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## **MILAN STATION HOLDINGS LIMITED**

**米蘭站控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1150)**

## **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016**

### **FINANCIAL HIGHLIGHTS**

- Revenue was approximately HK\$160.2 million, representing a decrease of 23.3% from approximately HK\$208.8 million for the corresponding period last year.
- Gross profit was approximately HK\$32.7 million, representing a decrease of 32.0% from approximately HK\$48.1 million for the corresponding period last year.
- Other losses was approximately HK\$11.0 million, representing a significant decrease from a gain of approximately HK\$22.0 million for the corresponding period last year. It was mainly attributable to the absence of the one-off gain on disposal of a property as recognised in the corresponding year of 2015 and the loss arising from closure of certain shops of the Group in the PRC during the Period.
- Selling expenses was approximately HK\$36.2 million, representing a decrease of 26.5% of approximately HK\$13.1 million for the corresponding period last year. Selling expenses continued to decline during the Period under review, mainly due to a decrease in rental expenses for the closure of certain retail shops and commission paid to an independent third party who runs the exclusive clubhouses in Macau.
- Loss for the period attributable to owners of the Company was approximately HK\$37.9 million, representing an increase of 465.7% from approximately HK\$6.7 million for the corresponding period last year.
- The Board has resolved not to declare an interim dividend for the six months ended 30 June 2016.

## UNAUDITED INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of Milan Station Holdings Limited (the “Company”) presents the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2016 (the “Period”) together with the comparative figures for the corresponding period in 2015 and the relevant explanatory notes as set out below. The interim results for the Period are unaudited, but have been reviewed by the audit committee (the “Audit Committee”) of the Company.

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		<b>For the six months ended 30 June</b>	
	<i>Notes</i>	<b>2016</b>	2015
		<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
<b>Revenue</b>	5	<b>160,248</b>	208,796
Cost of sales		<u>(127,543)</u>	<u>(160,700)</u>
<b>Gross profit</b>		<b>32,705</b>	48,096
Other (losses)/income and gains, net	5	<b>(11,048)</b>	21,989
Selling expenses		<b>(36,248)</b>	(49,326)
Administrative and other operating expenses		<b>(24,150)</b>	(27,156)
Finance costs	6	<u>(49)</u>	<u>(407)</u>
<b>Loss before tax</b>	7	<b>(38,790)</b>	(6,804)
Income tax	8	<u>–</u>	<u>–</u>
<b>Loss for the period</b>		<b><u>(38,790)</u></b>	<b><u>(6,804)</u></b>
<b>Attributable to:</b>			
Owners of the Company		<b>(37,935)</b>	(6,689)
Non-controlling interests		<u>(855)</u>	<u>(115)</u>
		<b><u>(38,790)</u></b>	<b><u>(6,804)</u></b>
<b>Loss per share</b>			
– Basic and diluted	9	<b><u>HK(5.6 cents)</u></b>	<b><u>HK(1.0 cent)</u></b>

Details of dividends payable to owners of the Company are set out in note 10.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME**

	<b>For the six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Loss for the period</b>	<b>(38,790)</b>	(6,804)
<b>Other comprehensive income for the period:</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences arising on translation of foreign operations	<b>604</b>	457
Reclassified on disposal of a subsidiary	<u>—</u>	<u>99</u>
	<b>604</b>	556
<b>Total comprehensive expense for the period</b>	<b><u>(38,186)</u></b>	<b><u>(6,248)</u></b>
Attributable to:		
Owners of the Company	<b>(37,316)</b>	(6,133)
Non-controlling interests	<b><u>(870)</u></b>	<u>(115)</u>
	<b><u>(38,186)</u></b>	<b><u>(6,248)</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		<b>14,596</b>	14,612
Intangible assets		<b>4,486</b>	4,768
Available-for-sale investment		–	2,600
Deposits		<b>8,307</b>	10,576
		<hr/>	<hr/>
Total non-current assets		<b>27,389</b>	32,556
<b>Current assets</b>			
Inventories		<b>77,650</b>	115,056
Trade receivables	<i>11</i>	<b>3,881</b>	9,168
Prepayments, deposits and other receivables		<b>14,798</b>	14,345
Tax recoverable		<b>1,243</b>	1,265
Cash and cash equivalents		<b>89,050</b>	82,069
		<hr/>	<hr/>
Total current assets		<b>186,622</b>	221,903
<b>Current liabilities</b>			
Trade payables	<i>12</i>	<b>96</b>	773
Accrued liabilities and other payables		<b>15,863</b>	18,846
Obligations under finance leases		<b>1,696</b>	353
Provisions		<b>135</b>	18
Tax payable		<b>924</b>	942
		<hr/>	<hr/>
Total current liabilities		<b>18,714</b>	20,932
		<hr/>	<hr/>
<b>Net current assets</b>		<b>167,908</b>	200,971
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		<b>195,297</b>	233,527

	<i>Notes</i>	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
<b>Non-current liabilities</b>			
Other liabilities		<b>195</b>	4,554
Provisions		<b>136</b>	266
Obligations under finance leases		<b>4,552</b>	507
Deferred tax liabilities		<b>788</b>	788
		<hr/>	<hr/>
Total non-current liabilities		<b>5,671</b>	6,115
		<hr/>	<hr/>
<b>NET ASSETS</b>		<b>189,626</b>	227,412
		<hr/> <hr/>	<hr/> <hr/>
<b>CAPITAL AND RESERVES</b>			
Issued capital	<i>13</i>	<b>6,781</b>	6,775
Reserves		<b>179,814</b>	216,736
		<hr/>	<hr/>
<b>Equity attributable to owners of the Company</b>		<b>186,595</b>	223,511
Non-controlling interests		<b>3,031</b>	3,901
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>189,626</b>	227,412
		<hr/> <hr/>	<hr/> <hr/>

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are retailing of handbags, fashion accessories and embellishments and spa and wellness products. There were no significant changes in the nature of the Group's principal activities during the Period.

## 2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "*Interim Financial Reporting*" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 25 August 2016.

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that were applied to the 2015 annual financial statements.

These unaudited condensed consolidated financial statements contain selected explanatory notes which do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements.

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial statements as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 23 March 2016.

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

The HKICPA has issued a number of amendments to HKFRS that are first effective for the current accounting period of the Group. None of those amendments are relevant to the Group's financial statements.

The HKICPA has issued a number of amendments and new standards which are not yet effective for the year ending 31 December 2016. These include the following which may be relevant to the Group:

		<b>Effective for accounting periods beginning on or after</b>
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 16	Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results and financial position.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### 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, embellishments and spa and wellness products. 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 property, plant and equipment and deposits, or the location of the operation to which the intangible assets relate.

	Hong Kong HK\$'000	Macau HK\$'000	Mainland China HK\$'000	Singapore HK\$'000	Total HK\$'000
<b>For the six months ended 30 June 2016</b>					
Revenue from external customers	<u>139,915</u>	<u>2,862</u>	<u>17,471</u>	<u>–</u>	<u>160,248</u>
Non-current assets	<u>19,342</u>	<u>43</u>	<u>58</u>	<u>–</u>	<u>19,443</u>
Capital expenditure	<u>7,963</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,963</u>
	Hong Kong HK\$'000	Macau HK\$'000	Mainland China HK\$'000	Singapore HK\$'000	Total HK\$'000
<b>For the six months ended 30 June 2015</b>					
Revenue from external customers	<u>171,030</u>	<u>11,813</u>	<u>25,068</u>	<u>885</u>	<u>208,796</u>
Non-current assets	<u>10,110</u>	<u>58</u>	<u>8,134</u>	<u>–</u>	<u>18,302</u>
Capital expenditure	<u>1,715</u>	<u>50</u>	<u>2,206</u>	<u>–</u>	<u>3,971</u>

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



## Information about major customers

No customer of the Group has individually accounted for over 10% of the Group's total revenue during the Period (six months ended 30 June 2015: Nil) and no information about major customers is presented accordingly.

## 5. REVENUE, OTHER (LOSSES)/INCOME AND GAINS, NET

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other (losses)/income and gains, net, is as follows:

		For the six months ended 30 June	
	Note	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Revenue			
Sale of goods		<u>160,248</u>	<u>208,796</u>
Other (losses)/income and gains, net			
Bank interest income		105	84
Licensing income		–	59
Gain on disposal of property, plant and equipment		–	12,956
Gross rental income		1,699	373
Gain on disposal of a subsidiary		–	4,913
Forfeiture of deposit received		–	1,044
Impairment of available-for-sale investments		(2,600)	–
Store closure expenses	(a)	(10,638)	–
Others		<u>386</u>	<u>2,560</u>
		<u>(11,048)</u>	<u>21,989</u>
		<u><b>149,200</b></u>	<u><b>230,785</b></u>

Note:

- (a) The store closure expenses for the six months ended 30 June 2016 comprised losses on write off of leasehold improvements of HK\$4,496,000, write off of rental deposits of HK\$2,363,000 and write off of rental prepayment of HK\$3,779,000 for early termination of operating leases.

## 6. FINANCE COSTS

	For the six months ended 30 June	
	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on bank loans and overdrafts	6	389
Finance lease charges	43	18
	<u>49</u>	<u>407</u>

## 7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	For the six months ended 30 June	
	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>(a) Employee benefit expenses (excluding directors' remuneration)</b>		
Pension scheme contributions	641	512
Salaries, wages and other benefits	17,854	16,667
Equity-settled share option expense	–	4,599
	<u>18,495</u>	<u>21,778</u>
<b>(b) Other items</b>		
Cost of inventories recognised as an expense	127,543	160,700
Write-back of provision for slow-moving inventories including in cost of inventories recognised as an expenses	(656)	(1,391)
Depreciation		
– owned assets	3,067	4,026
– assets under finance leases	416	420
Amortisation of intangible assets	282	–
Minimum lease payments under operating leases in respect of land and buildings ( <i>note</i> )	21,770	29,853
Loss on write-off of property, plant and equipment	–	355
Loss on disposal of property, plant and equipment	–	25
	<u>–</u>	<u>25</u>

*Note:* The minimum lease payments under operating leases in respect of land and buildings includes the reversal of certain accrued rental expenses of HK\$4,553,000 recognised in prior year.

## **8. INCOME TAX**

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the period ended 30 June 2016 (six months ended 30 June 2015: Nil). 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 Period was 25% (six months ended 30 June 2015: 25%) on their taxable profits. Macau complementary tax has been provided at progressive rates up to a maximum of 12% (six months ended 30 June 2015: 12%) on the estimated taxable profits. The subsidiary in Singapore is subject to Singapore income tax at the rate of 17% (six months ended 30 June 2015: 17%).

## **9. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The calculation of basic loss per share is based on the loss for the period attributable to owners of the Company of HK\$37,935,000 (six months ended 30 June 2015: HK\$6,689,000) and the weighted average of 677,541,000 ordinary shares (2015: 674,374,000 ordinary shares) in issue during the Period.

No adjustment has been made to the basic loss per share presented for the six months ended 30 June 2016 and 2015 respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share presented.

## **10. DIVIDENDS**

No dividend was paid or proposed during the Period (six months ended 30 June 2015: Nil), nor has any dividend been proposed since the end of the reporting period.

## 11. TRADE RECEIVABLES

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

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Within 1 month	3,136	9,007
1 to 2 months	29	32
2 to 3 months	173	8
Over 3 months	543	121
	<u>3,881</u>	<u>9,168</u>

## 12. TRADE PAYABLES

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Within 1 month	83	173
1 to 2 months	–	517
2 to 3 months	–	30
Over 3 months	13	53
	<u>96</u>	<u>773</u>

### 13. SHARE CAPITAL

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.01 each	<u><b>20,000</b></u>	<u>20,000</u>
Issued and fully paid:		
678,137,000 (31 December 2015: 677,487,000) ordinary shares of HK\$0.01 each	<u><b>6,781</b></u>	<u>6,775</u>

A summary of movements in the Company's share capital is as follows:

	<b>Number of shares in issue</b>	<b>Share capital HK\$'000</b>
At 1 January 2016	677,487,000	6,775
Share options exercised	<u>650,000</u>	<u>6</u>
At 30 June 2016	<u><b>678,137,000</b></u>	<u><b>6,781</b></u>

**14. DISCLOSEABLE TRANSACTION – DISPOSAL OF LAND AND BUILDINGS**

On 30 April 2015, Milan Station Properties Holdings Limited (the “Vendor”) entered into an agreement with the purchaser for the disposal of a property (the “Disposal”) at a total consideration of HK\$89,160,000.

After completion of the Disposal, the Vendor and the purchaser entered into a tenancy agreement by which the Vendor will lease back the property for the period commencing from 1 June 2015 to 31 May 2020 (both dates inclusive) at the monthly rental of HK\$250,000 for the first 3 years ending 31 May 2018 and HK\$287,500 for the remaining 2 years ending 31 May 2020. The Disposal was completed on 29 May 2015.

**15. APPROVAL OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 25 August 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Overview

Hong Kong was losing its competitiveness in the first half of 2016 due to the unfavourable domestic and international factors which put Hong Kong retailers in challenging conditions. Official statistics released by the Census and Statistics Department showed that, the value of total retail sales in the first half of 2016 decreased by 10.5% as compared to the corresponding period of 2015.

Several factors have contributed to this decline in retail sales. The primary reason is the unabated decrease in Mainland tourist arrivals to Hong Kong since March 2015.

On the other hand, the substantially strengthened tourist facilities and convenient travel policies offered by other countries have improved their attraction to Mainland tourists. In addition, the strong Hong Kong dollar and depreciating Renminbi have contributed further to the slowdown in Mainland visitors to Hong Kong while stimulating outbound travel by local consumers.

Under the restrictions placed on the frequency of visits by Shenzhen permanent residents, reducing from multiple-entry permits to one-visit-one-week permits upon renewal, have seriously impacted the flow of Mainland tourist arrivals as the majority of Mainland tourists are now day-trippers. As a result, the Mainland tourist same day visitor arrivals in Hong Kong dropped 13.0% during the Period. Meanwhile, structural changes in the Mainland China tourist mix towards tourists arriving from lower-tier cities in Mainland China with less spending power has impacted the average ticket size. The local social uncertainties also imposed negative factors on the overall Hong Kong retail markets.

## **BUSINESS REVIEW**

During the Period, the performance of the Group was affected by the economic slowdown and the deteriorating luxury retail market. During the Period, the Group's total revenue decreased by approximately 23.3% to approximately HK\$160.2 million. The revenues generated in the markets of Hong Kong, Mainland China and Macau accounted for 87.3%, 10.9% and 1.8% respectively of the Group's revenue. The Group's gross profit at approximately HK\$32.7 million, which was decreased by 32.0% as compared to the same period last year. The net loss for the Period increased significantly by 470.0% to HK\$38.8 million due to the absence of one-off gain of approximately HK\$12.0 million on the disposal of a property as recognised in the corresponding year of 2015 and the loss arising from closure of certain shops of the Group in the PRC during the Period.

### **Hong Kong**

During the Period, sales of the Group in Hong Kong dropped by 18.2% to approximately HK\$139.9 million. The revenue came from the 9 "Milan Station" retail stores, the 16 "THANN" retail stores in Hong Kong and the online sales platform directly managed by the Group and the product sales in other new sales channels.

The Group adhered to the principle of providing genuine and certified products for its customers and formulated stringent and systematic product certification programs. During the Period, the Group devoted more human resources to the management of merchandise quality, and strengthened the product certification programs with the finer division of labor to ensure that all the products were inspected by professional team. These measures helped the Group to maintain the "Milan Station" brand reputation and earn market recognition, pursuant to which it strengthened the Group's leading position in the luxury handbags trading industry under the adverse operating environment.

In view of the downturn of retail backdrop, rental of prime location dropped since 2015, easing the rental cost pressure on the industry. Despite an expectation of continuous retail declination strengthening the bargaining power of retails against landlords, the Group remained prudent on the store network expansion strategy. During the Period, there were three new luxury retail stores opened in Kwai Fong, Shatin and Tseung Kwan O respectively and two "THANN" new retail stores were opened in Mongkok and Kwai Fong respectively. As at 30 June 2016, the Group had a presence in Hong Kong with the store count of 25 (30 June 2015: 8). The Group will cautiously analyse the rental momentum when considering future new lease to optimize the operating efficiency of the Group in Hong Kong.



## **Mainland China**

During the Period, the Group eliminated unprofitable stores as we rightsized our portfolio by closing two stores in Mainland China. As a result, the revenue decreased by 30.3% to approximately HK\$17.5 million as compared to the same period last year.

## **Macau**

The gaming industry and tourism industry in Macau shrunk in recent years, which greatly impacted the Group's business locally. The business performance of its points of sale in exclusive clubhouses was unsatisfactory. The Group's revenue from the Macau market sharply declined by 75.8% to approximately HK\$2.8 million.

## **FINANCIAL REVIEW**

### **Revenue**

During the Period, total revenue decreased to approximately HK\$160.2 million, representing a decrease of 23.3% as compared to approximately HK\$208.8 million recorded in the corresponding period last year. Handbags were the most important product category for the Group, representing over 93.0% of the total revenue of the Group. The revenue generated from the sales of unused products decreased from approximately HK\$154.6 million recorded in the corresponding period last year, representing 74.0% of the total revenue of the Group, to approximately HK\$118.5 million during the Period, representing 74.0% of the total revenue of the Group.

Since most of the retail shops under the brand name of "Milan Station" are located in Hong Kong, the source of revenue also concentrates in the Hong Kong market. For the six months ended 30 June 2016, the revenue generated from the Hong Kong market was approximately HK\$139.9 million, representing approximately 87.3% of the total revenue of the Group. Revenue generated from the Mainland China market decreased from approximately HK\$25.1 million during the corresponding period last year to approximately HK\$17.4 million during the Period. Revenue generated from the Macau market decreased from approximately HK\$11.8 million during the corresponding period last year to approximately HK\$2.9 million during the Period.

The table below sets out the breakdown of the Group's revenue recorded for the six months ended 30 June 2016 and 2015 by product categories, by price range of products and by geographical locations and their respective approximate percentages to the total revenue of the Group:

	For the six months ended 30 June				Approximate percentage change in revenue %
	2016	Approximate percentage of total revenue %	2015	Approximate percentage of total revenue %	
	HK\$ million		HK\$ million		
<b>By product categories (handbags and other products)</b>					
Handbags	149.3	93.2	207.4	99.3	(28.0)
Other products	10.9	6.8	1.4	0.7	678.5
Total	<u>160.2</u>	<u>100.0</u>	<u>208.8</u>	<u>100.0</u>	(23.3)
<b>By product categories (unused and second-hand products)</b>					
Unused products	118.5	74.0	154.6	74.0	(23.3)
Second-hand products	41.7	26.0	54.2	26.0	(23.1)
Total	<u>160.2</u>	<u>100.0</u>	<u>208.8</u>	<u>100.0</u>	(23.3)
<b>By price range of products</b>					
Within HK\$10,000	35.5	22.2	35.3	16.9	0.6
HK\$10,001 – HK\$30,000	27.9	17.4	40.4	19.4	(30.9)
HK\$30,001 – HK\$50,000	8.3	5.2	14.8	7.1	(43.9)
Above HK\$50,000	88.5	55.2	118.3	56.6	(25.2)
Total	<u>160.2</u>	<u>100.0</u>	<u>208.8</u>	<u>100.0</u>	(23.3)
<b>By geographical locations</b>					
Hong Kong	139.9	87.3	171.0	81.9	(18.2)
The PRC	17.5	10.9	25.1	12.0	(30.3)
Macau	2.8	1.8	11.8	5.7	(76.3)
Singapore	–	–	0.9	0.4	(100.0)
Total	<u>160.2</u>	<u>100.0</u>	<u>208.8</u>	<u>100.0</u>	(23.3)

## Cost of sales

For the six months ended 30 June 2016, cost of sales of the Group was approximately HK\$127.5 million, decreased by 20.6% as compared to the same period last year. Cost of sales mainly consists of cost of inventories sold by the Group's suppliers.

## Gross profit and gross profit margin

Gross profit of the Group for the Period decreased by HK\$15.4 million to approximately HK\$32.7 million, with its gross profit margin decreased slightly by 2.6% to 20.4%. Write back of provision for slow-moving inventories included in the cost of sales for the six months ended 30 June 2016 amounted to approximately HK\$0.7 million.

Gross profit margins of the Group's operations in Hong Kong, Mainland China and Macau were 16.1%, 20.0% and 19.9%, respectively (six months ended 30 June 2015: Hong Kong, Mainland China, Macau and Singapore were 22.4%, 24.1%, 30.4% and 28.8%, respectively).

## Inventory analysis

The Group's total inventories as at 30 June 2016 and 31 December 2015 were approximately HK\$77.6 million and HK\$115.0 million respectively. The total inventories of the Group are recorded after netting of provision for slow-moving inventories.

The following table sets forth an aging analysis of inventories for the Group's handbag products as at 30 June 2016 and 31 December 2015:

	<b>As at 30 June 2016 HK\$'000</b>	As at 31 December 2015 HK\$'000
<b>Aging of inventories (handbags products)</b>		
0 to 90 days	<b>17,059</b>	33,122
91 to 180 days	<b>13,643</b>	23,770
181 days to 1 year	<b>18,805</b>	22,841
Over 1 year	<b>25,284</b>	32,682
Total	<b>74,791</b>	112,415

The following table sets forth an aging analysis of inventories for the Group's other products as at 30 June 2016 and 31 December 2015:

	<b>As at 30 June 2016 HK\$'000</b>	As at 31 December 2015 HK\$'000
<b>Aging of inventories (other products)</b>		
0 to 45 days	2,189	751
46 to 90 days	142	895
91 days to 1 year	303	848
Over 1 year	225	147
	<u>2,859</u>	<u>2,641</u>
Total	<u><u>2,859</u></u>	<u><u>2,641</u></u>

The following table sets forth an aging analysis of inventories for the Group's premium priced handbag products over HK\$50,000 as at 30 June 2016 and 31 December 2015:

	<b>As at 30 June 2016 HK\$'000</b>	As at 31 December 2015 HK\$'000
<b>Aging of inventories (handbags products over HK\$50,000)</b>		
0 to 90 days	7,169	20,597
91 to 180 days	6,298	12,567
181 days to 1 year	9,087	13,972
Over 1 year	7,005	10,849
	<u>29,559</u>	<u>57,985</u>
Total	<u><u>29,559</u></u>	<u><u>57,985</u></u>

### **Other (losses)/income and gains**

Other losses amounted to approximately HK\$11.0 million, significantly decreased by HK\$33.0 million as compared to other income and gains amounted to approximately HK\$22.0 million in the corresponding period last year. It was mainly attributable to the absence of the one-off gain on disposal of a property as recognised in the corresponding year of 2015 and the loss arising from closure of certain shops of the Group in the PRC during the Period.

### **Selling expenses**

The major items of the Group's selling expenses include rent and rates, employee benefit expenses for sales staff and bank credit card charges. For the six months ended 30 June 2016, selling expenses of the Group were approximately HK\$36.2 million, representing 22.6% of its revenue (six months ended 30 June 2015: approximately HK\$49.3 million, representing 23.6% of revenue). Selling expenses continued to decline during the Period, mainly due to decrease in rental expenses for the closure of certain retail shops and commission paid to an independent third party who runs the exclusive clubhouses in Macau.

### **Administrative and other operating expenses**

Administrative and other operating expenses of the Group for the six months ended 30 June 2016 amounted to approximately HK\$24.1 million, representing approximately 15.0% of the revenue, slightly decrease by approximately HK\$3.0 million as compared to the corresponding period last year. The Group's administrative and other operating expenses mainly consist of directors' remuneration, employee benefit expenses for the senior management and administrative staff, as well as legal and professional expenses.

### **Finance costs**

Finance costs of the Group mainly consists of interest expenses on bank overdrafts and borrowings and finance leases. Finance costs decreased from approximately HK\$407,000 in the first half of 2015 to approximately HK\$49,000 in the Period.

### **Loss attributable to the owners of the Company**

Loss attributable to the owners of the Company for the six months ended 30 June 2016 was approximately HK\$37.9 million, representing an increase of 465.7% from approximately HK\$6.7 million for the period ended 30 June 2015. Loss per share attributable to the owners of the Company was approximately HK5.6 cents for the six months ended 30 June 2016, as compared to approximately HK1.0 cent for the six months ended 30 June 2015.

## **Employees and remuneration policy**

As at 30 June 2016, the Group had a total of 139 employees (31 December 2015: 143 employees). The Group's remuneration policy was determined according to the position, performance, experience of the staff as well as the market trend. Staff benefits of the Group include basic salaries, subsidies, insurance and commission/bonus. The remuneration policy was reviewed by the Board from time to time. Emoluments of Directors were reviewed by the remuneration committee 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 30 June 2016 and 31 December 2015, the Group did not have any bank borrowing.

As at 30 June 2016, the Group's total balance of cash and cash equivalents, total liabilities and shareholders' equity were approximately HK\$89.1 million, HK\$24.3 million and HK\$186.6 million respectively (31 December 2015: approximately HK\$82.1 million, HK\$27.0 million and HK\$223.5 million respectively). The Group's gearing ratio (Note 1), current ratio (Note 2) and quick ratio (Note 3) as at 30 June 2016 were approximately 2.9%, 10.0 and 5.8 respectively (31 December 2015: 0.3%, 10.6 and 5.1 respectively). The Group's gearing ratio increased and quick ratio rose in the six months ended 30 June 2016 mainly due to the increase in cash and cash equivalents, respectively.

### *Notes:*

1. Gearing ratio is calculated based on the borrowing and obligations under a finance lease divided by the total assets at the end of the Period and multiplied by 100%.
2. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the Period.
3. Quick ratio is calculated based on the difference between the total current assets and the inventories divided by the total current liabilities as at the end of the Period.

### **Pledge of assets**

As at 30 June 2016 and 31 December 2015, the Group had no assets and bank deposits were pledged to banks to secure the bank borrowing and general banking facilities granted to the Group.

### **Foreign exchange policy**

The Group carried on its trading transactions mainly in Hong Kong dollars, Renminbi (“RMB”) and United States (“US”) dollars. It is the Group’s policy to continue maintaining the balance of its sales and purchases in the same currency. The Group 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 30 June 2016, the Group did not have any significant contingent liabilities.

### **Capital commitments**

The Group’s capital commitments on property, plant and equipment was HK\$0.3 million as at 30 June 2016 (31 December 2015: Nil).

### **Exercise of Share Options**

On 15 June 2016, a total of 650,000 share options were exercised by a grantee of the Company to subscribe for 650,000 ordinary shares of HK\$0.01 each under the share option scheme of the Company at an exercise price of HK\$0.616 per share and the shares were issued on 16 June 2016. The weighted average closing price of the shares immediately before the date on which the share options were exercised was HK\$1.03 per share.

### **Material acquisition and disposal of subsidiaries**

There are no material acquisition and disposal of subsidiaries and associated companies during the Period.

## **OUTLOOK**

The rest of the year will be challenging because of the economic uncertainty, social and political issues and intensive competition, the retail market in Hong Kong remains stagnant. The recent depreciation of Renminbi has put pressure on the purchasing power of the Chinese consumers.

Hong Kong and Macau continue to experience a decrease in the number of visiting tourists, with a negative year-on-year growth in visitors showing signs of entrenchment. In particular, as being affected by the one-visit-one-week policy, the number of Mainland visitor arrivals in Hong Kong is lesser than expected, while they are still active around the globe, have been increasingly turning to other overseas destinations for holiday and shopping. In addition, their consumption becomes prudent because of strong Hong Kong dollars. Given the depreciation of Renminbi and other currencies against the Hong Kong dollar, tourism and retails sector will continue to face headwinds in the second half of 2016, putting pressure on the Group's average ticket size and total number of transactions.

In order to implement effective cost controls, we shall continue our policy of store consolidation with aggressive rental cuts targeted at tourist stores or through complete closures. We shall reposition our stores more in the residential areas with better growth prospects and returns, as well as locating them in the New Territories districts. We shall optimise our store network to maximise store profitability, and we shall simplify and centralise workflows at store level to increase productivity and reduce costs. In terms of stock management, we shall reduce inventories more aggressively and clear slow moving stocks to better display productive goods.

The Group will adhere to its consistently stringent operation principle and continue to reinforce its leading position in the industry by leveraging on its brand influence which has been developed over the years, with the emphasis on grasping local consumption and endeavoring to control labor and rental costs. At the same time, the Group will actively identify businesses with profitability capabilities, enrich its brand portfolio and expand diversified business, with a view to generating reasonable returns to its shareholders.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



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

The proceeds from the Listing, after deduction of related issuance expenses, amounted to approximately HK\$41.4 million.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

During the six months ended 30 June 2016, the Company had complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules save as disclosed below.

Code provision E.1.2 of the CG Code requires the chairman of the board should attend the annual general meeting. Mr. Yiu Kwan Tat, the Chairman of the Company, was unable to attend the annual general meeting of the Company held on 6 June 2016 due to his other business engagements.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2016.

## **AUDIT COMMITTEE**

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three Independent Non-executive Directors, namely, Mr. So, Stephen Hon Cheung (chairman), Mr. Chan Chi Hung and Mr. Tou Kin Chuen. The Audit Committee has reviewed with the management of the Company the financial statements of the Group for the six months ended 30 June 2016 and discussed with the management of the Company on auditing, risk management, internal control and financial reporting matters.

## **REMUNERATION COMMITTEE**

The Company has established a Remuneration Committee with written terms of reference in compliance with the Listing Rules. During the six months ended 30 June 2016, the Remuneration Committee comprises four members, a majority of whom are independent non-executive Directors, namely, Mr. Tou Kin Chuen (chairman), Mr. So, Stephen Hon Cheung, Mr. Chan Chi Hung and Mr. Yiu Kwan Tat. The Remuneration Committee formulates the Company's remuneration policy of Directors and senior management, reviews and determines their remuneration packages and makes recommendations to the Board regarding the remuneration of Directors and senior management.

## **NOMINATION COMMITTEE**

The Company has established a Nomination Committee with written terms of reference in compliance with the Listing Rules. During the six months ended 30 June 2016, the Nomination Committee comprises four members, a majority of whom are independent non-executive Directors, namely, Mr. Yiu Kwan Tat (chairman), Mr. So, Stephen Hon Cheung, Mr. Chan Chi Hung and Mr. Tou Kin Chuen.

## **INTERNAL CONTROL**

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

The Board has, through an independent auditor, conducted annual review of the effectiveness of the internal control system of the Group covering the Group's corporate governance, risk management, 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 risk management and 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 Period, the Board has not been informed of 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 the applicable laws and regulations.

## **INTERIM DIVIDEND**

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

## **PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE**

The interim report for the six months ended 30 June 2016 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange and the Company respectively and copies will be dispatched to shareholders of the Company in due course.

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

Hong Kong, 25 August 2016

*As at the date of this announcement, the Board comprises Mr. YIU Kwan Tat, Mr. YIU Kwan Wai, Gary, Mr. CHOI Wai Kwok, Andy and Mr. HU Bo as Executive Directors; Mr. TAM B Ray, Billy and Mr. YUEN Lai Yan, Darius as Non-executive Directors; and Mr. SO, Stephen Hon Cheung, Mr. CHAN Chi Hung, Mr. TOU Kin Chuen and Mr. CHAU Shing Yip Colin as Independent Non-executive Directors.*