米蘭站控股有限公司

MILAN STATION HOLDINGS LIMITED

(incorporated in Cayman Islands with limited liability)

# 2014 ANNUAL REPORT

Stock Code:1150

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Yiu Kwan Tat *(Chairman)*
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

## AUDITORS

Crowe Horwath (HK) CPA Limited
9/F Leighton Centre
77 Leighton Road
Causeway Bay, Hong Kong

## COMPANY WEBSITE

www.milanstation.com.hk

## STOCK CODE

1150

## PRINCIPAL BANKER

### HONG KONG

OCBC 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:

| | | Year ended 31 December | |
|---|---|---|---|
| | Notes | **2014** | 2013 |
| **Profitability ratio** | | | |
| Gross profit margin *(%)* | 1 | **21.7%** | 22.0% |
| Net loss margin *(%)* | 2 | **(8.7)%** | (5.4)% |
| Return on assets *(%)* | 3 | **(16.5)%** | (10.0)% |
| Return on equity *(%)* | 4 | **(19.8)%** | (11.8)% |
| **Liquidity ratio** | | | |
| Current ratio | 5 | **4.4** | 4.6 |
| Quick ratio | 6 | **2** | 2.0 |
| Gearing ratio *(%)* | 7 | **7.7%** | 7.2% |
| Inventory turnover days | 8 | **101.6** | 88.7 |

*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 2014, the unpredictable and volatile political and economic situation at home and abroad deeply affected the retail markets. Against this backdrop, the Group endeavoured to maintain its market share and position and improve its operational efficiency by taking prompt measures such as opening up cost-effective and more diverse sales channels, consolidating its traditional retail networks and adjusting its product mix.

During the period under review, the US economy recovered gradually, but Eurozone was unable to turn around successfully from the weak economy even after a number of interest rate cuts and bond purchases by the governments. Therefore, it remains difficult to predict a recovery in the global economy which is mired in uncertain conditions. At the same time, changes in China's tourism policy led to a decrease in per capita purchasing power of the mainland Chinese tourists who are visiting Hong Kong. In addition, the cultural conflict between mainland China and Hong Kong in trade was intensifying, affecting the mainland Chinese tourists' interest in visiting Hong Kong under the Individual Visit Scheme. This led to an overall sluggish consumer sentiment, and also seriously affected the Group's luxury handbag sales operations in Hong Kong and mainland China.

Hong Kong's retail market still recorded a growth, albeit a weak one. This was mainly due to the Chinese government's measures to advocate frugality and its policy on outbound tourism that allowed more citizens from inland cities with weaker spending power to visit Hong Kong. This induced changes to the tour patterns and spending habits of mainland Chinese tourists in Hong Kong, most notably the decreased per capita purchasing power. In 2014, the proportion of mainland tourists who came from the second and third-tier cities with weaker spending power and those doing same-day return trips increased significantly. This led to a gradual shift in their demand from luxury products to low– and mid-priced ones or daily necessities. This, coupled with the local political movement of "Occupy Central" in various tourist districts (where the stores of the Group's core business of second-hand branded luxury handbags retailing are mainly located) in Hong Kong in the fourth quarter of 2014, directly hit the Group's sales there and thus its overall business. The annual sales at the Group's operations in Hong Kong decreased by 16.7% to approximately HK$452 million as compared to last year.

Facing a tough operating environment, the Group continued to actively implement measures such as integration of traditional retail networks, adjustment of product mix and stringent monitoring of product certification programs to consolidate its existing market shares. During the year, the Group kept abreast of the changes in the rental market, and reviewed and adjusted the outlet portfolio from time to time to ensure that the site selected for the outlets met the requirements for cost effectiveness and enhanced their sales performance per square meter. It also actively explored other innovative sales channels with potential, including direct management and operation of the Group's online store (milanstation.net) and the formation of additional sales counters on cruises to mitigate the negative impact of Hong Kong's rising rental costs. However, the weak consumer sentiment and changes in consumption pattern of mainland tourists also affected the sales at the sales counters on cruises. To adapt to the decreasing per capital consumption power of mainland tourists in Hong Kong, the Group adjusted the product mix and increased the proportion of low- and mid-priced branded handbags in sales. During the year, revenues from the online shopping platform and sales counters on cruises were approximately HK$20.7 million and HK$11.1 million respectively, representing approximately 3.4% and 1.8% respectively of the Group's overall sales.

# Chairman's Statement

Mainland China's persistent economic slowdown and the government's move to advocate frugality in recent years had dampened local consumer sentiments. The overall sales of the Group in mainland China were affected directly, and increased by 8.2% to approximately HK$70 million in 2014 as compared to last year. To expand the mainland Chinese market, the Group has also been seeking potential business partners for joint ventures or franchised stores to develop Milan Station's sales network outside Beijing and Shanghai. The self-operated store in Shenyang and the franchised store in Jiangmen commenced their businesses in August of 2014 respectively.

The gaming industry in Macau recorded a decrease in revenue for the first time in 2014 since its opening to more investors in 2001. Therefore, the Group's retail stores and points-of-sale in exclusive clubhouses in Macau were also affected significantly. In 2014, total sales was down by 0.8% to approximately HK$82 million compared with that in the previous year. In addition, the revenue at the Group's branch outlet in Orchard Road, Singapore, its first outlet outside China, Hong Kong and Macau, was approximately HK$12 million, accounting for approximately 2.0% of the Group's total revenue during the year.

In 2015, the uncertain global economy and the Chinese government's policies will still affect the consumption sentiment in mainland China and Hong Kong. It is expected that the retail market will remain sluggish in the short term. However, the Group is still cautiously optimistic about the industry's prospect in the long term. We will continue to monitor closely and promptly adapt to the changes in the economic environment with opportune initiatives. At the same time, we will actively reinforce our existing competitive advantages to gear up for the opportunities in the improving business environment in the future.

Our core development strategies are to consolidate our leading position in Hong Kong's market, and to take a prudent approach to the business development in mainland China. Specifically, we will seek to broaden and diversify cost-effective sales channels, maintain good relationships with various key European branded luxury handbag distributors by increasing the direct procurement from such distributors. These moves will enhance the price competitiveness of the brand new products and further improve the gross profit margin.

Finally, I would like to take this opportunity to express my gratitude to the fellow members of the Board, 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. In 2015, we will keep up our efforts and innovative spirit to experiment with different approaches to business development with the aim of generating appropriate returns to our shareholders.

**Yiu Kwan Tat**
*Chairman*

Hong Kong, 31 March 2015

# Management Discussion and Analysis

## MARKET OVERVIEW

In 2014, the United States' gradual economic recovery facilitated a modest growth in the global economy. However, Europe was still mired in economic woes despite a series of interest rate cuts and bond purchases by the governments. These, coupled with the adjustments or even changes initiated by the Chinese government to its the tourism policy and the political movement of "Occupy Central" in Hong Kong in the fourth quarter, substantially dampened the consumer sentiment in both mainland China and Hong Kong, especially the demand for luxury items. As a result, the retail market for luxury handbags continued to face downward pressure. The Group's retail handbag retail business in mainland China, Hong Kong and Macau was deeply affected.

## HONG KONG'S RETAIL MARKET

Hong Kong's economic growth remained slow in 2014, with its gross domestic products (GDP) going up by 2.3%. As a result, the city's retail market only managed a meagre growth. The information from the Hong Kong Census & Statistics Department has shown decreases in the indexes for the value and volume of retail sales of jewellery, watches and clocks, and valuable gifts. The total number of visits by mainland Chinese tourists to Hong Kong rose by 16.0% to approximately 47.3 million in 2014, but the proportion of the mainland tourists with weaker spending power from the second and third-tier cities and those doing same-day return trips increased significantly. This development led to a substantial decrease in the average spending power of the mainland tourists in the city. Moreover, Hong Kong's local political movement of "Occupy Central" in the fourth quarter deterred mainland tourists from visiting Hong Kong, further weakening the city's overall retail market, and its impact on the sales at the luxury handbag industry was direct and especially pronounced.

## MAINLAND CHINA'S RETAIL MARKET

According to the information from China's National Bureau of Statistics, the country's gross domestic product (GDP) in 2014 went up by 7.4%, the lowest growth rate in the past 24 years. Although the total retail sales of consumer goods grew by 12.0% to RMB26.2 trillion, the growth was a 1.1 percentage points lower than that in the previous year, showing a decelerating growth in the overall retail market. Furthermore, an increasing number of mainland Chinese consumers are keen to buy luxury goods overseas. This also resulted in a gradual shrinkage of the domestic market for luxury goods.

## MACAU'S RETAIL MARKET

After more than a decade of rapid development, Macau's economy began to slow down in 2014. This, coupled with the Macau government's more stringent regulation of the gaming industry, resulted in a decrease in that industry's revenue for the first time since its opening to more investors in 2001. The overall revenue from the city's gaming industry was approximately MOP351,500 million, down by 2.6%. It also put the retail industry under pressure, especially the luxury goods retail sector.

## BUSINESS REVIEW

As at 31 December 2014, the global economic prospect remained uncertain, and the changing government policies in mainland China and Hong Kong suppressed consumers' desire to buy luxury goods. As a result, the Group's major operations were affected and had to cope with severe challenges. In response to the subdued market sentiment, the Group managed to sustain its operation and development by consistently consolidating its conventional retail network, adjusting its product mix and stringently monitoring its product certification programmes. All these measures were aimed at reinforcing its existing marketing share.

# Management Discussion and Analysis

During the year, the Group's total revenue decreased by approximately 11.8% to approximately HK$616 million. It recorded a loss of approximately HK$54 million (as at 31 December 2013: loss of approximately HK$38 million). The revenues generated in the markets of Hong Kong, Mainland China and Macau accounted for 73.4%, 11.4% and 13.2% respectively of the Group's total revenue, while other markets (including Singapore) contributed 2.0%. Gross profit margins of the Group's operations in Hong Kong, Mainland China, Macau and Singapore were 18.3%, 26.9%, 34.9% and 28.5% respectively.

## Hong Kong

With its unique and up-to-date business model, and the renowned brand credibility and reputation of "Milan Station", the Group has been leading the industry in the development of luxury brand handbags trading over the years. The Group adhered to the principle of providing genuine and certified products for its customers, formulated a series of stringent and systematic product certification programmes, and formed a team of professionally trained staff responsible for executing the product inspection process. During the year, the Group devoted more human resources to the management of merchandise quality, and strengthened the product certification programmes with the finer division of labor. These measures helped the Group to maintain its leading market position and advantages in the industry despite the adverse operating environment, and drove its sustainable business growth despite the inimical environment for consumption.

The composition of the mainland Chinese tourist group visiting Hong Kong had changed in recent years, with the majority of it changing from tourists with high spending power from the country's first– and second-tier cities to the tour groups with weaker spending power from the second and third-tier cities. This development, coupled with the city's political movement of "Occupy Central" in the fourth quarter of the year under review, led to a 16.7% decrease in the sales at the Group's Hong Kong business to approximately HK$452 million. The revenue was derived from a total of seven "Milan Station" retail stores in Hong Kong, its online sales platforms which were jointly operated with other partners and directly managed by the Group, and other new sales channels.

To adapt to the changes in the composition of the consumer group and its consumption patterns which were triggered by the on-going changes in the macroeconomic environment in recent years, the Group continued to adjust its product mix during the year, and actively promoted the mid-range and fast-moving products. Products in the price range of HK$10,001 to HK$30,000, HK$30,001 to HK$50,000 and over HK$50,000 accounted for 37.0%, 5.7% and 48.3% respectively of the Group's total sales in Hong Kong during the year under review.

Over the years, the rents of retail shops in Hong Kong remained high and were still increasing steadily in 2014, exerting heavy pressure on the retail industry. The Group strived to mitigate the impact of operating costs, especially those of high rents by actively establishing cost-effective and diverse sales channels in recent years. Such sales channels included its directly managed and operated online shop (www.milanstation.net). During the year under review, the number of page views of the Group's online shopping platform climbed up steadily, and at the same time the Group implemented cost-effective online marketing to induce the visitors to the Group's website to shop at the Group's brick-and-mortar retail stores, thus attaining synergetic development of both its online and offline operations. The Group achieved a stable performance in overall online sales, which contributed approximately HK$20.7 million in sales value, up by 33.8%/in par with that in 2013. In addition, the Group operated sales counters on four cruises to sell mid-priced products, which contributed approximately HK$11.1 million in sales in 2014. The sales counters on the cruises will be operated through consignment sales to reduce the operating costs.

# Management Discussion and Analysis

To consolidate its brand image, corporate reputation and leading market position continuously, the Group conducted many kinds of advertising and promotion through various channels. To adapt to the changes in consumption patterns in mainland China and Hong Kong, the Group adopted more marketing and promotion channels that were more cost-effective, implemented marketing strategies that were targeted at different tiers of the market, enhanced brand reputation, and tried to attract more potential customers. During the year, the Group placed advertisements on the social media platforms and search engines to facilitate the development of its online shopping business, and continued to cooperate with various banks, hotels and retail partners to provide credit card shopping benefits, host various sales promotions and offer sales discounts to members who had been registered under the "Milan Station Loyalty Membership Scheme". To date, there are 19,457 such registered members. In addition, the Group sponsored the fashion show that featured works by the graduates of the School of Design of The Hong Kong Polytechnic University, and provided a development opportunity for young designers as a way to demonstrate its commitment to corporate social responsibility, thus establishing the image of "Milan Station" as a leading brand of fashion and trend.

## Mainland China

In 2014, China's persistent economic slowdown and its government measures to advocate frugality in recent years dampened the consumer sentiment. As a result, the sales of high-priced products at the Group's retail shops in the country were affected directly. However the Group's businesses there recorded a 8.2% increase in overall sales to approximately HK$70 million, and accounted for approximately 11.3% of its overall sales. Sales revenue were contributed by the Group's four "Milan Station" retail shops in Beijing, Shanghai, Shenyang and Jiangmen as well as its online shopping platform in mainland China (milanstation.cc). In particular, the self-operated store in Shenyang and the franchised stores in Jiangmen commenced their businesses in August of 2014 respectively.

## Macau

The gaming industry in Macau recorded its first revenue decline in 2014 since 2001 when it was opened to more investors. The development of the city's gaming and tourism industries was gradually decelerating from rapid to stable growth. Therefore, the operation of the Group's retail shops and points of sale in exclusive clubhouses in the city was seriously affected. For the year ended 31 December 2014, the Group's total sales revenue there decreased by 0.8% to approximately HK$82 million. In addition, during the second half of the year, the "Milan Station" retail shop at Rua de S. Domingos had been relocated to Rua da Palha to reduce rental expenses.

## Overseas Market

The Group's first branch outside China, Hong Kong and Macau was launched in Orchard Road, Singapore. For the year ended 31 December 2014, the shop achieved revenue of approximately HK$12 million, representing approximately 2.0% of the Group's total revenue for the year under review.

# Management Discussion and Analysis

## Outlook

In 2015, the consumer sentiment in mainland China and Hong Kong is expected to remain weak in the short term as it is affected by the uncertain prospect of the global economy and the Chinese government's policies. Both the market for luxury goods and the overall retail market will inevitably face unabated difficulties and obstacles. Nevertheless, as the living standard of the middle class in mainland China is improving, the country's growing quest for brand names and style and its consumption market's potential for growth should not be overlooked. As such, the luxury goods industry will still be able to maintain momentum of strong growth in the long run. Since the global economy is recovering steadily and China's economy continues to maintain a steady growth, the Group is still cautiously optimistic about the long-term outlook of the luxury goods markets in mainland China and Hong Kong.

## Development Strategy

Looking ahead, the Group will continue with its core strategy of consolidating its leading position in Hong Kong's market and prudently expanding its business in mainland China and overseas markets. Specifically, the Group will open cost-effective and diverse sales channels, consolidate its conventional retail network, and adjust its product mix. These measures were aimed at maintaining its market share and position, strictly controlling its costs, and enhancing its operational efficiency and overall competiveness.

In 2015, the Group will consolidate the market share of its existing business of retailing brand new and second-hand handbags in Hong Kong, and plans to increase its direct procurement from key European luxury brand handbag distributors by leveraging its good relationships with them ever since its establishment. This will enhance the price competiveness of the brand new products, reduce procurement costs and improve gross profit margin. Such plan is progressing smoothly with initial success as more other luxury brand distributors contacted us for business. Therefore, we have successfully established certain advantages in our procurement channels. The Group will also closely monitor market trends, and will commence its own "MS" brand handbag business when the time is right and after deliberation.

The Group will continue to review the efficiency of its retail shops, actively integrate its store portfolio in the core markets, prudently renew the leases for those stores with lower rents and relocate those stores which have been paying high rents. In the course of business expansion, the Group will strive to bring the overall rental cost within the target range and improve the store per-square-meter sales performance. In mainland China's market, the Group will continue to prudently identify cost-effective and diverse sales channels and partners for cooperation, with a view to expanding its business and market shares in those cities with varying degrees of potential for growth.

Online shopping has been gaining momentum as a popular mode of consumption in mainland China. The Group will heed the development potential of the country's e-commerce, actively seize market opportunities, and devote appropriate resources to its online shopping platform there in the coming year to attract more potential customers, thus reinforcing its online-to-offline marketing model and further mitigating the pressure of rising rents on the Group.

To cope with the difficult operating environment and to lay the foundations for its development and business growth, the Group will forge ahead with appropriate business strategies according to its estimate of the future changes to the market conditions. Meanwhile, the Group hopes to generate reasonable returns to its shareholders by leveraging its brand influence, leading position in the industry, innovative and diverse sales channels as well as flexible operating strategies which have been developed over the years.

# Management Discussion and Analysis

The table below sets out the breakdown of the Group's revenue recorded for the years ended 31 December 2014 and 2013 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 | | | | |
|---|---|---|---|---|---|
| | **2014** | | 2013 | | |
| | | ***Percentage of total revenue*** | | *Percentage of total revenue* | *Percentage change in revenue* |
| | ***HK$ million*** | ***%*** | *HK$ million* | *%* | *%* |
| **By product categories (handbags and other products)** | | | | | |
| Handbags | **611.1** | **99.2** | 690.4 | 98.9 | (11.5) |
| Other products | **4.8** | **0.8** | 7.6 | 1.1 | (36.8) |
| Total | **615.9** | **100.0** | 698.0 | 100.0 | (11.8) |
| **By product categories (unused and second-hand products)** | | | | | |
| Unused products | **444.0** | **72.1** | 437.4 | 62.7 | 1.5 |
| Second-hand products | **171.9** | **27.9** | 260.6 | 37.3 | (34.1) |
| Total | **615.9** | **100.0** | 698.0 | 100.0 | (11.8) |
| **By price range of products** | | | | | |
| Within HK$10,000 | **121.8** | **19.8** | 162.7 | 23.3 | (25.1) |
| HK$10,001 – HK$30,000 | **128.8** | **20.9** | 158.1 | 22.7 | (18.5) |
| HK$30,001 – HK$50,000 | **38.8** | **6.3** | 40.2 | 5.7 | (3.5) |
| Above HK$50,000 | **326.5** | **53.0** | 337.0 | 48.3 | (3.1) |
| Total | **615.9** | **100.0** | 698.0 | 100.0 | (11.8) |
| **By geographical locations** | | | | | |
| Hong Kong | **452.1** | **73.4** | 543.3 | 77.8 | (16.8) |
| The PRC | **69.9** | **11.4** | 64.5 | 9.2 | 8.4 |
| Macau | **81.5** | **13.2** | 82.1 | 11.8 | (0.8) |
| Singapore [1] | **12.4** | **2.0** | 8.1 | 1.2 | 53.1 |
| Total | **615.9** | **100.0** | 698.0 | 100.0 | (11.8) |

[1] The first branch in Orchard Road, Singapore was opened in July 2013.

## Cost of sales

For the year ended 31 December 2014, cost of sales for the Group was approximately HK$482 million, decreased by 11.46% 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 decreased by HK$19.7 million to approximately HK$133.50 million, with its gross profit margin decreased slightly by 0.2 percentage points to 21.7%.

Gross profit margins of the Group's operations in Hong Kong, Mainland China and Macau were 18.3%, 26.9% and 34.9%, respectively (2013: 19.2%, 30.8% and 32.8%, respectively).

## Inventory

The Group's total inventories as at 31 December 2014 and 2013 were HK$119 million and HK$149 million, respectively. The total inventories of the Group are recorded after netting of provision for slow-moving inventories. Inventory turnover days of the Group deteriorated to 101.6 days for the year ended 31 December 2014 (2013: 88.7 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 | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| **Aging of inventories (handbags products)** | | |
| 0 to 90 days | **25,055** | 77,934 |
| 91 to 180 days | **31,062** | 38,216 |
| 181 days to 1 year | **40,536** | 31,128 |
| Over 1 year | **21,405** | 631 |
| Total | **118,058** | 147,909 |

# Management Discussion and Analysis

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 | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| **Aging of inventories (other products)** | | |
| 0 to 45 days | **36** | 225 |
| 46 to 90 days | **78** | 254 |
| 91 days to 1 year | **947** | 860 |
| Over 1 year | **18** | 2 |
| Total | **1,079** | 1,341 |

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 | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| **Aging of inventories (handbags products over HK$50,000)** | | |
| 0 to 90 days | **12,331** | 40,795 |
| 91 to 180 days | **16,715** | 16,419 |
| 181 days to 1 year | **20,092** | 13,451 |
| Over 1 year | **9,818** | – |
| Total | **58,956** | 70,665 |

## Other income and gains

During the year ended 31 December 2014, other income and gains amounted to approximately HK$3.6 million, decreased by HK$7.0 million as compared to last year, mainly due to decrease 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 2014, selling expenses of the Group were approximately HK$132 million, representing 21.5% of its revenue (2013: approximately HK$138.4 million, representing 19.8% of revenue). Selling expenses decreased mainly due to an decrease in rental expenses for retail shops.

### Administrative and other operating expenses

Administrative and other operating expenses of the Group for the year ended 31 December 2014 amounted to approximately HK$57.2 million, decreased by approximately HK$0.6 million as compared to last year on year-on-year basis, representing approximately 9.3% 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.

### Finance costs

Finance costs of the Group mainly consisted of interest expenses on bank borrowings and a finance lease. Finance costs amounted to approximately HK$0.9 million in 2014, decreased by HK$0.4 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 2014 was approximately HK$52.9 million, representing an increase of 41% from approximately HK$37.5 million for the year ended 31 December 2013. Loss per share attributable to equity holders was approximately HK7.9 cents for the year ended 31 December 2014, as compared to approximately HK5.6 cents for the year ended 31 December 2013.

### Employees and remuneration policy

As at 31 December 2014, the Group had a total of 150 employees (2013: 173 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.

### Liquidity and financial resources

As at 31 December 2014, the Group had an interest-bearing bank borrowings of approximately HK$24.5 million (2013: approximately HK$26.8 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$76.5 million was pledged to secure the bank borrowing. It was expected that all the borrowings would be repaid by internal generated funds.

As at 31 December 2014, the Group's total balance of cash and cash equivalents, total liabilities and shareholders' equity were approximately HK$59.7 million, HK$53.3 million and HK$267.6 million, respectively (2013: approximately HK$81.3 million, HK$58.2 million and HK$319.0 million, respectively). The Group's gearing ratio, current ratio and quick ratio as at 31 December 2014 were approximately 7.7%, 4.4 and 2.0, respectively (2013: 7.2%, 4.6 and 2.0, respectively).

### Pledge of assets

As at 31 December 2014, the Group's land and building with a carrying value of HK$76.5 million and the Group's bank deposits of HK$1.0 million were pledged to banks to secure the bank borrowings and general banking facilities granted to the Group.

# Management Discussion and Analysis

## 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 2014, the Group did not have any significant contingent liabilities.

## Litigation

On 29 January 2015, Milan Station Asia Pacific Retail (Beijing) Co. Ltd. ("MS Beijing"), a wholly owned subsidiary of the Company, received a notice of claim from Beijing San Dong An Co. Ltd. ("Beijing San Dong An") for the case in relation to dispute arising from the early termination of the lease agreement on 5 June 2014 between MS Beijing as tenant and Beijing San Dong An as landlord in respect of a retail shop at 北京王府井新東安廣場, pursuant to which the landlord claimed the amount of about RMB2.78 million being the compensation for the early termination of the lease agreement. Beijing San Dong An reached a conclusion on 5 March 2015 with MS Beijing that MS Beijing shall pay Beijing San Dong An the sum of approximately RMB1,344,000 which included a rental deposit of RMB655,000 being forfeited by Bejing San Dong An and recognised as expenses for the year ended 31 December 2014, and additional claims of RMB689,000. On the same date, 北京市東城區人民法院 issued the civil settlement order in respect of the case. The additional claims of RMB689,000 was recognised as an provision as at 31 December 2014, and paid to Beijing San Dong An on 20 March 2015.

## Capital commitments

The Group's capital commitments including property, plant and equipment amounted to approximately HK$1.2 million and HK$4.6 million as at 31 December 2014 and 2013, respectively.

# Biographical Details

## EXECUTIVE DIRECTORS

**Mr. Yiu Kwan Tat**, aged 46, is the Chairman of the Group and was appointed as an Executive Director on 1 November 2007. Mr. Yiu resigned as the Chief Executive Officer of the Company on 11 July 2014. He founded the Group in 2001 and is the controlling shareholder. 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 44, 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 46, 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 director of EDS Wellness Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange ("GEM"). He was an independent non-executive director of China Natural Investment Company Limited from November 2011 to June 2014, a company listed on the Main Board of the Stock Exchange. He was also an independent non-executive director of M Dream Inworld Limited (presently known as GET Holdings Limited) from June 2010 to November 2013 and non-executive director of Larry Jewelry International Company Limited from December 2010 to September 2014, companies listed on the GEM.

**Mr. Yuen Lai Yan, Darius**, aged 45, 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 organization in Hong Kong.

# Biographical Details

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. So, Stephen Hon Cheung**, aged 59, 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 PINE Technology Holdings Limited since September 2002, which shares are listed on the Main Board of the Stock Exchange. He was an independent non-executive director of Skyworth Digital Holdings Limited from March 2000 to December 2014, which shares are listed on the Main Board of the Stock Exchange.

**Mr. Fan Chun Wah, Andrew**, aged 36, was appointed as an Independent Non-executive Director on 25 March 2013. He is a practising certified public accountant in Hong Kong with over 9 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 a 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, LT Commercial Real Estate Limited, Sinomax Group Limited and Fulum Group Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Fan was an independent non-executive director of CIG Yangtze Ports PLC from February 2009 to April 2014, the shares of which are listed on the GEM, and 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 40, was appointed as an Independent Non-executive Director on 31 May 2013. He is a Deputy Chief Executive Officer 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 Securities and Futures Ordinance (SFO). Mr. Mui joined Quam Capital Limited in early 2009. He has over 16 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

**Mr. Choi Wai Kwok, Andy**, aged 44, was appointed as the Chief Executive Officer of the Company on 11 July 2014. He possesses extensive experience in the fashion and retail industry, focusing on overseeing strategic planning, operations, real estate, merchandising and marketing in Hong Kong and China. He worked as the chief executive officer (Mainland China) in G2000 (Apparel) Limited from 2006 to 2009 and the chief executive officer in Initial Fashion Company Limited from 2009 to 2014. Mr. Choi is the brother of Mr. Choi Wai Kei, the general manager (China) of the Group.

# Biographical Details

**Ms. Wong Woon Yuk, Angela**, aged 45, 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.

**Mr. Chan Hon Leung**, aged 44, 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 41, 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 as the 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. Mr. Choi is the brother of Mr. Choi Wai Kwok, Andy, the Chief Executive Officer of the Company.

**Ms. Chui Sze Man**, aged 35, 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 47, 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 had 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 2014 (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 during the period from 1 January 2014 to 11 July 2014. The Board believes that this structure of having Mr. Yiu Kwan Tat acting as both the Chairman and the Chief Executive Officer of the Company was conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board also considered that this structure would not impair the balance of power and authority between the Board and the management of the Group as the balance of power and authority was ensured by the operation of the Board, which comprised experienced and high caliber individuals who met regularly to discuss issues affecting operation of the Group.

However, in view of the requirement of code provision A.2.1 of the CG Code, the Company reviewed the management structure. On 11 July 2014, Mr. Yiu Kwan Tat resigned as the Chief Executive Officer of the Company and Mr. Choi Wai Kwok, Andy was appointed as the Chief Executive Officer of the Company. The appointment is considered to have enabled the Company to comply with the code provision A.2.1 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 fifteen 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. During the Reporting Year, certain 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 use reasonable 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)* *(resigned as Chief Executive Officer on 11 July 2014)* | 15/15 |
| | Yiu Kwan Wai, Gary *(Managing Director)* | 13/15 |
| | Wong Hiu Chor *(resigned on 17 February 2014)* | 3/3 |
| | Yiu Sau Wai *(resigned on 17 February 2014)* | 3/3 |
| Non-executive Directors | Tam B Ray, Billy | 14/15 |
| | Yuen Lai Yan, Darius | 14/15 |
| Independent Non-executive Directors | So, Stephen Hon Cheung | 13/15 |
| | Fan Chun Wah, Andrew | 15/15 |
| | Mui Ho Cheung, Gary | 14/15 |

# 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 15 and 16 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 Meeting held on 5 June 2014 is as follows:

| | **Directors** | **Number of attendance/ Eligible to attended** |
|---|---|---|
| Executive Directors | Yiu Kwan Tat *(Chairman)* *(resigned as Chief Executive Officer on 11 July 2014)* | 1/1 |
| | Yiu Kwan Wai, Gary *(Managing Director)* | 1/1 |
| | Wong Hiu Chor *(resigned on 17 February 2014)* | 0/0 |
| | Yiu Sau Wai *(resigned on 17 February 2014)* | 0/0 |
| Non-executive Directors | Tam B Ray, Billy | 0/1 |
| | Yuen Lai Yan, Darius | 1/1 |
| Independent Non-executive Directors | So, Stephen Hon Cheung | 0/1 |
| | Fan Chun Wah, Andrew | 1/1 |
| | Mui Ho Cheung, Gary | 1/1 |

Under code provision A.6.7 of the CG Code, all independent non-executive directors and non-executive directors should attend general meetings of listed issuers. Mr. Tam B Ray, Billy, a Non-executive Director, and Mr. So, Stephen Hon Cheung, an Independent Non-executive Director, were unable to attend the Annual General Meeting due to their other business engagements.

## DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The 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 2014 is as follow:

| | Directors | Course/ seminar provided/ accredited by professional body | Reading materials |
|---|---|---|---|
| Executive Directors | Yiu Kwan Tat *(Chairman)* *(resigned as Chief Executive Officer on 11 July 2014)* | – | ✓ |
| | 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 | ✓ | – |
| | Mui Ho Cheung, Gary | ✓ | – |

Under code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills, and should provide a record of the training they received to the issuer. Ms. Yiu Sau Wai and Mr. Wong Hui Chor, all being former Directors, had not provided a record of the training to the Company.

# Corporate Governance Report

## 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 1 January 2014 to 17 February 2014, the Remuneration Committee comprises four Directors, a majority of whom are Independent Non-executive Directors. The Remuneration Committee held four 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 *(Chairman)* | 4/4 |
| | So, Stephen Hon Cheung | 3/4 |
| | Mui Ho Cheung, Gary | 3/4 |
| Executive Directors | Yiu Kwan Tat | 4/4 |
| | Wong Hiu Chor *(resigned on 17 February 2014)* | 1/1 |

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;

(2) reviewed the remuneration packages (including the grant of share options under the Company's share option scheme) of the newly appointed chief executive officer with recommendations to the Board for approval; and

(3) reviewed the proposals for the grant of the share options under the Company's share option scheme to the Executive Directors and senior management to reward their contributions to the Group 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 2014 is set out below:

| Remuneration band | Number of individuals |
|---|---|
| Nil to HK$1,000,000 | 3 |
| HK$1,000,001 to HK$1,500,000 | 2 |
| HK$1,500,001 to HK$2,000,000 | 1 |

Details of the remuneration of each Director for the year ended 31 December 2014 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, save for the period from 1 January 2014 to 17 January 2014, the Nomination Committee comprises four Directors, a majority of whom are Independent Non-executive Directors. The Nomination Committee held four meetings.

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)* | 4/4 |
| | Wong Hiu Chor *(resigned on 17 February 2014)* | 1/1 |
| Independent Non-executive Directors | So, Stephen Hon Cheung | 3/4 |
| | Fan Chun Wah, Andrew | 4/4 |
| | Mui Ho Cheung, Gary | 4/4 |

# Corporate Governance Report

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

(c) made recommendations to the Board on the nomination of Directors for re-election at the annual general meeting of the Company; and

(d) identified individual suitably qualified to become the chief executive officer of the Company and made recommendation to the Board on the selection of individual nominated for chief executive officer.

## 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 six 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)* | 5/6 |
| | Fan Chun Wah, Andrew | 6/6 |
| | Mui Ho Cheung, Gary | 5/6 |

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 2014 and the audited financial statements for the year ended 31 December 2013 with recommendation to the Board for approval;

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

(c) considered the independent auditor's independence and fee in relation to the unaudited interim financial statements of the Group for the six months ended 30 June 2014 and the audited financial statements of the Group for the year ended 31 December 2013.

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$900,000 for auditing services and HK$200,000 for non-auditing services by the Company's auditors, Crowe Horwath (HK) CPA Limited.

| Services rendered | Fees paid/payable |
|---|---|
| | *HK$* |
| Audit services – annual audit | 900,000 |
| Non-audit services: | |
| Review of interim results | 80,000 |
| Taxation services | 120,000 |
| | 1,100,000 |

## 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 2014 and for the year ended 31 December 2014, 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, Crowe Horwath (HK) CPA Limited, are stated in the "Independent Auditors' Report" on pages 41 to 42 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 2014.

(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 interim and annual reviews of the effectiveness of the internal control system of the Group covering the Group's corporate governance, internal control, financial, operational (including information security) and compliance functions. The Board as the ultimate responsible governing body of the Group monitors compliance with policies and procedures and the effectiveness of internal control structures across the Group and its principal divisions. The Board also ensures the internal controls are in place and functioning properly as intended. Moreover, in view of the relatively straight forward business of the Group, it was unanimously resolved that the internal control functions shall be outsourced to external professional internal control reviewers to replace the relinquished internal control department. The Group will keep periodic review of the new practice to ensure the internal control functions are always operating effectively and 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 Group has the Inside Information Policy 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.

## 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 period from 1 January 2014 to 14 February 2014. Subsequent to Mr. Lo's resignation on 14 February 2014. Ms. Wong Woon Yuk, Angela, the 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 following ways:

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

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

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

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

## SHAREHOLDERS' RIGHTS

### Convening an Extraordinary General Meeting by Shareholders

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself/herself/themselves 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 2014.

## 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 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 99 of this annual report.

The Board has resolved not to declare a final dividend for the year ended 31 December 2014 (2013: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 3 June 2015 to Friday, 5 June 2015 (both days inclusive), during which period no transfer of shares will be registered, for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Tuesday, 2 June 2015.

## 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$41.8 million.

As at 31 December 2014, 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 | Amount utilised for the year end 31 December 2014 | Balance as at 31 December 2014 |
|---|---|---|---|---|---|---|---|---|
| | HK$ million | HK$ million | 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 | 8.9 | 38.2 |
| 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 | 3.5 | 0.1 |
| Marketing and promotion of the Group | 17.0 | 17.0 | 2.9 | 14.1 | 6.6 | 7.5 | 7.2 | 0.3 |
| Design and development of private label "MS" brand products | 4.0 | 4.0 | – | 4.0 | 2.1 | 1.9 | 1.5 | 0.4 |
| 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 | – | 2.3 |
| Upgrading of the Group's information technology system | 3.2 | 3.2 | 1.9 | 1.3 | 0.8 | 0.5 | – | 0.5 |
| General working capital | 13.3 | 10.3 | – | 10.3 | 1.5 | 8.8 | 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 | 30.0 | 41.8 |

## 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 100 of this annual report. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL AND SHARE OPTIONS

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

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

# Report of the Directors

## 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 LISTED SECURITIES

During the year ended 31 December 2014, 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 2014 are set out in note 27(b) to the financial statements and in the consolidated statement of changes in equity.

## DISTRIBUTABLE RESERVES

At 31 December 2014, the Company's reserves available for distribution amounted to approximately HK$249,481,000, 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 2014 of approximately HK$478,621,000. 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$201,638.

## MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2014, the Group's sales to the five largest customers and purchases from the five largest suppliers accounted for less than 30% of the Group's turnover and purchases, respectively.

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

## DIRECTORS

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

Executive Directors:
Mr. Yiu Kwan Tat *(Chairman) (resigned as Chief Executive Officer on 11 July 2014)*
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

Independent Non-executive Directors:
Mr. So, Stephen Hon Cheung
Mr. Fan Chun Wah, Andrew
Mr. Mui Ho Cheung, Gary

Pursuant to Articles 84(1) and 84(2) of the Articles of Association, Mr. Tam B Ray, Billy, Mr. Yuen Lai Yan, Darius and Mr. Fan Chun Wah, Andrew shall retire by rotation from office at the forthcoming annual general meeting. Each of Mr. Tam B Ray, Billy, Mr. Yuen Lai Yan, Darius and Mr. Fan Chun Wah, Andrew, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 15 to 16 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has renewed a service contract with the Company for another term of three years commencing on 28 April 2014, 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 and Mr. So, Stephen Hon Cheung has renewed a letter of appointment with the Company for another term of 1 year commencing on 28 April 2014, 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 2014, 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 2015, 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 renewed a letter of appointment with the Company for another term of 1 year commencing on 31 May 2014, 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 2014.

## 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 2014.

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

As at 31 December 2014, 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 | – | 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 Kwan Tat. By virtue of the SFO, Mr. Yiu Kwan Tat is deemed to be interested in the entire 487,500,000 shares held by Perfect One Enterprises Limited.

### Long Position in share options of the Company

| | Number of share options | | | Approximate percentage of issued share capital |
|---|---|---|---|---|
| Name of participants | Personal Interest | Family Interest | Total | |
| **Executive Directors** | | | | |
| Mr. Yiu Kwan Tat | 8,740,000 | – | 8,740,000 | 1.30% |
| Mr. Yiu Kwan Wai, Gary | 8,740,000 | – | 8,740,000 | 1.30% |
| **Non-executive Director** | | | | |
| Mr. Tam B Ray, Billy | 200,000 | – | 200,000 | 0.03% |
| **Independent Non-executive Director** | | | | |
| Mr. So, Stephen Hon Cheung | 200,000 | – | 200,000 | 0.03% |
| **Chief Executive Officer** | | | | |
| Mr. Choi Wai Kwok, Andy | 3,900,000 | – | 3,900,000 | 0.58% |

Save as disclosed above, as at 31 December 2014, 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 OPTIONS

The Company operates a share option scheme adopted by the Company on 28 April 2011 (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The movements in share options granted under the Scheme during the year ended 31 December 2014 are shown below:

| | Number of share options | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name or category of participant | At 1 January 2014 | Granted during the year | Exercised during the year | Expired during the year | Lapsed during the year | At 31 December 2014 | 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 |
| | | 6,740,000 | – | – | – | 6,740,000 | 11-7-14 | 11-7-15 to 10-7-19 | 0.616 |
| Mr. Yiu Kwan Wai, Gary | 2,000,000 | – | – | – | – | 2,000,000 | 13-12-11 | 13-12-11 to 12-12-16 | 1.384 |
| | | 6,740,000 | – | – | – | 6,740,000 | 11-7-14 | 11-7-15 to 10-7-19 | 0.616 |
| 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 to12-12-16 | 1.384 |
| **Independent Non-executive Director** | | | | | | | | | |
| Mr. So, Stephen Hon Cheung | 200,000 | – | – | – | – | 200,000 | 13-12-11 | 13-12-11 to 12-12-16 | 1.384 |
| | 6,800,000 | 13,480,000 | – | – | (2,400,000) | 17,880,000 | | | |
| **Chief Executive Officer** | | | | | | | | | |
| Mr. Choi Wai Kwok, Andy | – | 3,900,000 | – | – | – | 3,900,000 | 11-7-14 | 11-7-15 to 10-7-19 | 0.616 |
| **Other employees** | | | | | | | | | |
| In aggregate | 3,700,000 | – | – | – | (650,000) | 3,050,000 | 13-12-11 | 13-12-11 to 12-12-16 | 1.384 |
| | | 11,485,000 | – | – | – | 11,485,000 | 11-7-14 | 11-7-15 to10-7-19 | 0.616 |
| | 10,500,000 | 28,865,000 | – | – | (3,050,000) | 36,315,000 | | | |

The closing price of the Company's shares immediately before the date on which the share options were granted, i.e. 12 December 2011 and 10 July 2014, were HK$1.40 and HK$0.61 per share respectively.

The Directors have estimated the values of the share options granted on 13 December 2011 and 11 July 2014, calculated using the binominal model as at the date of grant of the share options:

| | Number of options held during the year | Theoretical value of share options |
|---|---|---|
| | | HK$'000 |
| Mr. Yiu Kwan Tat | 8,740,000 | 2,815 |
| Mr. Yiu Kwan Wai, Gary | 8,740,000 | 2,815 |
| Mr. Tam B Ray, Billy | 200,000 | 98 |
| Mr. So, Stephen Hon Cheung | 200,000 | 98 |
| Mr. Choi Wai Kwok, Andy | 3,900,000 | 1,059 |
| Other employees | 14,535,000 | 4,620 |
| | 36,315,000 | 11,505 |

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

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

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

## CONTRACT OF SIGNIFICANCE

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

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

As at 31 December 2014, 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 Kwan Tat. 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 2014, 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.

| | | **2014** | 2013 |
|---|---|---|---|
| | *Notes* | **HK$'000** | HK$'000 |
| Rental expenses paid to related companies | *(a) to (c)* | **10,026** | 10,000 |
| Purchases from a related company | *(d)* | **158** | 108 |
| Renovation costs to a related company | *(e)* | **2,743** | 3,211 |
| Legal and professional expenses to a related company | *(f)* | **246** | 599 |

*Notes:*

(a) On 20 November 2012, Milan Station (Causeway Bay) Limited ("MS (CWB)"), a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of the Company, and Excel Trend Limited ("Excel Trend"), a company incorporated in Hong Kong with limited liability and indirectly beneficially wholly owned by Mr. Yiu Kwan Tat ("Mr. Yiu"), the Chairman and an Executive Director, entered into a lease agreement ("2012 CWB Lease Agreement") in relation to the leasing of the premises situated at Areas E and F on the Ground Floor of Percival House, No. 83 Percival Street, Causeway Bay, Hong Kong for retail uses and which was expired on 31 December 2015. On 30 December 2014, MS (CWB) and Excel Trend entered into a new lease agreement to renew the 2012 CWB Lease Agreement for a period from 1 January 2015 to 31 December 2015. The total amount of rental expenses (inclusive of government rent, government rates and management fees) paid by MS (CWB) for the year was HK$7.08 million.

(b) On 20 November 2012, Milan Station (TST) Limited ("MS (TST)"), a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of the Company, and Excel Win Limited ("Excel Win"), a company incorporated in Hong Kong with limited liability and indirectly beneficially wholly owned by Mr. Yiu, entered into a lease agreement ("2012 TST Lease Agreement") in relation to the leasing of the premises situated at Shops F-H on the Ground Floor of the South Seas Apartments, No. 81 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong for retail uses and which was expired on 31 December 2015. On 5 June 2014, MS (TST) and Excel Win entered into a lease agreement ("TST Lease Agreement B") in relation to the leasing of the premises situated at Shop I on Ground Floor of South Seas Apartments, No. 81 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong for the period from 1 June 2014 to 31 December 2015. On 30 December 2014, MS (TST) and Excel Win entered into a new lease agreement ("2014 TST Lease Agreement") to renew the 2012 TST Lease Agreement for a period from 1 January 2015 to 31 December 2015. The total amount of rental expenses (inclusive of government rent, government rates and management fees) paid by MS (TST) for the year was HK$2.466 million. The TST Lease Agreement B and the 2014 TST Lease Agreement has been terminated on 9 January 2015, details of which are disclosed in the announcements of the Company dated 14 November 2014 and 9 January 2015 respectively.

(c) On 20 November 2012, the Company, and Fully Art Limited ("Fully Art"), a company incorporated in Hong Kong with limited liability and the issued shares is owned as 50% by Mr. Yiu Kwan Wai, Gary, an Executive Director and as to 50% by Ms. Yiu Sau Wai ("Ms. Yiu"), resigned as an Executive Director on 17 February 2014, entered into a lease agreement ("2012 Waterfront Lease Agreement") in relation to the leasing of the premises situated at Flat B, 31st Floor of Tower 1, The Waterfront, 1 Austin Road West, Tsim Sha Tsui, Kowloon, Hong Kong for retail uses and which was expired on 31 December 2015. On 30 December 2014, the Company and Fully Art entered into a new lease agreement to renew the 2012 Waterfront Lease Agreement for a period from 1 January 2015 to 31 December 2015. The total amount of rental expenses (inclusive of government rent, government rates and management fees) paid by the Company for the year was HK$0.48 million.

(d) On 28 April 2011, the Company and Yes Lady Finance Company Limited ("Yes Lady"), a company incorporated in Hong Kong with limited liability and 50% of the issued shares of which is owned by Mr. Yiu, entered into a master supply agreement ("Previous Master Supply Agreement") in relation to the provision of advising services by the Company and the supply of pre-owned luxury branded handbags and provision of advertising space by Yes Lady and which was expired on 31 December 2013. On 19 December 2013, the Company and Yes Lady entered into the new master supply agreement to renew the Previous Master Supply Agreement for the period from 1 January 2014 to 31 December 2016. The amount paid by the Company does not exceed the cap amount of HK$1,000,000.

(e) On 28 April 2011, the Company and Mr. Wong Wai Pan (for himself and companies controlled (either directly or indirectly) by him) (collectively, "Renovation Entities"), the husband of Ms. Yiu, entered into a formal master services agreement ("Renovation Services Agreement") in relation to provision of renovation services to the Group and which was expired on 31 December 2013. On 19 December 2013, the Company and Renovation Entities entered into a new renovation services agreement to renew the Renovation Services Agreement for the period from 1 January 2014 to 31 December 2016.

(f) On 28 April 2011, the Company and Messrs. Ho & Tam Solicitors ("Ho & Tam"), Mr. Tam B Ray, Billy, a Non-executive Director, is a partner, entered into a legal services agreement ("Previous Legal Services Agreement") in relation to provision of legal advisory services to the Group and which was expired on 31 December 2013. On 19 December 2013, the Company and Ho & Tam entered into a new legal services agreement to renew the Previous Legal Services Agreement for the period from 1 January 2014 to 31 December 2016. The amount paid by the Company does not exceed the cap amount of HK$1,000,000.

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, 19 December 2013, 5 June 2014 and 30 December 2014, respectively, and the prospectus of the Company dated 11 May 2011 (the "Prospectus").

Crowe Horwath (HK) CPA Limited, 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. Crowe Horwath (HK) CPA Limited 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.56 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 as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2014, save for certain derivations. The Corporate Governance Report is set out on pages 18 to 29 of this annual report.

## AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the financial statements of the Group for the year ended 31 December 2014 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 18 to 29 of this annual report.

## AUDITORS

The financial statements for the years ended 31 December 2012 and 2013 were audited by Messrs. Ernst & Young.

On 30 December 2014, Messrs. Ernst & Young resigned as the auditor of the Company and Crowe Horwath (HK) CPA Limited was appointed as the new auditor of the Company to fill the casual vacancy and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Crowe Horwath (HK) CPA Limited as the auditor of the Company.

On behalf of the Board

**Yiu Kwan Tat**
*Chairman*

Hong Kong, 31 March 2015

# Independent Auditor's Report

國富浩華(香港)會計師事務所有限公司
**Crowe Horwath (HK) CPA Limited**
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

**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 43 to 99, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other 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.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This 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 auditor considers 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 Auditor's 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 2014, 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.

**Crowe Horwath (HK) CPA LIMITED**
*Certified Public Accountants*
Hong Kong, 31 March 2015

Lam Cheung Shing
Practising Certificate Number P03552

# Consolidated Statement of Profit or Loss

Year ended 31 December 2014

| | Note | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|---|
| **REVENUE** | 5 | **615,863** | 698,007 |
| Cost of sales | | **(482,317)** | (544,730) |
| Gross profit | | **133,546** | 153,277 |
| Other income and gains | 5 | **3,555** | 10,529 |
| Selling expenses | | **(132,379)** | (138,387) |
| Administrative and other operating expenses | | **(57,175)** | (57,744) |
| Finance costs | 6 | **(990)** | (1,343) |
| **LOSS BEFORE TAX** | 7 | **(53,443)** | (33,668) |
| Income tax expense | 10 | **(82)** | (4,296) |
| **LOSS FOR THE YEAR** | | **(53,525)** | (37,964) |
| Attributable to: | | | |
| Owners of the Company | 11 | **(52,918)** | (37,520) |
| Non-controlling interests | | **(607)** | (444) |
| | | **(53,525)** | (37,964) |
| **LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| – Basic and diluted | 13 | **HK(7.85 cents)** | HK(5.56 cents) |

The notes on pages 50 to 99 form part of these financial statements.

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2014

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | HK$'000 | HK$'000 |
| **LOSS FOR THE YEAR** | | **(53,525)** | (37,964) |
| **OTHER COMPREHENSIVE (LOSS)/INCOME:** | | | |
| Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **(2,346)** | 2,103 |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | **(55,871)** | (35,861) |
| Attributable to: | | | |
| Owners of the Company | 11 | **(55,173)** | (35,528) |
| Non-controlling interests | | **(698)** | (333) |
| | | **(55,871)** | (35,861) |

The notes on pages 50 to 99 form part of these financial statements.

# Consolidated Statement of Financial Position

31 December 2014

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **96,646** | 95,026 |
| Deferred tax assets | 24 | **574** | 574 |
| Deposits | 16 | **8,392** | 22,912 |
| Total non-current assets | | **105,612** | 118,512 |
| **CURRENT ASSETS** | | | |
| Inventories | 17 | **119,137** | 149,250 |
| Trade receivables | 18 | **9,748** | 10,712 |
| Prepayments, deposits and other receivables | 16 | **26,513** | 18,228 |
| Tax recoverable | | **2,208** | 1,958 |
| Pledged bank deposits | 19 | **1,002** | 1,000 |
| Cash and cash equivalents | 19 | **59,703** | 81,302 |
| Total current assets | | **218,311** | 262,450 |
| **CURRENT LIABILITIES** | | | |
| Accrued liabilities and other payables | 20 | **22,216** | 25,155 |
| Interest-bearing bank borrowings | 21 | **24,479** | 26,808 |
| Obligations under a finance lease | 22 | **118** | 114 |
| Provisions | 23 | **2,515** | 2,820 |
| Tax payable | | **846** | 1,587 |
| Total current liabilities | | **50,174** | 56,484 |
| **NET CURRENT ASSETS** | | **168,137** | 205,966 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **273,749** | 324,478 |
| **NON-CURRENT LIABILITIES** | | | |
| Accrued liabilities and other payables | 20 | **2,303** | – |
| Provisions | 23 | **132** | 911 |
| Obligations under a finance lease | 22 | **344** | 463 |
| Deferred tax liabilities | 24 | **322** | 322 |
| Total non-current liabilities | | **3,101** | 1,696 |
| **NET ASSETS** | | **270,648** | 322,782 |
| **EQUITY** | | | |
| Issued capital | 25 | **6,744** | 6,744 |
| Reserves | 27(a) | **260,825** | 312,261 |
| **Equity attributable to owners of the Company** | | **267,569** | 319,005 |
| Non-controlling interests | | **3,079** | 3,777 |
| **TOTAL EQUITY** | | **270,648** | 322,782 |

Approved and authorised for issue by the board of directors on 31 March 2015 and signed on its behalf by:

| | |
|---|---|
| **YIU KWAN TAT** | **YIU KWAN WAI, GARY** |
| *Director* | *Director* |

The notes on pages 50 to 99 form part of these financial statements.

# Consolidated Statement of Changes in Equity

Year ended 31 December 2014

| | Attributable to owners 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$'000 (note 26) | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2013 | 6,744 | 173,102 | 10 | (23,782) | 1,729 | 1,583 | 5,413 | 189,734 | 354,533 | 3,760 | 358,293 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | 1,992 | – | – | 1,992 | 111 | 2,103 |
| Loss for the year | – | – | – | – | – | – | – | (37,520) | (37,520) | (444) | (37,964) |
| Total comprehensive income/(loss) 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 and 1 January 2014 | 6,744 | 173,102* | 10* | (23,782)* | 1,729* | 3,575* | 5,167* | 152,460* | 319,005 | 3,777 | 322,782 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | (2,255) | – | – | (2,255) | (91) | (2,346) |
| Loss for the year | – | – | – | – | – | – | – | (52,918) | (52,918) | (607) | (53,525) |
| Total comprehensive loss for the year | – | – | – | – | – | (2,255) | – | (52,918) | (55,173) | (698) | (55,871) |
| Equity-settled share-based transaction | – | – | – | – | – | – | 3,737 | – | 3,737 | – | 3,737 |
| Transfer of share option reserve upon the lapse of share options | – | – | – | – | – | – | (1,501) | 1,501 | – | – | – |
| At 31 December 2014 | 6,744 | 173,102* | 10* | (23,782)* | 1,729* | 1,320* | 7,403* | 101,043* | 267,569 | 3,079 | 270,648 |

* *These reserve accounts comprise the consolidated reserves of HK$260,825,000 (2013: HK$312,261,000) 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.

The notes on pages 50 to 99 form part of these financial statements.

# Consolidated Statement of Cash Flows

Year ended 31 December 2014

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss before tax | | **(53,443)** | (33,668) |
| Adjustments for: | | | |
| Bank interest income | 5 | **(82)** | (699) |
| Gain on disposal of property, plant and equipment | 5 | **(52)** | (526) |
| Write-off of property, plant and equipment | 7 | **1,636** | 1,476 |
| Write down/(write-back of provision) for slow-moving inventories, net | 7 | **1,345** | (17,264) |
| Depreciation | 7 | **8,220** | 10,786 |
| Impairment of property, plant and equipment | 7 | **1,155** | 1,790 |
| Loss on write-off of rental deposits | 7 | **2,119** | – |
| Equity-settled share-based payment expenses | | **3,737** | – |
| Net exchange gain | | **(421)** | – |
| Finance costs | 6 | **990** | 1,343 |
| | | **(34,796)** | (36,762) |
| Decrease/(increase) in inventories | | **28,044** | (16,600) |
| Decrease/(increase) in trade receivables | | **899** | (2,398) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **3,712** | (9,437) |
| (Decrease)/increase in accrued liabilities and other payables | | **(314)** | 6,413 |
| (Decrease)/increase in provisions | | **(1,082)** | 2,638 |
| Cash used in operations | | **(3,537)** | (56,146) |
| Hong Kong profits tax (paid)/refunded | | **(609)** | 6,353 |
| Overseas taxes (paid)/refunded | | **(464)** | 224 |
| Net cash used in operating activities | | **(4,610)** | (49,569) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **82** | 699 |
| Purchases of items of property, plant and equipment | | **(12,605)** | (11,157) |
| Proceeds from disposal of property, plant and equipment | | **52** | 1,484 |
| Net cash used in investing activities | | **(12,471)** | (8,974) |

# Consolidated Statement of Cash Flows

Year ended 31 December 2014

| | Note | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank loans | | **–** | 27,000 |
| Repayment of bank loans | | **(2,329)** | (36,935) |
| (Increase)/decrease in pledged bank deposits | | **(2)** | 20,597 |
| Capital element of finance lease payables | | **(115)** | (191) |
| Contribution from a non-controlling interest of a subsidiary | | **–** | 350 |
| Interest paid | | **(973)** | (1,333) |
| Interest elements on finance lease rental payments | | **(17)** | (10) |
| Net cash (used in)/generated from financing activities | | **(3,436)** | 9,478 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(20,517)** | (49,065) |
| Cash and cash equivalents at beginning of year | | **81,302** | 128,384 |
| Effect of foreign exchange rate changes, net | | **(1,082)** | 1,983 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **59,703** | 81,302 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **59,703** | 80,302 |
| Non-pledged time deposits with original maturity of less than three months when acquired | | **–** | 1,000 |
| Cash and cash equivalents as stated in the consolidated statement of financial position and cash flows | 19 | **59,703** | 81,302 |

## 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. The Group did not enter into any new finance lease arrangement during the year ended 31 December 2014.

(b) During the year ended 31 December 2014, a reinstatement cost of HK$68,000 (2013: HK$309,000) was capitalised as property, plant and equipment, which remained unpaid and was included in provisions as at 31 December 2014.

The notes on pages 50 to 99 form part of these financial statements.

# Statement of Financial Position

31 December 2014

| | Note | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **85** | 125 |
| Investments in subsidiaries | 15 | **85,000** | 144,000 |
| Total non-current assets | | **85,085** | 144,125 |
| **CURRENT ASSETS** | | | |
| Prepayments, deposits and other receivables | 16 | **249** | 359 |
| Due from subsidiaries | 15 | **188,547** | 181,255 |
| Cash and bank balances | 19 | **649** | 742 |
| Total current assets | | **189,445** | 182,356 |
| **CURRENT LIABILITIES** | | | |
| Due to subsidiaries | 15 | **9,304** | 4,364 |
| Accrued liabilities and other payables | 20 | **1,598** | 3,211 |
| Total current liabilities | | **10,902** | 7,575 |
| **NET CURRENT ASSETS** | | **178,543** | 174,781 |
| **NET ASSETS** | | **263,628** | 318,906 |
| **EQUITY** | | | |
| Issued capital | 25 | **6,744** | 6,744 |
| Reserves | 27(b) | **256,884** | 312,162 |
| **Total equity attributable to owners of the Company** | | **263,628** | 318,906 |

Approved and authorised for issue by the board of directors on 31 March 2015 and signed on its behalf by:

**YIU KWAN TAT**
*Director*

**YIU KWAN WAI, GARY**
*Director*

The notes on pages 50 to 99 form part of these financial statements.

# Notes to Financial Statements

31 December 2014

## 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 immediate parent and ultimate holding company of the Company is Perfect One Enterprises Limited ("Perfect One"), which was incorporated in the British Virgin Islands and controlled by Mr. Yiu Kwan Tat, the chairman of the Company.

## 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 and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in the sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated. The functional currency of the entities within the Group is HK$ except for the subsidiaries established outside Hong Kong for which the functional currency is the local currency in which the entities operate.

### 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 2014. 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 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

### Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities* for the first time in the current year. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

### Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

# Notes to Financial Statements

31 December 2014

## 2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities *(continued)*

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

### Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group has applied the amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* for the first time in the current year. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

### Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Group has applied the amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* for the first time in the current year. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

### HK(IFRIC) – Int 21 Levies

The Group has applied HK(IFRIC) - Int 21 *Levies* for the first time in the current year. HK(IFRIC) - Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

HK(IFRIC) - Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

## 2.3 NEW AND REVISED HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

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*[1] |
| HKFRS 14 | *Regulatory Deferral Accounts*[2] |
| HKFRS 15 | *Revenue from Contracts with Customers*[3] |
| Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations*[5] |
| Amendments to HKAS 1 | *Disclosure Initiative*[5] |
| Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation*[5] |
| Amendments to HKAS 16 and HKAS 41 | *Agriculture: Bearer Plants*[5] |
| Amendments to HKAS 19 | *Defined Benefit Plans: Employee Contributions*[4] |
| Amendments to HKAS 27 | *Equity Method in Separate Financial Statements*[5] |
| Amendments to HKFRS 10 and HKAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5] |
| Amendments to HKFRSs | *Annual Improvements to HKFRSs 2010-2012 Cycle*[6] |
| Amendments to HKFRSs | *Annual Improvements to HKFRSs 2011-2013 Cycle*[4] |
| Amendments to HKFRSs | *Annual Improvements to HKFRSs 2012-2014 Cycle*[5] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | *Investment Entities: Applying the Consolidation Exception*[5] |

[1] *Effective for annual periods beginning on or after 1 January 2018.*
[2] *Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.*
[3] *Effective for annual periods beginning on or after 1 January 2017.*
[4] *Effective for annual periods beginning on or after 1 July 2014.*
[5] *Effective for annual periods beginning on or after 1 January 2016.*
[6] *Effective for annual periods beginning on or after 1 July 2014.*

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.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

# Notes to Financial Statements

31 December 2014

## 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;

## 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 administrative and other operating 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 accrued liabilities and other payables.

# Notes to Financial Statements

31 December 2014

## 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.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition

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

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

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

(c) licensing income, on an accrual basis in accordance with the substance of the relevant agreements; and

(d) 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.

The employees of the Group's subsidiary which operates in Singapore are required to participate in a central provident fund operated by the local government. The subsidiary operating in Singapore is required to make contributions for its employees who are registered as residents to the central provident fund. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central provision fund.

# Notes to Financial Statements

31 December 2014

## 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 26 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled 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 assessed 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.

Prior to 2013, 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 board of directors is the chief operating decision maker. 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 2014** | | | | | |
| Revenue from external customers | 452,134 | 81,437 | 69,871 | 12,421 | 615,863 |
| Non-current assets | 86,357 | 27 | 11,629 | – | 98,013 |
| Capital expenditure | 2,199 | 1,454 | 9,020 | – | 12,673 |
| **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 |

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

### Information about major customers

No customer of the Group has individually contributed 10% or more of the Group's total revenue during the year (2013: Nil) and no information about major customers is presented accordingly.

### Information about major products

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Handbags | **611,051** | 690,408 |
| Other products | **4,812** | 7,599 |
| | **615,863** | 698,007 |

# Notes to Financial Statements

31 December 2014

## 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:

| | 2014 | 2013 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Revenue** | | |
| Sale of goods | 615,863 | 698,007 |
| **Other income and gains** | | |
| Bank interest income | 82 | 699 |
| Total interest income on financial assets not at fair value through profit or loss | 82 | 699 |
| Gain on disposal of property, plant and equipment | 52 | 526 |
| Licensing income | 2,901 | – |
| Gross rental income | – | 8,400 |
| Others | 520 | 904 |
| | 3,555 | 10,529 |

## 6. FINANCE COSTS

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | HK$'000 | HK$'000 |
| Interest on: | | |
| Bank loans wholly repayable: | | |
| Within five years | 136 | 112 |
| Over five years | 837 | 1,221 |
| Finance lease charges | 17 | 10 |
| | 990 | 1,343 |

The analysis shows the finance costs of bank borrowings, including term loan which contains a repayable on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreement.

## 7. LOSS BEFORE TAX

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

| | | Group | |
|---|---|---|---|
| | | **2014** | 2013 |
| | Note | **HK$'000** | HK$'000 |
| Cost of inventories recognised as an expense | | **482,317** | 544,730 |
| Write down/(write-back of provision) for slow-moving inventories included in cost of inventories recognised as an expense | | **1,345** | (17,264) |
| Depreciation | | | |
| – owned assets | | **8,192** | 10,691 |
| – assets under finance lease | | **28** | 95 |
| | 14 | **8,220** | 10,786 |
| Net exchange loss | | **455** | 2,872 |
| Impairment of property, plant and equipment | 14 | **1,155** | 1,790 |
| Loss on write-off of rental deposits | | **2,119** | – |
| Minimum lease payments under operating leases in respect of land and buildings | | **72,121** | 79,053 |
| Auditors' remuneration | | **900** | 1,460 |
| Write-off of property, plant and equipment | | **1,636** | 1,476 |
| Provision for early termination of a tenancy agreement | 23 | **1,590** | 3,956 |
| Employee benefit expenses (excluding directors' remuneration (note 8)): | | | |
| Salaries, wages and other benefits | | **39,142** | 33,988 |
| Pension scheme contributions | | **1,084** | 1,054 |
| Equity-settled share option expense | | **1,991** | – |
| | | **42,217** | 35,042 |

# Notes to Financial Statements

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## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622) with reference to Section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

| | 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 2014** | | | | | |
| Executive directors: | | | | | |
| Mr. Yiu Kwan Tat^ | – | 4,372 | 17 | 873 | 5,262 |
| Mr. Yiu Kwan Wai, Gary | – | 885 | 17 | 873 | 1,775 |
| Ms. Yiu Sau Wai (resigned on 17 February 2014) | – | 134 | 2 | – | 136 |
| Mr. Wong Hiu Chor (resigned on 17 February 2014) | – | 122 | 3 | – | 125 |
| | – | 5,513 | 39 | 1,746 | 7,298 |
| Non-executive director: | | | | | |
| Mr. Tam B Ray, Billy | 300 | – | – | – | 300 |
| Mr. Yuen Lai Yan, Darius | 200 | – | – | – | 200 |
| | 500 | – | – | – | 500 |
| Independent non-executive directors | | | | | |
| Mr. So, Stephen Ho Cheung | 200 | – | – | – | 200 |
| Mr. Fan Chun Wah, Andrew | 200 | – | – | – | 200 |
| Mr. Mui Ho Cheung | 200 | – | – | – | 200 |
| | 600 | – | – | – | 600 |
| Sub-total: | 1,100 | 5,513 | 39 | 1,746 | 8,398 |
| Chief executive | | | | | |
| Mr. Choi Wai Kwok, Andy^ | – | 1,863 | 9 | 505 | 2,377 |
| | 1,100 | 7,376 | 48 | 2,251 | 10,775 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

| | 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^ | – | 5,046 | 15 | – | 5,061 |
| Mr. Yiu Kwan Wai, Gary | – | 852 | 15 | – | 867 |
| Ms. Yiu Sau Wai | – | 1,073 | 15 | – | 1,088 |
| Mr. Wong Hiu Chor | – | 852 | 15 | – | 867 |
| | – | 7,823 | 60 | – | 7,883 |
| Non-executive directors: | | | | | |
| Mr. Tam B Ray, Billy | 300 | – | – | – | 300 |
| Mr. Yuen Lai Yan, Darius | 200 | – | – | – | 200 |
| | 500 | – | – | – | 500 |
| Independent non-executive directors | | | | | |
| Mr. So, Stephen Hon Cheung | 200 | – | – | – | 200 |
| Mr. Fan Chun Wah, Andrew (appointed on 25 March 2013) | 154 | – | – | – | 154 |
| Mr. Mui Ho Cheung (appointed on 31 May 2013) | 117 | – | – | – | 117 |
| Mr. Ip Shu Kwan, Stephen (resigned on 15 March 2013) | 41 | – | – | – | 41 |
| Mr. Lau Kin Hok (resigned on 31 May 2013) | 84 | – | – | – | 84 |
| | 596 | - | – | – | 596 |
| | 1,096 | 7,823 | 60 | – | 8,979 |

^ Mr. Yiu Kwan Tat ("Mr. Yiu") is the chief executive officer of the Company during the year ended 31 December 2013. Mr. Yiu has stepped down from his position as the chief executive officer of the Company with effect from 11 July 2014. Mr. Choi Wai Kwok, Andy, has been appointed as the chief executive officer of the Company with effect from 11 July 2014.

During the prior and current years, certain directors and chief executive were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 26 to the financial statements. The fair value of such options, which had been recognised in the statement of profit or loss was determined as at the date of grant and the amount included in the financial statements for the current year was included in the above directors' and chief executive's remuneration disclosures.

# Notes to Financial Statements

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## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

There was no arrangement under which a director and chief executive waived or agreed to waive any remuneration during the year (2013: Nil).

During the year ended 31 December 2014, no remuneration was paid by the Group to the directors and chief executive as an inducement to join or upon joining the Group or as compensation for loss of office (2013: Nil).

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors and the chief executive (2013: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2013: one) highest paid employees who are non-director and non-chief executive of the Company is as follows:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Salaries, bonuses, allowances and benefits in kind | **1,760** | 840 |
| Pension scheme contributions | **32** | 11 |
| Equity-settled share option expense | **957** | – |
| | **2,749** | 851 |

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

| | Number of employees | |
|---|---|---|
| | **2014** | 2013 |
| Nil to HK$1,000,000 | **–** | 1 |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| HK$1,500,001 to HK$2,000,000 | **1** | – |

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

During the year ended 31 December 2014, 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 (2013: Nil).

## 10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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% (2013: 25%) on their taxable profits. Macau complementary tax has been provided at progressive rates up to a maximum of 12% (2013: 12%) on the estimated taxable profits. The subsidiary in Singapore is subject to Singapore income tax at the rate of 17% (2013: 17%).

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Current – Hong Kong | | |
| Charge for the year | **27** | 2,038 |
| Overprovision in prior years | **–** | (191) |
| Current – Elsewhere | | |
| Charge for the year | **44** | 462 |
| Underprovision in prior years | **11** | 373 |
| Deferred (note 24) | **–** | 1,614 |
| Total tax charge for the year | **82** | 4,296 |

# Notes to Financial Statements

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## 10. INCOME TAX EXPENSE *(continued)*

A reconciliation of the income 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 | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Loss before tax | **(53,443)** | (33,668) |
| Tax at the statutory tax rate | **(10,572)** | (7,737) |
| Adjustment in respect of current tax of previous periods | **11** | 182 |
| Income not subject to tax | **(99)** | (668) |
| Expenses not deductible for tax | **1,323** | 2,399 |
| Tax losses not recognised | **10,139** | 11,945 |
| Tax losses from previous periods utilised | **(547)** | (95) |
| Others | **(173)** | (1,730) |
| Tax charge at the Group's effective tax rate | **82** | 4,296 |

## 11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year includes a loss of HK$13,308,000 (2013: HK$11,564,000) which has been dealt with in the financial statements of the Company (note 27(b)).

## 12. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2014 (2013: Nil), nor has any dividend been proposed since the end of the reporting period.

## 13. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to owners of the Company of HK$52,918,000 (2013: HK$37,520,000) and the ordinary shares of 674,374,000 (2013: 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 2014 and 2013 in respect of a dilution as the impact of the share options in issue had an anti-dilutive effect on the basic loss per share amounts presented.

## 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 2014** | | | | | |
| Cost: | | | | | |
| At 1 January 2014 | 80,417 | 31,719 | 12,023 | 972 | 125,131 |
| Additions | – | 11,108 | 665 | 900 | 12,673 |
| Disposals | – | – | – | (215) | (215) |
| Write-off | – | (11,891) | (327) | – | (12,218) |
| Exchange realignment | – | (183) | (9) | – | (192) |
| At 31 December 2014 | 80,417 | 30,753 | 12,352 | 1,657 | 125,179 |
| Accumulated depreciation and impairment loss: | | | | | |
| At 1 January 2014 | 1,575 | 23,135 | 5,085 | 310 | 30,105 |
| Depreciation charge for the year | 796 | 5,270 | 1,991 | 163 | 8,220 |
| Impairment | – | 1,155 | – | – | 1,155 |
| Disposals | – | – | – | (215) | (215) |
| Write-off | – | (10,405) | (177) | – | (10,582) |
| Exchange realignment | – | (144) | (6) | – | (150) |
| At 31 December 2014 | 2,371 | 19,011 | 6,893 | 258 | 28,533 |
| Carrying amount: | | | | | |
| At 31 December 2014 | 78,046 | 11,742 | 5,459 | 1,399 | 96,646 |
| **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-off | – | (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 loss: | | | | | |
| 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-off | – | (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 |
| Carrying amount: | | | | | |
| At 31 December 2013 | 78,842 | 8,584 | 6,938 | 662 | 95,026 |

During the year ended 31 December 2014, the Group recognised an impairment loss of HK$1,155,000 on leasehold improvements as a store was closed subsequent to the reporting period by early termination of a tenancy agreement. The directors are of the opinion that the recoverable amount of the balance was less than its carrying amount.

During the year ended 31 December 2013, the Group recognised an impairment loss of HK$1,212,000 on leasehold improvements as a store was closed subsequent to the reporting period by early termination of a tenancy agreement. Moreover, the Group recognised an impairment loss of HK$578,000 on leasehold improvements and furniture, fixtures and office equipment as two stores were closed subsequent to the reporting period upon the expiration of tenancy agreements.

# Notes to Financial Statements

31 December 2014

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

**Company**

| | Furniture, fixtures and office equipment |
|---|---|
| | HK$'000 |
| **31 December 2014** | |
| Cost: | |
| At 1 January 2014 and 31 December 2014 | 203 |
| Accumulated depreciation: | |
| At 1 January 2014 | 78 |
| Depreciation charge for the year | 40 |
| At 31 December 2014 | 118 |
| Carrying amount: | |
| At 31 December 2014 | 85 |
| **31 December 2013** | |
| 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 |
| Carrying amount: | |
| At 31 December 2013 | 125 |

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

The Group's land and buildings with a carrying amount of HK$78,046,000 (2013: HK$78,842,000) are situated in Hong Kong and are held under long-term leases, of which certain land and buildings with carrying amount of HK$76,530,000 (2013: HK$77,313,000) were pledged to secure a general banking facility granted to the Group (note 21).

The carrying amount of the Group's motor vehicle held under a finance lease amounted to HK$634,000 (2013: HK$662,000) as at 31 December 2014.

## 15. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **555,000** | 555,000 |
| Less: Impairment loss # | **(470,000)** | (411,000) |
| | **85,000** | 144,000 |

# In prior years, due to the poor operating performance of the relevant subsidiaries, the carrying amount had been impaired by HK$411,000,000 through the recognitions of impairment losses. In current year, the relevant subsidiaries were also operating at a loss, therefore, an additional impairment loss of HK$59,000,000 was made during the year. The impairment loss of HK$470,000,000 was recognised for investments in subsidiaries with gross carrying amount of HK$555,000,000, with reference to the directors' estimate of discounted future cash flows of the investment as at 31 December 2014.

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and repayable on demand.

# Notes to Financial Statements

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## 15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ establishment and operations | 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")/Hong Kong | 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 | 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/Hong Kong | 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 ("MS (Macau)") | 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/Hong Kong | US$2 | – | 100 | Investment holding |
| Milan Station (E-Business) Limited | Hong Kong | HK$10,000 | – | 100 | Engaged in sales of handbags, fashion accessories and embellishments operation |
| Milan Station (PRC) Limited ("MS (PRC)") | Hong Kong | HK$10,000 | – | 100 | Engaged in sales of handbags, fashion accessories and embellishments operation |
| Milan Station (Kwun Tong) Limited | Hong Kong | HK$10,000 | – | 100 | Engaged in retailing of handbags, fashion accessories and embellishments operation |
| Milan Station Properties Holdings Limited | Hong Kong | HK$10,000 | – | 100 | Property holding |

# Notes to Financial Statements

31 December 2014

## 15. INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name | Place of incorporation/ establishment and operations | Issued ordinary share capital/paid-up registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| 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 |
| 包包站貿易(成都)有限公司* (Note i) | 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/Hong Kong | US$1 | – | 100 | Investment holding |
| 潮袋(上海)網絡科技有限公司* (Note ii) | The PRC/Mainland China | RMB7,000,000 | – | 90 | Engaged in sales of handbags, fashion accessories and embellishments operation |

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

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:

(i) 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.

(ii) 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. During the year ended 31 December 2014, a total capital injection of RMB7,000,000 was made to 潮袋 by the respective shareholders.

## 16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Prepayments | **13,933** | 6,346 | **249** | 291 |
| Deposits | **19,943** | 29,461 | **–** | – |
| Other receivables | **1,029** | 5,333 | **–** | 68 |
| | **34,905** | 41,140 | **249** | 359 |
| Less: Non-current portion | **(8,392)** | (22,912) | **–** | – |
| | **26,513** | 18,228 | **249** | 359 |

At 31 December 2014 and 2013, the balances of deposits and other receivables were neither past due nor impaired. Financial assets included in the above balances have no recent history of default.

# Notes to Financial Statements

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## 17. INVENTORIES

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Goods held for resale | **119,137** | 149,250 |

## 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 | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Within 1 month | **8,182** | 10,337 |
| 1 to 2 months | **498** | 375 |
| 2 to 3 months | **464** | – |
| Over 3 months | **604** | – |
| | **9,748** | 10,712 |

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

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **8,237** | 10,429 |
| 1 to 2 months past due | **907** | 283 |
| Over 3 months past due | **604** | – |
| | **9,748** | 10,712 |

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 BANK DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Cash and bank balances | 59,703 | 80,302 | 649 | 742 |
| Pledged time deposits | 1,002 | 1,000 | – | – |
| Time deposits with original maturity of less than three months when acquired | – | 1,000 | – | – |
| | 60,705 | 82,302 | 649 | 742 |
| Less: Time deposits pledged for bank loan facilities (note 21) | (1,002) | (1,000) | – | – |
| Cash and cash equivalents | 59,703 | 81,302 | 649 | 742 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$18,694,000 (2013: HK$9,167,000). 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 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Accrued liabilities | 5,939 | 7,675 | 1,000 | 1,506 |
| Other payables | 7,673 | 7,447 | 598 | 1,705 |
| Deposit received | 10,907 | 10,033 | – | – |
| | 24,519 | 25,155 | 1,598 | 3,211 |
| Less: Non-current portion | (2,303) | – | – | – |
| | 22,216 | 25,155 | 1,598 | 3,211 |

Other payables are non-interest-bearing and repayable on demand.

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## 21. INTEREST-BEARING BANK BORROWINGS

| | Effective interest rate | Maturity | Group 2014 | 2013 |
|---|---|---|---|---|
| | | | **HK$'000** | HK$'000 |
| **Current** | | | | |
| Bank loan – secured | 3.25% per annum (2013: 3.25% per annum) | On demand | **24,479** | 26,808 |

As at 31 December 2014 and 2013, the secured bank loan is denominated in Hong Kong dollars and bears interest at floating rates.

The secured bank loan contains 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 loan, the amount repayable in respect of the bank loan is as follows:

| | Group 2014 | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Portion of bank loans due for repayment within one year | **2,406** | 2,329 |
| Bank loans due for repayment after one year | | |
| After 1 year but within 2 years | **2,483** | 2,406 |
| After 2 years but within 5 years | **7,959** | 7,703 |
| After 5 years | **11,631** | 14,370 |
| | **22,073** | 24,479 |
| | **24,479** | 26,808 |

As at 31 December 2014, the bank loan was secured by:

(i) a pledge of the Group's land and buildings with a carrying amount of HK$76,530,000 (2013: HK$77,313,000);

(ii) a corporate guarantee executed by the Company and a subsidiary of the Company to the extent of HK$67,000,000 (2013: HK$67,000,000); and

(iii) the pledge of bank deposits of HK$1,002,000 (2013: HK$1,000,000).

## 22. OBLIGATIONS UNDER A FINANCE LEASE

The Group leases a motor vehicle under a finance lease. At 31 December 2014, 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 |
|---|---|---|---|---|
| | 2014 HK$'000 | 2013 HK$'000 | 2014 HK$'000 | 2013 HK$'000 |
| Amounts payable: | | | | |
| Within one year | 131 | 131 | 118 | 114 |
| In the second year | 131 | 131 | 121 | 118 |
| In the third to fifth years, inclusive | 229 | 360 | 223 | 345 |
| Total minimum finance lease payments | 491 | 622 | 462 | 577 |
| Future finance charges | (29) | (45) | | |
| Total net finance lease payables | 462 | 577 | | |
| Portion classified as current liabilities | (118) | (114) | | |
| Non-current portion | 344 | 463 | | |

## 23. PROVISIONS

| | Provision for store closure | Provision for reinstatement costs | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2014 | 2,409 | 1,322 | 3,731 |
| Provisions made during the year | 1,590 | 68 | 1,658 |
| Amounts utilised during the year | (2,349) | (100) | (2,449) |
| Reversal during the year | – | (223) | (223) |
| Exchange difference | (60) | (10) | (70) |
| At 31 December 2014 | 1,590 | 1,057 | 2,647 |
| Less: Non-current portion | – | (132) | (132) |
| | 1,590 | 925 | 2,515 |

MS (Macau), an indirect wholly-owned subsidiary of the Company, entered into a non-cancellable operating lease agreement (the "Lease Agreement A") with a landlord in relation to its retail shop in Macau (the "Retail Shop A") with a lease term of three years in July 2014. On 31 December 2014, the board of directors of MS (Macau) passed a resolution in relation to the early termination of the Lease Agreement A. The Retail Shop A was closed down in February 2015. Accordingly, the Group provided for all the compensation for early termination and future minimum lease payments in total of HK$1,590,000 under the Lease Agreement A and had settled all relevant costs of HK$1,590,000 in February 2015.

## 23. PROVISIONS *(continued)*

MS (SH), an indirect wholly-owned subsidiary of the Company, entered into a non-cancellable operating lease agreement (the "Lease Agreement B") with a landlord (the "Landlord") in relation to its retail shop in Shanghai (the "Retail Shop B") with an original term of five years in November 2010. The Retail Shop B 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 Lease Agreement B. 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 Lease Agreement B and had settled certain relevant costs in total of HK$1,547,000 during the year ended 31 December 2013.

## 24. DEFERRED TAX

### a) Deferred tax assets and liabilities recognised

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

#### *i) Deferred tax arising from*

| | Depreciation allowance in excess of related depreciation | Depreciation in excess of related depreciation allowance | Provision for inventories | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2013 | (62) | 523 | 1,405 | 1,866 |
| (Debited)/credited to the consolidated statement of profit or loss during the year (note 10) | (260) | 51 | (1,405) | (1,614) |
| At 31 December 2013, 1 January 2014 and 31 December 2014 | (322) | 574 | – | 252 |

#### *ii) Reconciliation to the consolidated statement of financial position*

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Net deferred tax assets recognised in the consolidated statement of financial position | **574** | 574 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **(322)** | (322) |
| | **252** | 252 |

### b) Deferred tax assets not recognised

Certain subsidiaries of the Group have tax losses arising in Hong Kong in total of HK$94,011,000 (2013: HK$67,557,000) as at 31 December 2014 that are available indefinitely for offsetting against their future taxable profits. Deferred tax assets have not been recognised in respect of these losses as these subsidiaries have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

## 24. DEFERRED TAX *(continued)*

### b) Deferred tax assets not recognised *(continued)*

Tax losses of approximately HK$65,758,000 (2013: HK$44,851,000) attributable to the operations in the PRC are available for offsetting against future profits that may be carried forward for five years for the PRC Corporate Income Tax purpose.

### c) Deferred tax liabilities not recognised

As at 31 December 2014 and 2013, the Group had no other significant potential unprovided deferred tax liabilities not recognised.

## 25. SHARE CAPITAL

| | **2014** | 2013 |
|---|---|---|
| | **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 (2013: 674,374,000) ordinary shares of HK$0.01 each | **6,744** | 6,744 |

## 26. SHARE OPTION SCHEME

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

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

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## 26. SHARE OPTION SCHEME *(continued)*

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

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors, and shall commence at the grant date or commence after a vesting period of one year 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. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

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

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | 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 | 10,500 | 1.384 | 11,000 |
| Granted during the year | 0.616 | 28,865 | – | – |
| Lapsed during the year | 1.384 | (3,050) | 1.384 | (500) |
| Outstanding at 31 December | 0.774 | 36,315 | 1.384 | 10,500 |
| Exercisable at 31 December | 1.384 | 7,450 | 1.384 | 10,500 |

The options outstanding at 31 December 2014 had exercise prices of HK$1.384 or HK$0.616 (2013: HK$1.384) and a weighted average remaining contractual lives of 4.00 years (2013: 2.95 years).

## 26. SHARE OPTION SCHEME *(continued)*

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

| **2014 Number of options** | **Exercise price** | **Exercise period** |
|---|---|---|
| **'000** | **HK$ per share** | |
| **28,865** | **0.616** | **11-7-2015 to 10-7-2019** |
| **7,450** | **1.384** | **13-12-2011 to 12-12-2016** |
| **36,315** | | |

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

The fair value of the share options granted during the year ended 31 December 2014 was approximately HK$7,839,000 (HK$0.27 each) of which the Group recognised total expenses of approximately HK$3,737,000 as a share option expense during the year ended 31 December 2014.

The fair value of equity-settled share options granted during the year ended 31 December 2014 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:

| | **2014** |
|---|---|
| Dividend yield (%) | 0 |
| Expected volatility (%) | 59.18 |
| Risk-free interest rate (%) | 1.383 |
| Expected life of options (year) | 5 |
| Price of the Company's shares at the date of grant (HK$ per share) | 0.61 |

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

## 26. 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 36,315,000 (2013: 10,500,000) share options outstanding under the Scheme.

At the date of approval of these financial statements, the Company had 35,790,000 share options outstanding under the Scheme, which represented approximately 5.31% of the Company's shares in issue as at that date.

## 27. RESERVES

### (a) Group

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

### (b) Company

| | Share premium account | Capital reserve | Share option reserve | Accumulated losses | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000<br>(note 26) | HK$'000 | HK$'000 |
| At 1 January 2013 | 173,102 | 555,000 | 5,413 | (420,717) | 312,798 |
| Loss for the year and total comprehensive loss for the year | – | – | – | (636) | (636) |
| Transfer of share option reserve upon the lapse of share options | – | – | (246) | 246 | – |
| At 31 December 2013 and 1 January 2014 | 173,102 | 555,000 | 5,167 | (421,107) | 312,162 |
| Loss for the year and total comprehensive loss for the year | – | – | – | (59,015) | (59,015) |
| Equity-settled share-based transaction | – | – | 3,737 | – | 3,737 |
| Transfer of share option reserve upon the lapse of share options | – | – | (1,501) | 1,501 | – |
| At 31 December 2014 | 173,102 | 555,000 | 7,403 | (478,621) | 256,884 |

## 27. RESERVES *(continued)*

### (b) Company *(continued)*

The loss of HK$59,015,000 (2013: HK$636,000) for the year ended 31 December 2014 included an impairment loss on investments in subsidiaries of the Company of HK$59,000,000 (2013: HK$Nil) and management fee income from subsidiaries of approximately HK$13,293,000 (2013: HK$10,928,000).

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

## 28. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the year:

| | | **2014** | 2013 |
|---|---|---|---|
| | Notes | **HK$'000** | HK$'000 |
| Rental expenses paid to related companies | (i) | **10,026** | 10,000 |
| Rental deposit paid to a related company | (ii) | **156** | – |
| Purchases from a related company | (iii) | **158** | 108 |
| Renovation costs to a related company | (iv) | **152** | 3,211 |
| Legal and professional expenses to a related company | (v) | **246** | 599 |

*Notes:*

(i) The Group has entered into lease agreements with certain related companies of which Mr. Yiu Kwan Tat ("Mr. Yiu"), Mr. Yiu Kwan Wai, Gary and Ms. Yiu Sau Wai ("Ms. Yiu") are also directors of these related companies. The rental expenses paid to these related companies were based on mutually agreed terms. Ms. Yiu has resigned as a director of the Company on 17 February 2014.

(ii) The rental deposit paid to a related company, in which Mr. Yiu has beneficial interest, were made on mutually agreed terms.

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

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

(v) Legal and professional expenses to a related company, in which Mr. Tam B Ray, Billy, a non-executive director of the Company, is a partner, were made on mutually agreed terms.

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

# Notes to Financial Statements

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## 28. RELATED PARTY TRANSACTIONS *(continued)*

(b) Commitments under operating leases payable to related companies:

| | 2014 | 2013 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Within one year | 11,394 | 7,480 |

The leases related to the related companies run for an initial period of 1 to 2 years and the related commitments are included in note 30.

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

| | 2014 | 2013 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Short term employee benefits | 11,284 | 12,022 |
| Equity-settled share option expense | 2,502 | – |
| Post-employment benefits | 100 | 116 |
| | 13,886 | 12,138 |

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

## 29. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Guarantees given to banks in connection with facilities granted to: | | | | |
| Subsidiaries | – | – | 67,000 | 67,000 |

The maximum liability of the Company at the end of the reporting period under the corporate guarantee is the amount of the facilities drawn down by all the subsidiaries that are covered by the corporate guarantee, being HK$24,479,000 (2013: HK$26,808,000).

## 30. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for: | | |
| Purchase of property, plant and equipment | **1,219** | 4,574 |

(b) Operating lease commitments

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. Certain rentals for the use of shops are determined by reference to the revenue of the relevant shops for the year and the rentals for certain shops will be escalated by a fixed percentage per annum.

At 31 December 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **47,127** | 67,785 | **528** | 80 |
| In the second to fifth years, inclusive | **65,917** | 104,798 | **–** | – |
| More than five years | **–** | 9,542 | **–** | – |
| | **113,044** | 182,125 | **528** | 80 |

# Notes to Financial Statements

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## 31. 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 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade receivables | **9,748** | 10,712 | **–** | – |
| Financial assets included in prepayments, deposits and other receivables | **19,605** | 28,965 | **–** | 68 |
| Due from subsidiaries | **–** | – | **188,547** | 181,255 |
| Pledged bank deposits | **1,002** | 1,000 | **–** | – |
| Cash and cash equivalents | **59,703** | 81,302 | **649** | 742 |
| | **90,058** | 121,979 | **189,196** | 182,065 |

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

### 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 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Due to subsidiaries | **–** | – | **9,304** | 4,364 |
| Financial liabilities included in accrued liabilities and other payables | **19,528** | 18,942 | **598** | 1,705 |
| Interest-bearing bank borrowings | **24,479** | 26,808 | **–** | – |
| Obligations under a finance lease | **462** | 577 | **–** | – |
| | **44,469** | 46,327 | **9,902** | 6,069 |

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

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

### Interest rate risk

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

The interest rates of the interest-bearing bank borrowings of the Group are disclosed in note 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 2014 | **100** | 245 |
| Year ended 31 December 2013 | **100** | 268 |

# Notes to Financial Statements

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## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### 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$'000 |
| Year ended 31 December 2014 | | |
| If HK$ weakens against RMB | 5 | (935) |
| If HK$ strengthens against RMB | (5) | 935 |
| Year ended 31 December 2013 | | |
| If HK$ weakens against RMB | 5 | (458) |
| If HK$ strengthens against RMB | (5) | 458 |

## 32. 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.

The Company's credit risk is primarily attributable to amounts due from subsidiaries. The Company reviews the recoverable amounts of individual debts at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

Except for the financial guarantee given by the Company as set out in note 29, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of the financial guarantee at the end of the reporting period is disclosed in note 29.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables, and cash and cash equivalents and pledged bank deposits are disclosed in notes 18 and 19 to the financial statements.

Further quantitative data in respect of the Company's exposure to credit risk arising from due from subsidiaries and cash and bank balances are disclosed notes 15 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 2014 | | |
|---|---|---|---|
| | 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 | 17,225 | 2,303 | 19,528 |
| Interest-bearing bank borrowings* | 24,479 | – | 24,479 |
| Obligations under a finance lease | 131 | 360 | 491 |
| | 41,835 | 2,663 | 44,498 |

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Liquidity risk *(continued)*

### Group *(continued)*

| | 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 | 18,942 | – | 18,942 |
| Interest-bearing bank borrowings* | 26,808 | – | 26,808 |
| Obligations under a finance lease | 131 | 491 | 622 |
| | 45,881 | 491 | 46,372 |

* Included in interest-bearing bank borrowings is a bank loan of HK$24,479,000 as at 31 December 2014 (2013: HK$26,808,000), 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 principal and interest outflows will be HK$3,166,000 (2013: HK$3,166,000) repayable within one year as at 31 December 2014; HK$3,166,000 (2013: HK$3,166,000) repayable in the second year as at 31 December 2014; HK$9,498,000 (2013: HK$9,498,000) repayable in the third to fifth years, inclusive, as at 31 December 2014 and HK$12,403,000 (2013: HK$15,590,000) repayable beyond five years as at 31 December 2014.

### Company

| | **31 December 2014** | | |
|---|---|---|---|
| | **On demand and less than 1 year** | **Over 1 year** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** |
| Due to subsidiaries | **9,304** | **–** | **9,304** |
| Financial liabilities included in accrued liabilities and other payables | **598** | **–** | **598** |
| | **9,902** | **–** | **9,902** |
| Financial guarantee issued | | | |
| Maximum amount guaranteed (Note 29) | **24,479** | **–** | **24,479** |

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Liquidity risk *(continued)*

### Company *(continued)*

| | 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 |
| Financial guarantee issued<br>Maximum amount guaranteed (Note 29) | 26,808 | – | 26,808 |

As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees.

### 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 2014 and 2013.

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.

## 33. EVENTS AFTER THE REPORTING PERIOD

On 5 January 2015, the Group formed a 90% owned subsidiary in Hong Kong (the "Project Company"). On 16 February 2015, the Group entered into an equity transfer agreement with the Project Company, by which the Group transferred the 100% equity interest in 潮袋(上海)網絡科技有限公司, a PRC registered subsidiary of the Group, to the Project Company at nil consideration. The Project Company then allotted new shares, which represent 61.1% of the enlarged entire issued share capital of the Project Company, to an independent third party (the "Investor") for a subscription price of HK$13,750,000. Upon the completion of the subscription by the Investor, the Project Company has ceased to be a subsidiary of the Group. The directors estimated that the Group would record a gain of approximately HK$3,000,000 on deemed disposal of the subsidiary.

## 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2015.

# 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 | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| RESULTS | | | | | |
| REVENUE | **615,863** | 698,007 | 676,444 | 879,802 | 730,259 |
| Cost of sales | **(482,317)** | (544,730) | (532,461) | (666,464) | (555,599) |
| Gross profit | **133,546** | 153,277 | 143,983 | 213,338 | 174,660 |
| Other income and gains | **3,555** | 10,529 | 9,825 | 8,770 | 935 |
| Selling expenses | **(132,379)** | (138,387) | (109,442) | (104,151) | (84,091) |
| Administrative and other operating expenses | **(57,175)** | (57,744) | (52,286) | (53,654) | (24,681) |
| Finance costs | **(990)** | (1,343) | (1,380) | (220) | (187) |
| PROFIT/(LOSS) BEFORE TAX | **(53,443)** | (33,668) | (9,300) | 64,083 | 66,636 |
| Income tax expense | **(82)** | (4,296) | (4,630) | (16,119) | (12,326) |
| PROFIT/(LOSS) FOR THE YEAR | **(53,525)** | (37,964) | (13,930) | 47,964 | 54,310 |
| Attributable to: | | | | | |
| Owners of the Company | **(52,918)** | (37,520) | (13,918) | 47,964 | 54,310 |
| Non-controlling interests | **(607)** | (444) | (12) | – | – |
| | **(53,525)** | (37,964) | (13,930) | 47,964 | 54,310 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TOTAL ASSETS | **323,923** | 380,962 | 415,417 | 399,970 | 165,894 |
| TOTAL LIABILITIES | **(53,275)** | (58,180) | (57,124) | (28,344) | (32,299) |
| NON-CONTROLLING INTERESTS | **(3,079)** | (3,777) | (3,760) | – | – |
| | **267,569** | 319,005 | 354,533 | 371,626 | 133,595 |

Notes:

(i) The summary of the consolidated results of the Group for the year ended 31 December 2010 and of the consolidated assets and liabilities as at 31 December 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 the financial year.

(ii) The consolidated results of the Group for each of the two years ended 31 December 2014 and 2013 and the consolidated assets and liabilities of the Group as at 31 December 2014 and 2013 are those set out on pages 43 to 45 of this annual report.

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

THANK YOU