**690.4**	**98.9**	665.0	98.3	3.8
Other products	**7.6**	**1.1**	11.4	1.7	(33.3)
Total	**698.0**	**100.0**	676.4	100.0	3.2
By product categories (unused and second-hand products)					
Unused products	**437.4**	**62.7**	386.4	57.1	13.2
Second-hand products	**260.6**	**37.3**	290.0	42.9	(10.1)
Total	**698.0**	**100.0**	676.4	100.0	3.2
By price range of products					
Within HK$10,000	**162.7**	**23.3**	176.8	26.1	(8.0)
HK$10,001 – HK$30,000	**158.1**	**22.7**	123.5	18.3	28.0
HK$30,001 – HK$50,000	**40.2**	**5.7**	39.5	5.8	1.8
Above HK$50,000	**337.0**	**48.3**	336.6	49.8	0.1
Total	**698.0**	**100.0**	676.4	100.0	3.2
By geographical locations					
Hong Kong	**543.3**	**77.8**	548.6	81.1	(1.0)
The PRC	**64.5**	**9.2**	79.4	11.7	(18.8)
Macau	**82.1**	**11.8**	48.4	7.2	69.6
Singapore[1]	**8.1**	**1.2**	–	–	N/A
Total	**698.0**	**100.0**	676.4	100.0	3.2

(1) The first branch in Orchard Road, Singapore was opened in July 2013.

Cost of sales

For the year ended 31 December 2013, cost of sales for the Group was approximately HK$544.7 million, increased by 2.3% year-on-year. Cost of sales mainly consisted of cost of inventories sold by the Group's suppliers.

Gross profit and gross profit margin

Gross profit of the Group for the year under review increased by HK$9.3 million to approximately HK$153.3 million, with its gross profit margin increased slightly by 0.7 percentage points to 22.0%. During the year, the management has reassessed the provision estimation and revised the allowance for obsolete and slow-moving items to better reflect the latest experience of selling merchandise of similar nature. As a result of this change, provision for slow-moving inventories included in cost of sales for the year ended 31 December 2013 decreased by approximately HK$9.9 million.

Gross profit margins of the Group's operations in Hong Kong, Mainland China and Macau were 19.2%, 30.8% and 32.8%, respectively (2012: 20.1%, 23.7% and 30.8%, respectively).

Inventory

The Group's total inventories as at 31 December 2013 and 2012 were HK$149.3 million and HK$115.4 million, respectively. The total inventories of the Group are recorded after netting of provision for slow-moving inventories. Multiple aggressive promotional activities were offered during the fiscal year to stimulate sales volume. As a result, inventory turnover days of the Group improve to 88.7 days for the year ended 31 December 2013 (2012: 92.4 days).

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	
	2013	2012
	HK$'000	*HK$'000*
Aging of inventories (handbags products)		
0 to 90 days	**77,934**	73,411
91 to 180 days	**38,216**	14,570
181 days to 1 year	**31,128**	16,741
Over 1 year	**631**	9,467
Total	**147,909**	114,189

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	
	2013	2012
	HK$'000	*HK$'000*
Aging of inventories (other products)		
0 to 45 days	**225**	639
46 to 90 days	**254**	194
91 days to 1 year	**860**	358
Over 1 year	**2**	6
Total	**1,341**	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 31 December of the two comparative years:

	31 December	
	2013	2012
	HK$'000	*HK$'000*
Aging of inventories (handbags products over HK$50,000)		
0 to 90 days	**40,795**	40,982
91 to 180 days	**16,419**	6,536
181 days to 1 year	**13,451**	9,854
Over 1 year	**–**	3,927
Total	**70,665**	61,299

Other income and gains

During the year ended 31 December 2013, other income and gains amounted to approximately HK$10.5 million, increased by HK$0.7 million as compared to last year, mainly due to increase of rental income.

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 2013, selling expenses of the Group were approximately HK$138.4 million, representing 19.8% of its revenue (2012: approximately HK$109.4 million, representing 16.2% of revenue). Selling expenses continued to grow during the year under review, mainly due to an increase in advertising expenses for promotion, rental expenses for retail shops and commission paid to the company who run the exclusive clubhouses in Macau.

Administrative and other operating expenses

Administrative and other operating expenses of the Group for the year ended 31 December 2013 amounted to approximately HK$57.7 million, increased by approximately HK$5.4 million as compared to last year on year-on-year basis, representing approximately 8.3% 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. Administrative and other operating expenses continued to grow during the year under review, mainly due to an increase in salary paid to administrative staff especially for the expansion of PRC online shopping business.

Finance costs

Finance costs of the Group mainly consisted of interest expenses on bank borrowing and a finance lease. Finance costs amounted to approximately HK$1.3 million in 2013, decreased by HK$0.1 million as compared to last year.

Loss attributable to equity holders

Loss attributable to equity holders of the Company for the year ended 31 December 2013 was approximately HK$37.5 million, representing an increase of 169.8% from approximately HK$13.9 million for the year ended 31 December 2012. Loss per share attributable to equity holders was approximately HK5.6 cents for the year ended 31 December 2013, as compared to approximately HK2.1 cents for the year ended 31 December 2012.

Employees and remuneration policy

As at 31 December 2013, the Group had a total of 173 employees (2012: 158 employees). The Group's remuneration policy was determined according to the position, performance and 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 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 31 December 2013, the Group had an interest-bearing bank borrowing of approximately HK$26.8 million (2012: approximately HK$36.7 million). The borrowing is denominated in Hong Kong dollars. The bank loan bears prevailing commercial lending rates. The Group's land and building with a carrying amount of HK$77.3 million was pledged to secure the bank borrowing. It was expected that all the borrowing would be repaid by internal generated funds.

As at 31 December 2013, the Group's total balance of cash and cash equivalents, total liabilities and shareholders' equity were approximately HK$81.3 million, HK$58.2 million and HK$319.0 million, respectively (2012: approximately HK$128.4 million, HK$57.1 million and HK$354.5 million, respectively). The Group's gearing ratio, current ratio and quick ratio as at 31 December 2013 were approximately 7.2%, 4.6 and 2.0, respectively (2012: 8.9%, 5.4 and 3.3, respectively). The Group's gearing ratio and quick ratio dropped for the year ended 31 December 2013 mainly due to the repayment of interest-bearing borrowings, and decrease in cash and cash equivalents, respectively.

Pledge of assets

As at 31 December 2013, the Group's land and building with a carrying value of HK$77.3 million and the Group's bank deposits of HK$1.0 million were pledged to banks to secure the bank borrowing 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"), United States ("US") dollars and Singapore dollars. It is the Group's policy to continue maintaining the balance of its sales and purchases in the same currency. The Group did 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 2013, 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$4.6 million and HK$0.2 million as at 31 December 2013 and 2012, respectively.

Future plans relating to the material investment

On 11 October 2013, Standpoint Global Limited ("Standpoint Global"), an indirect wholly-owned subsidiary of the Company, entered into a shareholders' agreement (the "Shareholders' Agreement") with J&C (Asia) Limited ("J&C"), an independent third party, for the formation of a joint venture which will be principally engaged in the online procurement and sale of unused and second-hand luxury branded handbags and apparel products in the PRC under the brand name and the trademark of "Milan Station".

Standpoint Global and J&C will have 90% and 10% equity interest in the joint venture respectively. Further details of the formation of the joint venture were disclosed in an announcement made by the Company on 11 October 2013.

OUTLOOK

The slowdown of China's economic growth is expected to lead to deceleration in the growth of luxury goods consumption in Mainland China and Hong Kong. However, thanks to the improving living standard of the mainland's middle class, the quest for style and the brand names which represent it will also grow. Although the general retailing market looks gloomy, its strong potential for growth should not be overlooked. The market for luxury brand handbags will still have impetus for long-term growth. As long as the global economy recovers and China maintains its economic growth momentum in 2014, the Group is prudently optimistic about the outlook of the luxury goods markets in Mainland China and Hong Kong.

Development strategy

The Group will continue to review the ever-changing market environments in Hong Kong, its principal place of business, and will reinforce its leading position in this core market by optimising the portfolios of retail shops and products, intensifying its marketing and promotional efforts, and modifying the marketing strategies. To enhance the overall effectiveness of the retail network, the Group is reviewing its retail network's efficiency, while actively adjusting the store portfolio, so as to enhance its competitive edge and sales. Leases of the Group's four retailing stores will expire in 2014. As a result, the Group will renew the leases or relocate its stores prudently so that it will be able to bring the overall rental cost within the target range and boost the efficiency of its retailing business.

With changing market demands, the proportions of the Group's different product categories in sales have also changed. In addition, the Group has been actively diversifying its sales channels. In view of these factors, the Group revised its inventory provision policy in 2013 to more reasonably and accurately reflect the Group's operating conditions. Its new inventory provision policy has been adopted when the financial statements for the period under review was prepared.

As the core development strategy, the Group will continue with its prudent approach to its business expansion in the mainland market, with Beijing and Shanghai as its strategic footholds. Works are underway in transforming the "Milan Station" store in China Central Place, Beijing into a mega "Milan Station" flagship store, which will occupy three store spaces, and is expected to commence operation in the first half of 2014. Meanwhile, the Group will continue to explore and expand cost-effective sales channels and partnership solutions, with a view to making inroads into those cities with the highest growth potential in China. The Group will also continue to identify partners in accordance with its new shop-opening strategy and open new shops with them either through a consignment management agreement or a joint venture. These will enable the Group to leverage its partners' strengths, connections and market knowledge in local markets. Currently, the Group is negotiating with its existing partners and preparing for the opening of new stores. Two new stores are expected to open in Chengdu and Jiangmen in 2014, with one as a joint venture and the other as a consignment management operation.

China's e-commerce is experiencing rapid growth, and online shopping is turning into a main trend in the country's consumer market. To tap the development for business growth, the Group has achieved success in its online shopping platform. To build on the achievement, the Group will devote more resources to its online shopping platform in the country in the coming year, and will devise a suitable product mix which will be suitable for collection and sales on an online transaction platform in order to cater for the needs of consumers from various regions of the country.

Management *Discussion and Analysis*

The Group will also be actively developing innovative and cost-efficient sales channels, including exclusive clubhouses in Macau and cruises etc., to form a more diversified sales network, thus mitigating the rental pressure on the Group and boosting its sales. The Group plans to open at least another sales counter on cruise in 2014, bringing the total number of cruise sales counters to four. It will also increase the number of selling points in exclusive clubhouses in Macau from four to six.

In addition, the Group launched its Italian-made bags with its own "MS" brand in October 2013 in response to the increasing demand for mid-priced quality bags and fast-moving products. Initial market response has been encouraging, as the products have been well received for their beautiful design, first-rate fashion and reasonable prices. The Group will continue to closely monitor its sales results, market response and comments, and adjust its retailing strategy in a timely manner.

In a difficult and challenging operating environment, the Group will continue to heed the changes in the market, put in place appropriate strategies, while exploring diverse sales channels and widening the product range. With its brand equity and leading market position it has built over the years, as well as its professional management team and an efficient and diversified sales network, the Group's management will try its best to generate remarkable returns to its shareholders once the economy begins recovering in the coming year.

Director and *Senior Management*

EXECUTIVE DIRECTORS

Mr. Yiu Kwan Tat, aged 45, 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.

Mr. Yiu Kwan Wai, Gary, aged 43, 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.

NON-EXECUTIVE DIRECTORS

Mr. Tam B Ray, Billy, aged 45, 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 currently 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 China Natural Investment Company Limited and EDS Wellness Holdings Limited (formerly known as China AU Group Holdings Limited), all of which are listed on the Growth Enterprise Market of the Stock Exchange ("GEM"). Mr. Tam is also currently a non-executive director of Larry Jewelry International Company Limited, a company listed on the GEM. He was an independent non-executive director of M Dream Inworld Limited from June 2010 to November 2013, a company listed on the GEM.

Mr. Yuen Lai Yan, Darius, aged 44, 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.

Director and *Senior Management*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. So, Stephen Hon Cheung, aged 58, 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 Skyworth Digital Holdings Limited since March 2000 and PINE Technology Holdings Limited since September 2002, all of which are listed on the Main Board of the Stock Exchange.

Mr. Fan Chun Wah, Andrew, aged 35, was appointed as Independent Non-executive Director on 25 March 2013. He is a practising certified public accountant in Hong Kong with over 8 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 and eleventh 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 Youth Association. Mr. Fan is an independent non-executive director of Chuang's China Investments Limited and LT Holdings Limited (formerly known as Chi Cheung Investment Company 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 was 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.

Mr. Mui Ho Cheung, Gary, aged 39, was appointed as Independent Non-executive Director on 31 May 2013. He is a managing director and Head of IPO and Capital Markets of Quam Capital Limited and also the registered staff on behalf of Quam Capital Limited for Type 6 regulated activity under the SFO. Mr. Mui joined Quam Capital Limited in early 2009. He has over 15 years of experience in the fields of finance and investment banking. Mr. Mui holds a Bachelor's Degree in Accounting and Finance from the University of New South Wales and is a member of CPA Australia. Mr. Mui is an independent non-executive director of China Sanjiang Fine Chemicals Company Limited, the shares of which are listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Ms. Wong Wook Yuk, Angela, aged 44, is the chief operating officer of the Group. She joined the Group in 2012 as the business development director and was promoted to chief operating officer in 2014. She has extensive experience in running retail, wholesale, and even manufacturing operations in the US, European and Greater China market. She has worked with many sizable 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 the US 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 recognised global brand, Body Glove from 1997 to 2005 and she was relocated from the US 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.

Director and *Senior Management*

Mr. Chan Hon Leung, aged 43, 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.

Mr. Choi Wai Kei, aged 40, 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 34, 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 Degree of Computer Engineering 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 46, 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.

Corporate Governance *Report*

CORPORATE GOVERNANCE PRACTICE

The board of directors (the "Board") of the Company is committed to maintaining high standards of corporate governance and 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 Corporate Governance Code (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance practice.

During the year ended 31 December 2013 (the "Reporting Year"), the Company had complied with all applicable code provisions under the CG Code save as disclosed below.

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 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 CG Code requires the nomination committee of listed issuers comprises 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 non-executive directors.

Rule 3.10(1) of the Listing Rules provides that every board of directors of a 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 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 an 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 fully complied with the requirements of Rules 3.10(1), 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of the CG 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 enquiries 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.

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 seven members, including two 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 by 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 nine 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 CG 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. Four out of the nine 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 CG 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 attended**
Executive Directors	Yiu Kwan Tat *(Chairman and Chief Executive Officer)*	8/9
	Yiu Kwan Wai, Gary *(Managing Director)*	8/9
	Wong Hiu Chor *(resigned on 17 February 2014)*	9/9
	Yiu Sau Wai *(resigned on 17 February 2014)*	9/9
Non-executive Directors	Tam B Ray, Billy	7/9
	Yuen Lai Yan, Darius	7/9
Independent Non-executive Directors	So, Stephen Hon Cheung	9/9
	Fan Chun Wah, Andrew *(appointed on 25 March 2013)*	6/6
	Mui Ho Cheung, Gary *(appointed on 31 May 2013)*	5/5
	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	1/2
	Lau Kin Hok *(resigned on 31 May 2013)*	3/4

Corporate Governance *Report*

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. So, Stephen Hon Cheung, Mr. Fan Chun Wah, Andrew and Mr. Mui Ho Cheung, Gary 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 19 and 20 of this annual report.

Pursuant to Article 84 of the Articles 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 Articles 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 Meetring held on 31 May 2013 is as follows:

	Directors	**Number of attendance/ Eligible to attended**
Executive Directors	Yiu Kwan Tat *(Chairman and Chief Executive Officer)*	1/1
	Yiu Kwan Wai, Gary *(Managing Director)*	1/1
	Wong Hiu Chor *(resigned on 17 February 2014)*	1/1
	Yiu Sau Wai *(resigned on 17 February 2014)*	1/1
Non-executive Directors	Tam B Ray, Billy	1/1
	Yuen Lai Yan, Darius	1/1
Independent Non-executive Directors	So, Stephen Hon Cheung	1/1
	Fan Chun Wah, Andrew *(appointed on 25 March 2013)*	1/1
	Mui Ho Cheung, Gary *(Note)* *(appointed on 31 May 2013)*	0/0
	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	0/0
	Lau Kin Hok *(resigned on 31 May 2013)*	1/1

Note: Mr. Mui Ho Cheung, Gary was appointed as an Independent Non-executive Director at a meeting of the Board immediately held after the Annual General Meeting on 31 May 2013.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

During the Reporting Year, the newly appointed Directors were given an induction after their appointment so as to ensure that they have appropriate understanding of the Group's business and of their 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 2013 is as follow:

	Directors	**Course/ seminar provided/ accreditied by professional body**	**Reading materials**
Executive Directors	Yiu Kwan Tat *(Chairman and Chief Executive Officer)*	✓	✓
	Yiu Kwan Wai, Gary *(Managing Director)*	✓	✓
	Wong Hui Chor *(resigned on 17 February 2014)*	✓	✓
	Yiu Sau Wai *(resigned on 17 February 2014)*	✓	✓
Non-executive Directors	Tam B Ray, Billy	✓	–
	Yuen Lai Yan, Darius	✓	✓
Independent Non-executive Directors	So, Stephen Hon Cheung	✓	✓
	Fan Chun Wah, Andrew *(appointed on 25 March 2013)*	✓	–
	Mui Ho Cheung, Gary *(appointed on 31 May 2013)*	✓	–
	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	✓	✓
	Lau Kin Hok *(resigned on 31 May 2013)*	✓	–

REMUNERATION COMMITTEE

The Remuneration Committee was established on 28 April 2011 with a specific written terms of reference in compliance with the CG Code. 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, save for the period from 15 March 2013 to 25 March 2013, the Remuneration Committee comprises five Directors, a majority of whom are Independent Non-executive Directors. The Remuneration Committee held three 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 attended**
Independent Non-executive Directors	Fan Chun Wah, Andrew *(appointed on 25 March 2013 and became the Chairman on 31 May 2013)*	1/1
	So, Stephen Hon Cheung	3/3
	Mui Ho Cheung, Gary *(appointed on 31 May 2013)*	0/0
	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	1/1
	Lau Kin Hok *(resigned on 31 May 2013)*	3/3
Executive Directors	Yiu Kwan Tat	3/3
	Wong Hiu Chor *(resigned on 17 February 2014)*	3/3

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 Directors and senior management with recommendations to the Board for approval.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2013 is set out below:

Remuneration band	Number of individuals
Nil to HK$1,000,000	6

Details of the remuneration of each Director for the year ended 31 December 2013 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 CG Code. During the Reporting Year, the Nomination Committee comprises five Directors, a majority of whom are Independent Non-executive Directors. The Nomination Committee held three meetings.

In August 2013, on the recommendation of the Nomination Committee, the Board has approved and adopted the revised terms of reference of the Nomination Committee in light of the amendments of the CG Code, and the same are published on the websites of the Stock Exchange and the Company. The Board also approved the adoption of the Board Diversity Policy. The Company seeks to achieve Board diversity through the consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

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 attended
Executive Directors	Yiu Kwan Tat *(Chairman)*	3/3
	Wong Hiu Chor *(resigned on 17 February 2014)*	3/3
Independent Non-executive Directors	So, Stephen Hon Cheung	3/3
	Fan Chun Wah, Andrew *(appointed on 25 March 2013)*	2/2
	Mui Ho Cheung, Gary *(appointed on 31 May 2013)*	1/1
	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	0/0
	Lau Kin Hok *(resigned on 31 May 2013)*	2/2

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

(a) reviewed the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board;

(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;

(d) made recommendations to the Board on the appointment or re-appointment of Directors and the appointment of senior management; and

(e) recommended the Board on the adoption of the revised terms of reference of the Nomination Committee and the Board Diversity Policy.

AUDIT COMMITTEE

The Audit Committee was established on 28 April 2011 with a specific written terms of reference in compliance with the CG Code. 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 attended
Independent Non-executive Directors	So, Stephen Hon Cheung *(Chairman)*	3/3
	Fan Chun Wah, Andrew *(appointed on 25 March 2013)*	1/1
	Mui Ho Cheung, Gary *(appointed on 31 May 2013)*	1/1
	Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*	1/1
	Lau Kin Hok *(resigned on 31 May 2013)*	2/2

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 2013 and the audited finanical statements for the year ended 31 December 2012 with recommendation to the Board for approval;

(b) reviewed the Inside Information Policy and recommended the Board for adoption and approval;

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

(d) considered the independent auditor's independence and fee in relation to the unaudited interim financial statements of the Group for the six months ended 30 June 2013 and the audited financial statements of the Group for the year ended 31 December 2012.

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$1,460,000 for auditing services and HK$327,000 for non-auditing services by the Company's auditors, Ernst & Young.

Services rendered	**Fees paid/payable**
	HK$'000
Audit services – annual audit	1,460
Non-audit services:	
Review of interim results	100
Taxation services	227
	1,787

Corporate Governance *Report*

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 CG 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 executive 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 2013 and for the year ended 31 December 2013, 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 pages 45 to 46 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 2013.

(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 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 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 and ensure the internal controls are in place and functioning properly as intended.

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 year under review, the Board has not been informed any complaints or concerns over financial improprieties from staff.

The Board approved and adopted the Inside Information Policy during the Reporting Year 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.

Corporate Governance *Report*

COMPANY SECRETARY

The Company's secretarial functions are outsourced to external service provider. Mr. Lo Wai Shing, the former Chief Financial Officer of the Group, was the primary contact person of the Company with the external service provider during the Reporting Year. Subsequent to Mr. Lo's resignation on 14 February 2014, Ms. Wong Woon Yuk, Angela, Chief Operating Officer of the Group, is the primary contact person of the Company with the external service provider.

According to Rule 3.29 of the Listing Rules, Mr. Chan Kwong Leung, Eric, the Company Secretary of the Company, 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 folowing 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/herslef/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 2013.

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 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 47 to 103 of this annual report.

The Board has resolved not to declare a final dividend for the year ended 31 December 2013 (2012: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 3 June 2014 to Thursday, 5 June 2014 (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 Friday, 30 May 2014.

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 2013, 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 2012	Balance as at 31 December 2012	Amount utilised for the year end 31 December 2013	Balance as at 31 December 2013
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Expansion of retail network in the PRC market	148.0	113.5	41.7	71.8	24.7	47.1
Decorating new retail shops, relocating and redecorating several existing shops in Hong Kong, Mainland China and Macau	12.0	12.0	5.5	6.5	2.9	3.6
Marketing and promotion of the Group	17.0	17.0	2.9	14.1	6.6	7.5
Design and development of private label "MS" brand products	4.0	4.0	–	4.0	2.1	1.9
Exploration of online sales channel	2.4	2.4	2.4	–	–	–
Staff training and development	2.8	2.8	0.3	2.5	0.2	2.3
Upgrading of the Group's information technology system	3.2	3.2	1.9	1.3	0.8	0.5
General working capital	13.3	10.3	–	10.3	1.5	8.8
Acquisition of the property for own use	–	37.5	37.5	–	–	–
	202.7	202.7	92.2	110.5	38.8	71.7

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 104 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 25 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 2013, 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 2013 are set out in note 26(b) to the financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2013, the Company's reserves available for distribution amounted to approximately HK$306,995,000, 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 2013 of approximately HK$421,107,000. 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$364,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2013, 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.

Report of *the Directors*

DIRECTORS

The Directors of the Company during the year were 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 *(resigned on 17 February 2014)*
Ms. Yiu Sau Wai *(resigned on 17 February 2014)*

Non-executive Directors:
Mr. Tam B Ray, Billy
Mr. Yuen Lai Yan, Darius

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)*
Mr. Ip Shu Kwan, Stephen *(resigned on 15 March 2013)*
Mr. Lau Kin Hok *(resigned on 31 May 2013)*

Pursuant to Articles 84(1) and 84(2) of the Articles of Association, Mr. Yiu Kwan Tat, Mr. Yiu Kwan Wai, Gary and Mr. So, Stephen Hon Cheung shall retire by rotation from office at the forthcoming annual general meeting. Each of Mr. Yiu Kwan Tat, Mr. Yiu Kwan Wai, Gary and Mr. So, Stephen Hon Cheung, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Pursuant to Article 83(3) of the Articles of Association, Mr. Mui Ho Cheung, Gary shall retire from office at the forthcoming annual general meeting. Mr. Mui Ho Cheung, Gary 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 19 to 21 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing on 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. So, Stephen Hon Cheung, Mr. Ip Shu Kwan, Stephen (resigned on 15 March 2013) and Mr. Lau Kin Hok (resigned on 31 May 2013) 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 renewed a letter of appointment with the Company for another term of 1 year commencing on 30 August 2013, 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 renewed a letter of appointment with the Company for another term of 1 year commencing on 25 March 2014, which may be terminated by not less than 1 month's notice in writing served by either party or the other.

Mr. Mui Ho Cheung, Gary an Independent Non-executive Director, has signed a letter of appointment and is appointed for an initial term of 1 year commencing on 31 May 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 2013.

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 2013.

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

As at 31 December 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 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 held 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 Position 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 *(resigned on 17 February 2014)*	2,000,000	–	2,000,000	0.30%
Mr. Wong Hiu Chor *(resigned on 17 February 2014)*	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 31 December 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.

Report of *the Directors*

SHARE OPTION

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 year ended 31 December 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 31 December 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 *(resigned on 17 February 2014)*	2,000,000	–	–	–	–	2,000,000	13-12-11	13-12-11 to 12-12-16	1.384
Mr. Wong Hiu Chor *(resigned on 17 February 2014)*	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	–	–	–	(100,000)	3,700,000	13-12-11	13-12-11 to 12-12-16	1.384
	11,000,000	–	–	–	(500,000)	10,500,000			

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 binominal model as at the date of grant of the options:

	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 *(resigned on 17 February 2014)*	2,000,000	984
Mr. Wong Hiu Chor *(resigned on 17 February 2014)*	400,000	197
Mr. Tam B Ray, Billy	200,000	98
Mr. So, Stephen Hon Cheung	200,000	98
Other employees	3,700,000	1,821
	10,500,000	5,166

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 25 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 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:

	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 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.

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.

		2013	2012
	Notes	**HK$'000**	HK$'000
Rental expenses paid to related companies	*(a)*	**10,000**	7,727
Purchases from a related company	*(b)*	**108**	76
Renovation costs to a related company	*(c)*	**3,211**	7,847
Legal and professional expenses to a related company	*(d)*	**599**	273

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 directors of these related companies. The rental expenses paid to those 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 announcements of the Company dated 20 January 2012, 20 November 2012 and 19 December 2013 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 Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2013, save for certain derivations. The Corporate Governance Report is set out on pages 22 to 33 of this annual report.

Report of *the Directors*

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 2013 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 22 to 33 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, 31 March 2014

Independent Auditors' *Report*

EY 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 47 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, 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.

Independent Auditors' *Report*

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 2013, 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
31 March 2014

Consolidated Statement of *Profit or Loss*

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
REVENUE	5	**698,007**	676,444
Cost of sales		**(544,730)**	(532,461)
Gross profit		**153,277**	143,983
Other income and gains	5	**10,529**	9,825
Selling expenses		**(138,387)**	(109,442)
Administrative and other operating expenses		**(57,744)**	(52,286)
Finance costs	6	**(1,343)**	(1,380)
LOSS BEFORE TAX	7	**(33,668)**	(9,300)
Income tax expense	10	**(4,296)**	(4,630)
LOSS FOR THE YEAR		**(37,964)**	(13,930)
Attributable to:			
Equity holders of the Company	11	**(37,520)**	(13,918)
Non-controlling interests		**(444)**	(12)
		(37,964)	(13,930)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
– Basic and diluted	13	**HK(5.56 cents)**	HK(2.06 cents)

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

Consolidated Statement of *Comprehensive Income*

Year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
LOSS FOR THE YEAR		**(37,964)**	(13,930)
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**2,103**	871
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(35,861)**	(13,059)
Attributable to:			
Equity holders of the Company	11	**(35,528)**	(13,047)
Non-controlling interests		**(333)**	(12)
		(35,861)	(13,059)

Consolidated Statement of *Financial Position*

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**95,026**	97,845
Deferred tax assets	23	**574**	1,928
Deposits	16	**22,912**	12,828
Total non-current assets		**118,512**	112,601
CURRENT ASSETS			
Inventories	17	**149,250**	115,386
Trade receivables	18	**10,712**	8,314
Prepayments, deposits and other receivables	16	**18,228**	18,875
Tax recoverable		**1,958**	10,260
Pledged deposits	19	**1,000**	21,597
Cash and cash equivalents	19	**81,302**	128,384
Total current assets		**262,450**	302,816
CURRENT LIABILITIES			
Accrued liabilities and other payables	20	**27,975**	18,758
Interest-bearing bank borrowings	21	**26,808**	36,743
Obligations under a finance lease	22	**114**	112
Tax payable		**1,587**	630
Total current liabilities		**56,484**	56,243
NET CURRENT ASSETS		**205,966**	246,573
TOTAL ASSETS LESS CURRENT LIABILITIES		**324,478**	359,174
NON-CURRENT LIABILITIES			
Accrued liabilities and other payables	20	**911**	768
Obligations under a finance lease	22	**463**	51
Deferred tax liability	23	**322**	62
Total non-current liabilities		**1,696**	881
Net assets		**322,782**	358,293
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	24	**6,744**	6,744
Reserves	26(a)	**312,261**	347,789
		319,005	354,533
Non-controlling interests		**3,777**	3,760
Total equity		**322,782**	358,293

YIU KWAN TAT
Director

YIU KWAN WAI, GARY
Director

Consolidated Statement of *Changes in Equity*

Year ended 31 December 2013

	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 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	–	(4,046)	–	–	–	–	–	–	(4,046)	–	(4,046)
Transfer of share option reserve upon the lapse of share options	–	–	–	–	–	–	(369)	369	–	–	–
At 31 December 2012 and 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	–	–	–	–	–	1,992	–	–	1,992	111	2,103
Loss for the year	–	–	–	–	–	–	–	(37,520)	(37,520)	(444)	(37,964)
Total comprehensive income/(expense) for the year	–	–	–	–	–	1,992	–	(37,520)	(35,528)	(333)	(35,861)
Contribution from a non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	350	350
Transfer of share option reserve upon the lapse of share options	–	–	–	–	–	–	(246)	246	–	–	–
At 31 December 2013	6,744	173,102*	10*	(23,782)*	1,729*	3,575*	5,167*	152,460*	319,005	3,777	322,782

* *These reserve accounts comprise the consolidated reserves of HK$312,261,000 (2012: HK$347,789,000) 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 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(33,668)**	(9,300)
Adjustments for:			
Bank interest income	5	**(699)**	(1,178)
Gain on disposal of items of property, plant and equipment	7	**(526)**	(1,029)
Write-off of items of property, plant and equipment	7	**1,476**	3,205
Provision/(write-back of provision) for slow-moving inventories, net	7	**(17,264)**	7,411
Depreciation	7	**10,786**	8,646
Impairment of items of property, plant and equipment	7	**1,790**	–
Finance costs	6	**1,343**	1,380
		(36,762)	9,135
Decrease/(increase) in inventories		**(16,600)**	31,366
Decrease/(increase) in trade receivables		**(2,398)**	945
Decrease/(increase) in prepayments, deposits and other receivables		**(9,437)**	4,432
Increase/(decrease) in accrued liabilities and other payables		**9,051**	(4,070)
Cash generated from/(used in) operations		**(56,146)**	41,808
Interest paid		**(1,333)**	(1,367)
Interest elements on finance lease rental payments		**(10)**	(13)
Hong Kong profits tax refunded/(paid)		**6,353**	(16,370)
Overseas taxes refunded/(paid)		**224**	(2,371)
Net cash flows from/(used in) operating activities		**(50,912)**	21,687
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**699**	1,178
Purchases of items of property, plant and equipment		**(11,157)**	(89,199)
Decrease in time deposits with original maturity of more than three months		**–**	20,000
Proceeds from disposal of items of property, plant and equipment		**1,484**	1,200
Net cash flows used in investing activities		**(8,974)**	(66,821)

Consolidated Statement of *Cash Flows*

Year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**27,000**	39,625
Repayment of bank loans		**(36,935)**	(2,882)
Decrease/(increase) in pledged time deposits		**20,597**	(20,094)
Dividends paid		**–**	(4,046)
Capital element of finance lease payables		**(191)**	(112)
Contribution from a non-controlling interest of a subsidiary		**350**	3,772
Net cash flows from financing activities		**10,821**	16,263
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(49,065)**	(28,871)
Cash and cash equivalents at beginning of year		**128,384**	156,539
Effect of foreign exchange rate changes, net		**1,983**	716
CASH AND CASH EQUIVALENTS AT END OF YEAR		**81,302**	128,384
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**80,302**	75,657
Non-pledged time deposits with original maturity of less than three months when acquired		**1,000**	52,727
Cash and cash equivalents as stated in the consolidated statement of financial position and cash flows	19	**81,302**	128,384

Statement of *Financial Position*

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	**144,000**	144,000
Property, plant and equipment	14	**125**	166
Total non-current assets		**144,125**	144,166
CURRENT ASSETS			
Prepayments, deposits and other receivables	16	**359**	420
Due from subsidiaries	15	**181,255**	178,107
Cash and bank balances	19	**742**	302
Total current assets		**182,356**	178,829
CURRENT LIABILITIES			
Due to subsidiaries	15	**4,364**	741
Accrued liabilities and other payables	20	**3,211**	2,712
Total current liabilities		**7,575**	3,453
NET CURRENT ASSETS		**174,781**	175,376
Net assets		**318,906**	319,542
EQUITY			
Issued capital	24	**6,744**	6,744
Reserves	26(b)	**312,162**	312,798
Total equity		**318,906**	319,542

YIU KWAN TAT
Director

YIU KWAN WAI, GARY
Director

Notes to *Financial Statements*

31 December 2013

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 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 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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 profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 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 *Presentation 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

Other than as further explained below regarding the impact of amendments to HKAS 1, the adoption of the above new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting this new and revised HKFRS are as follows:

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in 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 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]

1 *Effective for annual periods beginning on or after 1 January 2014*
2 *Effective for annual periods beginning on or after 1 July 2014*
3 *Effective for annual periods beginning on or after 1 January 2016*
4 *No mandatory effective date yet determined but is available for adoption*

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 (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 of disposal, 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 statement of profit or loss 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 statement of profit or loss 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) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

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

(vii) 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 statement of profit or loss 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 items 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. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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 statement of profit or loss in the year the asset is derecognised is the difference between the net sales 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 items of 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 statement of profit or loss 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 lease, such rentals receivable are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in items of property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, 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. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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 statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss 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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. 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 other expenses in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, 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.

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 statement of profit or loss 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 statement of profit or loss.

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 statement of profit or loss.

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.

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 the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 statement of profit or loss.

Income tax

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

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

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

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

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

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

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 liability 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 taxable 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.

Employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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 statement of profit or loss 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.

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 statement of profit or loss 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 statement of profit or loss as they become payable in accordance with the rules of the central pension schemes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 25 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 in employee benefit expense. 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 statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 statement of profit or loss.

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 measured. 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 profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss 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 statement of profit and loss.

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.

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

At the end of the reporting period, the management reassessed and revised the provision estimation for obsolete and slow-moving inventories due to a change in products sold in recent years and the latest experience of selling merchandise of similar nature.

In the previous years, the Group made 10% provision on the gross carrying value of handbags (both unused and second-hand) that are aged over 90 days. An additional 10% provision on the gross carrying value of the inventories will be made if another 90 days passed for the handbags and so on. Starting from 1 January 2013, inventory provision was provided at an accelerated rate for the unused handbags (other than certain classical brand handbags) and second-hand handbags that are aged over 1 year and 120 days, respectively, and full provision was provided for the unused handbags and second-hand handbags that are aged over 4 years and 840 days, respectively. The effect of this change in accounting estimate was recognised prospectively from 1 January 2013. These estimates have been changed and impacted the allowance of the inventories and the carrying amounts of inventories in the period.

As a result of this change, provision for slow-moving inventories included in cost of sales for the year ended 31 December 2013 and the net realisable value of inventories as at 31 December 2013 decreased and increased by approximately HK$9,902,000 and HK$9,902,000, respectively.

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	Singapore	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2013					
Revenue from external customers	543,249	82,074	64,548	8,136	698,007
Non-current assets	93,265	113	7,219	–	100,597
Capital expenditure	9,603	25	2,443	–	12,071
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

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

Information about major customers

No customer of the Group has individually accounted for over 10% of the Group's total revenue during the year (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:

	2013	2012
	HK$'000	HK$'000
Revenue		
Sale of goods	698,007	676,444
Other income and gains		
Bank interest income	699	1,178
Gain on disposal of items of property, plant and equipment	526	1,029
Gross rental income	8,400	6,960
Others	904	658
	10,529	9,825
	708,536	686,269

6. FINANCE COSTS

	Group	
	2013	2012
	HK$'000	HK$'000
Interest on:		
Bank loans wholly repayable:		
Within five years	112	121
Over five years	1,221	1,246
Finance lease	10	13
	1,343	1,380

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31 December 2013

7. LOSS BEFORE TAX

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

		Group	
		2013	2012
	Notes	HK$'000	HK$'000
Cost of inventories sold		544,730	532,461
Provision/(write-back of provision) for slow-moving inventories included in cost of inventories sold		(17,264)	7,411
Depreciation	14	10,786	8,646
Impairment of items of property, plant and equipment		1,790	–
Minimum lease payments under operating leases in respect of land and buildings		79,053	67,096
Provision for early termination of a tenancy agreement	20	3,956	–
Employee benefit expenses (excluding directors' remuneration (note 8)):			
Wages and salaries		33,988	30,616
Pension scheme contributions		1,054	1,048
		35,042	31,664
Auditors' remuneration		1,460	1,560
Write-off of items of property, plant and equipment		1,476	3,205
Gain on disposal of items of property, plant and equipment		(526)	(1,029)
Bank interest income		(699)	(1,178)

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	
	2013	2012
	HK$'000	HK$'000
Fees	1,096	967
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	7,823	8,501
Pension scheme contributions	60	56
	8,979	9,524

8. DIRECTORS' REMUNERATION *(continued)*

During the prior years, 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 25 to the financial statements. The fair value of such options, which had been recognised in the statement of profit or loss was determined as at the date of grant and the amount included in the financial statements for the prior years was included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Equity-settled share option expense	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2013					
Mr. So, Stephen Hon Cheung ("Mr. So")	200	–	–	–	200
Mr. Ip Shu Kwan, Stephen ("Mr. Ip")	41	–	–	–	41
Mr. Lau Kin Hok ("Mr. Lau")	84	–	–	–	84
Mr. Fan Chun Wah, Andrew ("Mr. Fan")	154	–	–	–	154
Mr. Mui Ho Cheung ("Mr. Mui")	117	–	–	–	117
	596	–	–	–	596
Year ended 31 December 2012					
Mr. So	200	–	–	–	200
Mr. Ip	200	–	–	–	200
Mr. Lau	200	–	–	–	200
	600	–	–	–	600

Mr. Fan and Mr. Mui were appointed as the independent non-executive directors of the Company on 25 March 2013 and 31 May 2013, respectively.

Mr. Ip and Mr. Lau resigned as independent non-executive directors of the Company on 15 March 2013 and 31 May 2013, respectively.

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 2013					
Executive directors:					
Mr. Yiu Kwan Tat ("Mr. Yiu")^	–	5,046	15	–	5,061
Mr. Yiu Kwan Wai, Gary	–	852	15	–	867
Ms. Yiu Sau Wai ("Ms. Yiu")	–	1,073	15	–	1,088
Mr. Wong Hiu Chor ("Mr. Wong")	–	852	15	–	867
	–	7,823	60	–	7,883
Non-executive directors:					
Mr. Tam B Ray, Billy ("Mr. Tam")	300	–	–	–	300
Mr. Yuen Lai Yan, Darius ("Mr. Yuen")	200	–	–	–	200
	500	7,823	60	–	8,383
Year ended 31 December 2012					
Executive directors:					
Mr. Yiu^	–	5,655	14	–	5,669
Mr. Yiu Kwan Wai, Gary	–	897	14	–	911
Ms. Yiu	–	1,050	14	–	1,064
Mr. Wong	–	899	14	–	913
	–	8,501	56	–	8,557
Non-executive director:					
Mr. Tam	300	–	–	–	300
Mr. Yuen	67	–	–	–	67
	367	8,501	56	–	8,924

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

8. DIRECTORS' REMUNERATION *(continued)*

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

Mr. Yuen was appointed as a non-executive director of the Company on 30 August 2012.

On 17 February 2014, Mr. Wong and Ms. Yiu resigned as executive directors of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2012: Nil).

During the year ended 31 December 2013, 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 (2012: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2012: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2012: one) highest paid employee who is a non-director of the Company is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Salaries, bonuses, allowances and benefits in kind	**840**	700
Pension scheme contributions	**11**	14
	851	714

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

	Number of employees	
	2013	2012
Nil to HK$1,000,000	**1**	1

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

During the prior years, 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 25 to the financial statements. The fair value of such options, which had been recognised in the statement of profit or loss, was determined as at the date of grant and the amount included in the financial statements for prior years was included in the above non-director, highest paid employee's remuneration disclosures.

During the year ended 31 December 2013, 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 (2012: Nil).

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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 Peoples' 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% (2012: 25%) on their taxable profits. Macau complementary tax has been provided at progressive rates up to a maximum of 12% (2012: 12%) on the estimated taxable profits.

	Group	
	2013	2012
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**2,038**	4,427
Overprovision in prior years	**(191)**	(102)
Current – Elsewhere		
Charge for the year	**462**	364
Underprovision in prior years	**373**	56
Deferred (note 23)	**1,614**	(115)
Total tax charge for the year	**4,296**	4,630

10. INCOME TAX EXPENSE *(continued)*

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

	Group	
	2013	2012
	HK$'000	HK$'000
Loss before tax	**(33,668)**	(9,300)
Tax at the statutory tax rate	**(7,737)**	(3,094)
Adjustment in respect of current tax of previous periods	**182**	(46)
Income not subject to tax	**(668)**	(291)
Expenses not deductible for tax	**2,399**	1,401
Tax losses not recognised	**11,945**	5,954
Tax losses from previous periods utilised	**(95)**	(124)
Others	**(1,730)**	830
Tax charge at the Group's effective tax rate	**4,296**	4,630

11. 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$11,564,000 (2012: HK$15,334,000) which has been dealt with in the financial statements of the Company (note 26(b)).

12. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2013 (2012: Nil), nor has any dividend been proposed since the end of the reporting period.

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to equity holders of the Company of HK$37,520,000 (2012: HK$13,918,000) and the ordinary shares of 674,374,000 (2012: 674,374,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2013 and 2012 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 2013					
Cost:					
At 1 January 2013	78,879	28,628	9,988	1,333	118,828
Additions	1,538	6,598	2,148	1,787	12,071
Disposals/write-offs	–	(3,696)	(126)	(2,148)	(5,970)
Exchange realignment	–	189	13	–	202
At 31 December 2013	80,417	31,719	12,023	972	125,131
Accumulated depreciation and impairment:					
At 1 January 2013	783	15,684	3,286	1,230	20,983
Depreciation charge for the year	792	7,822	1,897	275	10,786
Impairment	–	1,785	5	–	1,790
Disposals/write-offs	–	(2,234)	(107)	(1,195)	(3,536)
Exchange realignment	–	78	4	–	82
At 31 December 2013	1,575	23,135	5,085	310	30,105
Net carrying amount:					
At 31 December 2013	78,842	8,584	6,938	662	95,026
At 31 December 2012	78,096	12,944	6,702	103	97,845
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

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

Company

	Furniture, fixtures and office equipment
	HK$'000
31 December 2013	
Cost:	
At 1 January 2013 and 31 December 2013	203
Accumulated depreciation:	
At 1 January 2013	37
Depreciation charge for the year	41
At 31 December 2013	78
Net carrying amount:	
At 31 December 2013	125
At 31 December 2012	166
31 December 2012	
At 1 January 2012	–
Additions	203
At 31 December 2012	203
Accumulated depreciation:	
At 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	–

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

The Group's land and buildings with a net carrying amount of HK$77,313,000 (2012: HK$78,096,000) are situated in Hong Kong and are held under a long term lease. They were pledged to secure a general banking facility granted to the Group (note 21).

The net carrying amount of the Group's motor vehicle held under a finance lease amounted to HK$662,000 (2012: HK$103,000) as at 31 December 2013.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	2012
	HK$'000	HK$'000
Unlisted shares, at cost	**555,000**	555,000
Less: Impairment #	**(411,000)**	(411,000)
	144,000	144,000

Impairment provision of HK$411,000,000 was recognised for investments in subsidiaries with gross carrying amount of HK$555,000,000 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 amount.

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.

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

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		Principal activities
			Direct	Indirect	
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
Milan Station (Central) 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		Principal activities
			Direct	Indirect	
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	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
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 (Tuen Mun) Limited	Hong Kong	HK$10,000	–	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 (Yuen Long) Limited	Hong Kong	HK$10,000	–	100	Dormant
Milan Station (Kwun Tong) Limited	Hong Kong	HK$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station Properties Holdings Limited	Hong Kong	HK$10,000	–	100	Property holding

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Milan Station (Mansion) Limited	Hong Kong	HK$10,000	–	100	Dormant
Able Fame Corporation Limited	Hong Kong	HK$10,000	–	100	Dormant
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)")	The PRC/Mainland China	RMB34,000,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (Guangzhou) Limited	Hong Kong	HK$10,000	–	100	Dormant
Milan Station (Chengdu) Limited ("MS (CD)")	Hong Kong	HK$14,286	–	70	Dormant
包包站貿易(成都)有限公司	The PRC/Mainland China	RMB10,134,312	–	70	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station Luxury Pte. Limited#	The Republic of Singapore	SGD10	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Standpoint Global Limited ("Standpoint Global")#	BVI	US$1	–	100	Investment holding

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

\# These entities were 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. The Group had 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 2013, 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 registered capital into 包包站. 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.

(3) On 11 October 2013, Standpoint Global, an indirect wholly-owned subsidiary of the Company, entered into a shareholders' agreement (the "J&C Shareholders' Agreement") with J&C (Asia) Limited ("J&C"), an independent third party, for the formation of a joint venture (the "J&C Joint Venture"), which will be principally engaged in the online procurement and sale of unused and second-hand luxury branded handbags and apparel products in the PRC under the brand name and the trademark of "Milan Station".

Pursuant to the J&C Shareholders' Agreement, Standpoint Global and J&C will have a 90% and 10% equity interest in the J&C Joint Venture, respectively. Following the establishment of the J&C Joint Venture, Standpoint Global and J&C would procure the J&C Joint Venture to establish a wholly-foreign-owned enterprise under the business name "潮袋(上海)網絡科技有限公司" ("潮袋") in Shanghai, the PRC, with a total investment of RMB10,000,000 and a total registered capital of RMB7,000,000, which will be contributed by Standpoint Global and J&C through the J&C Joint Venture in the proportion of RMB6,300,000 (equivalent to HK$8,077,000) and RMB700,000 (equivalent to HK$897,000). As at 31 December 2013, no capital injection into 潮袋 was made.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**6,346**	3,795	**291**	283
Deposits	**29,461**	22,122	**–**	–
Other receivables	**5,333**	5,786	**68**	137
	41,140	31,703	**359**	420
Less: Non-current portion	**(22,912)**	(12,828)	**–**	–
	18,228	18,875	**359**	420

At 31 December 2013 and 2012, 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.

17. INVENTORIES

	Group	
	2013	2012
	HK$'000	HK$'000
Goods held for resale	**149,250**	115,386

18. 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	
	2013	2012
	HK$'000	HK$'000
Within 1 month	**10,337**	6,465
1 to 2 months	**375**	1,326
2 to 3 months	**–**	523
	10,712	8,314

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

	Group	
	2013	2012
	HK$'000	HK$'000
Neither past due nor impaired	**10,429**	8,125
1 to 2 months past due	**283**	189
	10,712	8,314

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.

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**80,302**	75,657	**742**	302
Pledged time deposits	**1,000**	21,597	**–**	–
Time deposits with original maturity of less than three months when acquired	**1,000**	52,727	**–**	–
	82,302	149,981	**742**	302
Less: Time deposits pledged for bank loan and bank overdraft facilities (note 21)	**(1,000)**	(21,597)	**–**	–
Cash and cash equivalents	**81,302**	128,384	**742**	302

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$9,167,000 (2012: HK$3,178,000). 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.

20. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued liabilities	**7,675**	6,721	**1,506**	1,632
Other payables	**8,769**	8,605	**1,705**	1,080
Provision	**2,409**	–	**–**	–
Deposit received	**10,033**	4,200	**–**	–
	28,886	19,526	**3,211**	2,712
Less: non-current portion	**(911)**	(768)	**–**	–
	27,975	18,758	**3,211**	2,712

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

MS (SH), 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 in Shanghai (the "Retail Shop") with an original term of five years in November 2010. The retail shop was closed down in February 2014. On 31 December 2013, a termination agreement was signed between MS (SH) and the Landlord in relation to the early termination of the Contract. Accordingly, the Group provided for all the compensation for early termination and future minimum lease payments in total of HK$3,956,000 under the contract and had settled certain relevant costs in total of HK$1,547,000 during the year ended 31 December 2013.

21. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group	
			2013	2012
			HK$'000	HK$'000
Current				
Bank loan – secured	3.25 (2012: 3.75)	On demand	**26,808**	34,618
Bank loan – unsecured	N/A (2012: 7.20)	2013	**–**	2,125
			26,808	36,743

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

As at 31 December 2013, the interest-bearing borrowing is denominated in Hong Kong dollars.

As at 31 December 2012, other than 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$26,808,000 (2012: HK$34,618,000) as at 31 December 2013 containing a repayment on demand clause and accordingly is included within current interest-bearing bank borrowings and analysed into bank loans payable within one year or on demand.

Based on the maturity terms of the bank loans, the amounts repayable in respect of the bank loans are: HK$2,329,000 (2012: HK$5,385,000) repayable within one year or on demand as at 31 December 2013; HK$2,406,000 (2012: HK$3,385,000) repayable in the second year as at 31 December 2013; HK$7,703,000 (2012: HK$10,945,000) repayable in the third to fifth years, inclusive, as at 31 December 2013; and HK$14,370,000 (2012: HK$17,028,000) repayable beyond five years as at 31 December 2013.

All borrowings of the Group bear interest at floating interest rates for the year ended 31 December 2013.

As at 31 December 2013, the bank loan facilities were supported by:

(i) a pledge of the Group's land and building with a carrying amount of HK$77,313,000 (2012: HK$78,096,000);

(ii) a corporate guarantee executed by the Company and a subsidiary of the Company to the extent of HK$67,000,000 (2012: a corporate guarantee executed by a subsidiary of the Company to the extent of HK$37,500,000); and

(iii) the pledge of bank deposits of HK$1,000,000 (2012: HK$21,597,000).

22. OBLIGATIONS UNDER A FINANCE LEASE

The Group leases a motor vehicle under a finance lease. At 31 December 2013, 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
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**131**	119	**114**	112
In the second year	**131**	52	**240**	51
In the third to fifth years, inclusive	**360**	–	**223**	–
Total minimum finance lease payments	**622**	171	**577**	163
Future finance charges	**(45)**	(8)		
Total net finance lease payables	**577**	163		
Portion classified as current liabilities	**(114)**	(112)		
Non-current portion	**463**	51		

23. 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	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2012, 31 December 2012 and 1 January 2013	523	1,405	1,928
Deferred tax credited/(debited) to the statement of profit or loss during the year (note 10)	51	(1,405)	(1,354)
At 31 December 2013	574	–	574

Deferred tax liability

	Depreciation allowance in excess of related depreciation
	HK$'000
At 1 January 2012	177
Deferred tax credited to the statement of profit or loss during the year (note 10)	(115)
At 31 December 2012	62
Deferred tax debited to the statement of profit or loss during the year (note 10)	260
At 31 December 2013	322

Certain subsidiaries of the Group have tax losses arising in Hong Kong in total of HK$113,298,000 (2012: HK$55,978,000) as at 31 December 2013 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.

23. 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 2013 and 2012, 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.

24. SHARE CAPITAL

	2013	2012
	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 (2012: 674,374,000) ordinary shares of HK$0.01 each	**6,744**	6,744

25. 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.

25. 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:

	2013		2012	
	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	11,000	1.384	11,750
Lapsed during the year	1.384	(500)	1.384	(750)
At 31 December	1.384	10,500	1.384	11,000

25. 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:

2013 Number of options	**Exercise price**	**Exercise period**
'000	**HK$ per share**	
10,500	1.384	13-12-2011 to 12-12-2016

2012 Number of options	Exercise price	Exercise period
'000	HK$ per share	
11,000	1.384	13-12-2011 to 12-12-2016

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.

25. SHARE OPTION SCHEME *(continued)*

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 10,500,000 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 10,500,000 additional ordinary shares of the Company and additional share capital of HK$105,000 and share premium of HK$14,427,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 7,900,000 share options outstanding under the Scheme, which represented approximately 1.17% of the Company's shares in issue as at that date.

26. 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 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	(4,046)	–	–	–	(4,046)
At 31 December 2012 and 1 January 2013	173,112	554,990	5,413	(420,717)	312,798
Loss for the year and total comprehensive expense for the year	–	–	–	(636)	(636)
Transfer of share option reserve upon the lapse of share options	–	–	(246)	246	–
At 31 December 2013	173,112	554,990	5,167	(421,107)	312,162

26. RESERVES *(continued)*

(b) Company *(continued)*

The loss of HK$636,000 (2012: HK$411,843,000) for the year ended 31 December 2013 included impairment of interest in subsidiaries of the Company of HK$Nil (2012: HK$411,000,000) and management fee income from subsidiaries of approximately HK$10,928,000 (2012: HK$14,491,000).

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.

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(a) During the year ended 31 December 2013, the Group entered into a finance lease arrangement in respect of items of property, plant and equipment with a total capital value at the inception of the leases of HK$605,000 (2012: Nil).

(b) During the year ended 31 December 2013, a reinstatement cost of HK$309,000 (2012: HK$1,087,000) was capitalised as items of property, plant and equipment, which remained unpaid and was included in accrued liabilities and other payables as at 31 December 2013.

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:

		2013	2012
	Notes	**HK$'000**	HK$'000
Rental expenses paid to related companies	(a)	**10,000**	7,727
Purchases from a related company	(b)	**108**	76
Renovation costs to a related company	(c)	**3,211**	7,847
Legal and professional expenses to a related company	(d)	**599**	273

Notes:

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

28. RELATED PARTY TRANSACTIONS *(continued)*

(i) *(continued)*

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:

	2013	2012
	HK\$'000	HK\$'000
Short term employee benefits	**12,022**	11,012
Post-employment contributions	**116**	87
	12,138	11,099

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

29. CONTINGENT LIABILITIES

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

	Group		**Company**	
	2013	2012	**2013**	2012
	HK\$'000	HK\$'000	**HK\$'000**	HK\$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	**–**	–	**67,000**	–

As at 31 December 2013, the banking facilities granted to subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK\$27,000,000 (2012: Nil).

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group sub-leases a property under operating lease arrangements. The lease for this property expired as at 31 December 2013. As at 31 December 2012, the lease for this property was negotiated for a term of one year. The term of the lease also required 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	
	2013	2012
	HK$'000	HK$'000
Within one year	**–**	8,400

(b) As lessee

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

At 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**71,009**	55,476	**480**	2,040
In the second to fifth years, inclusive	**115,755**	65,408	**480**	4,692
More than five years	**9,542**	–	**–**	–
	196,306	120,884	**960**	6,732

Notes to *Financial Statements*

31 December 2013

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	
	2013	2012
	HK$'000	HK$'000
Contracted, but not provided for:		
Additions of items of property, plant and equipment	**4,574**	243

32. FINANCIAL INSTRUMENTS BY CATEGORY AND FAIR VALUE MEASUREMENT

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	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**10,712**	8,314	**–**	–
Financial assets included in prepayments, deposits and other receivables	**28,965**	27,908	**68**	137
Due from subsidiaries	**–**	–	**181,255**	178,107
Pledged deposits	**1,000**	21,597	**–**	–
Cash and cash equivalents	**81,302**	128,384	**742**	302
	121,979	186,203	**182,065**	178,546

Management has assessed that the fair values of financial assets and financial liabilities appropriate to their carrying amounts.

32. FINANCIAL INSTRUMENTS BY CATEGORY AND FAIR VALUE MEASUREMENT *(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	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due to subsidiaries	**–**	–	**4,364**	741
Financial liabilities included in accrued liabilities and other payables	**21,351**	10,075	**1,705**	1,530
Interest-bearing bank borrowings	**26,808**	36,743	**–**	–
Obligations under a finance lease	**577**	163	**–**	–
	48,736	46,981	**6,069**	2,271

Management has assessed that the fair values of financial assets and financial liabilities approximate to their carrying amounts.

33. 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.

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

Interest rate risk *(continued)*

The interest rates of the interest-bearing bank borrowings of the Group are disclosed in note 21 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 loss before tax (through the impact on floating rate bank borrowings).

	Increase in interest rate	Increase in loss before tax
	(basis points)	HK$'000
Year ended 31 December 2013	**100**	268
Year ended 31 December 2012	**100**	367

Foreign currency risk

The Group carries on its trading transactions mainly in HK$, RMB, US dollars, Euro and Singapore dollars ("SGD"). 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 exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in loss before tax
	%	HK$'000
Year ended 31 December 2013		
If HK$ weakens against RMB	5	458
If HK$ strengthens against RMB	(5)	(458)
Year ended 31 December 2012		
If HK$ weakens against RMB	5	74
If HK$ strengthens against RMB	(5)	(74)

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

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 18 and 19 to the financial statements.

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 2013		
	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	20,440	911	21,351
Interest-bearing bank borrowings*	26,808	–	26,808
Obligations under a finance lease	131	491	622
	47,379	1,402	48,781

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

Liquidity risk *(continued)*

Group *(continued)*

	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

* Included in interest-bearing bank borrowings is a bank loan of HK$26,808,000 as at 31 December 2013 (2012: HK$34,618,000), 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$2,329,000 (2012: HK$3,260,000) repayable within one year or on demand as at 31 December 2013; HK$2,406,000 (2012: HK$3,385,000) repayable in the second year as at 31 December 2013; HK$7,703,000 (2012: HK$10,945,000) repayable in the third to fifth years, inclusive, as at 31 December 2013 and HK$14,370,000 (2012: HK$17,028,000) repayable beyond five years as at 31 December 2013.

Company

	31 December 2013		
	On demand and less than 1 year	**Over 1 year**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Due to subsidiaries	**4,364**	**–**	**4,364**
Financial liabilities included in accrued liabilities and other payables	**1,705**	**–**	**1,705**
	6,069	**–**	**6,069**

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

Liquidity risk *(continued)*

Company *(continued)*

	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

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 2013 and 2012.

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.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2014.

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				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**698,007**	676,444	879,802	730,259	611,273
Cost of sales	**(544,730)**	(532,461)	(666,464)	(555,599)	(467,609)
Gross profit	**153,277**	143,983	213,338	174,660	143,664
Other income and gains	**10,529**	9,825	8,770	935	536
Selling expenses	**(138,387)**	(109,442)	(104,151)	(84,091)	(71,028)
Administrative and other operating expenses	**(57,744)**	(52,286)	(53,654)	(24,681)	(24,597)
Finance costs	**(1,343)**	(1,380)	(220)	(187)	(381)
PROFIT/(LOSS) BEFORE TAX	**(33,668)**	(9,300)	64,083	66,636	48,194
Income tax expense	**(4,296)**	(4,630)	(16,119)	(12,326)	(9,031)
PROFIT/(LOSS) FOR THE YEAR	**(37,964)**	(13,930)	47,964	54,310	39,163
Attributable to:					
Equity holders of the Company	**(37,520)**	(13,918)	47,964	54,310	39,163
Non-controlling interests	**(444)**	(12)	–	–	–
	(37,964)	(13,930)	47,964	54,310	39,163

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**380,962**	415,417	399,970	165,894	157,152
TOTAL LIABILITIES	**(58,180)**	(57,124)	(28,344)	(32,299)	(63,608)
NON-CONTROLLING INTERESTS	**(3,777)**	(3,760)	–	–	–
	319,005	354,533	371,626	133,595	93,544

Notes:

(i) The summary of the consolidated results of the Group for each of the two years ended 31 December 2009 and 2010 and of the consolidated assets and liabilities as at 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 2012 and 2013 and the consolidated assets and liabilities of the Group as at 31 December 2012 and 2013 are those set out on pages 47 to 49 of this annual report.

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

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

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