MILAN STATION HOLDINGS LIMITED
米 蘭 站 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1150)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2013 was approximately HK$698.0 million, representing an increase of 3.2% from approximately HK$676.4 million for the year ended 31 December 2012.

- Gross profit for the year ended 31 December 2013 was approximately HK$153.3 million, representing an increase of 6.5% from approximately HK$144.0 million for the year ended 31 December 2012.

- Selling expenses for the year ended 31 December 2013 was approximately HK$138.4 million, representing an increase of 26.5% of approximately HK$109.4 million for the year ended 31 December 2012. Selling expenses continued to grow during the year under review, mainly due to increase in advertising expenses for promotion, rental expenses of retail shops, and commission paid to the company who run the exclusive clubhouses in Macau.

- Loss attributable to equity holders of the Company for the year ended 31 December 2013 was approximately HK$37.5 million, representing an increase of 169.8% from approximately HK$13.9 million for the year ended 31 December 2012.

- The Board has resolved not to declare a final dividend for the year ended 31 December 2013.

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of Milan Station Holdings Limited (the "Company") presents the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013 together with the comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	Notes	**2013** **HK$'000**	2012 HK$'000
REVENUE	*5*	**698,007**	676,444
Cost of sales		**(544,730)**	(532,461)
Gross profit		**153,277**	143,983
Other income and gains	*5*	**10,529**	9,825
Selling expenses		**(138,387)**	(109,442)
Administrative and other operating expenses		**(57,744)**	(52,286)
Finance costs	*6*	**(1,343)**	(1,380)
LOSS BEFORE TAX	*7*	**(33,668)**	(9,300)
Income tax expense	*8*	**(4,296)**	(4,630)
LOSS FOR THE YEAR		**(37,964)**	(13,930)
Attributable to:			
Equity holders of the Company		**(37,520)**	(13,918)
Non-controlling interests		**(444)**	(12)
		(37,964)	(13,930)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
– Basic and diluted	*10*	**HK(5.56 cents)**	HK(2.06 cents)

Details of the dividends are disclosed in note 9 to the announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	**2013** **HK$'000**	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**95,026**	97,845
Deferred tax assets		**574**	1,928
Deposits		**22,912**	12,828
Total non-current assets		**118,512**	112,601
CURRENT ASSETS			
Inventories		**149,250**	115,386
Trade receivables	*11*	**10,712**	8,314
Prepayments, deposits and other receivables		**18,228**	18,875
Tax recoverable		**1,958**	10,260
Pledged deposits		**1,000**	21,597
Cash and cash equivalents		**81,302**	128,384
Total current assets		**262,450**	302,816
CURRENT LIABILITIES			
Accrued liabilities and other payables		**27,975**	18,758
Interest-bearing bank borrowings	*12*	**26,808**	36,743
Obligations under a finance lease		**114**	112
Tax payable		**1,587**	630
Total current liabilities		**56,484**	56,243
NET CURRENT ASSETS		**205,966**	246,573
TOTAL ASSETS LESS CURRENT LIABILITIES		**324,478**	359,174

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT LIABILITIES			
Accrued liabilities and other payables		**911**	768
Obligations under a finance lease		**463**	51
Deferred tax liability		**322**	62
Total non-current liabilities		**1,696**	881
Net assets		**322,782**	358,293
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*13*	**6,744**	6,744
Reserves		**312,261**	347,789
		319,005	354,533
Non-controlling interests		**3,777**	3,760
Total equity		**322,782**	358,293

Notes:

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

3. CHANGE OF ACCOUNTING ESTIMATE

Provision for obsolete and slow-moving inventories

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

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

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

4. OPERATING SEGMENT INFORMATION

The Group's principal activity is the retail of handbags, fashion accessories and embellishments. Since it is the only operating segment of the Group, no further analysis thereof is presented. In determining the Group's geographical information, the revenue information is based on the locations of the customers, and the non-current assets information is based on the locations of the assets.

	Hong Kong	Macau	Mainland China	Singapore	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2013					
Revenue from external customers	**543,249**	**82,074**	**64,548**	**8,136**	**698,007**
Non-current assets	**93,265**	**113**	**7,219**	**–**	**100,597**
Capital expenditure	**9,603**	**25**	**2,443**	**–**	**12,071**
Year ended 31 December 2012					
Revenue from external customers	548,575	48,400	79,469	–	676,444
Non-current assets	94,109	127	6,686	–	100,922
Capital expenditure	94,778	169	2,839	–	97,786

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

Information about major customers

No customer of the Group has individually accounted for over 10% of the Group's total revenue during the year (2012: Nil) and no information about major customers is presented accordingly.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

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

6. FINANCE COSTS

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

7. LOSS BEFORE TAX

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

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

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

Pursuant to the Corporate Income Tax Law (the "PRC Tax Law") of the People's Republic of China (the "PRC") being effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in the PRC during the year was 25% (2012: 25%) on their taxable profits. Macau complementary tax has been provided at progressive rates up to a maximum of 12% (2012: 12%) on the estimated taxable profits.

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

9. DIVIDENDS

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

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

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

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2013 and 2012 as the share options in issue during those years have no dilutive effect.

11. TRADE RECEIVABLES

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

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

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

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

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

All receivables that were neither past due nor impaired relate to receivables from a number of customers for whom there was no recent history of default.

12. INTEREST-BEARING BANK BORROWINGS

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

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

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

The Group's secured bank loan in the amount of HK$26,808,000 (2012: HK$34,618,000) as at 31 December 2013 containing a repayment on demand clause and accordingly is included within current interest-bearing bank borrowings and analysed into bank loans payable within one year or on demand.

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

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

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

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

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

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

13. SHARE CAPITAL

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market overview

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

Hong Kong retail market

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

Mainland China retail market

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

Macau retail market

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

BUSINESS REVIEW

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

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

Operations in Hong Kong

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

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

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

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

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

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

Operations in Mainland China

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

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

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

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

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

Operations in Macau

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

Overseas Operations

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

FINANCIAL REVIEW

Revenue

During the year under review, revenue increased to approximately HK$698.0 million, representing an increase of 3.2% as compared to approximately HK$676.4 million recorded last year. Handbags were the most important product category for the Group, representing over 98.9% of the total revenue of the Group. The revenue generated from the sales of unused products increased from approximately HK$386.4 million recorded last year, representing 57.1%of the total revenue of the Group, to approximately HK$437.4 million during the year under review, representing 62.7% of the total revenue of the Group.

Since most of the retail shops under the brand name of "Milan Station" are located in Hong Kong, the source of revenue also concentrates in the Hong Kong market. For the year ended 31 December 2013, the revenue generated from the Hong Kong market was approximately HK$543.3 million, representing approximately 77.8% of the total revenue of the Group for the year. Revenue generated from Mainland China market decreased from approximately HK$79.4 million during last year to approximately HK$64.5 million during the year under review. Revenue generated from Macau market increased from approximately HK$48.4 million during last year to approximately HK$82.1 million during the year under review.

The table below sets out the breakdown of the Group's revenue recorded for the years ended 31 December 2013 and 2012 by product categories, by price range of products and by geographical locations and their respective percentages to the total revenue of the Group:

	For the year ended 31 December				
	2013		2012		
	HK$ million	***Percentage of total revenue %***	*HK$ million*	*Percentage of total revenue %*	*Percentage change in revenue %*
By product categories (handbags and other products)					
Handbags	**690.4**	**98.9**	665.0	98.3	3.8
Other products	**7.6**	**1.1**	11.4	1.7	(33.3)
Total	**698.0**	**100.0**	676.4	100.0	3.2
By product categories (unused and second-hand products)					
Unused products	**437.4**	**62.7**	386.4	57.1	13.2
Second-hand products	**260.6**	**37.3**	290.0	42.9	(10.1)
Total	**698.0**	**100.0**	676.4	100.0	3.2
By price range of products					
Within HK$10,000	**162.7**	**23.3**	176.8	26.1	(8.0)
HK$10,001 – HK$30,000	**158.1**	**22.7**	123.5	18.3	28.0
HK$30,001 – HK$50,000	**40.2**	**5.7**	39.5	5.8	1.8
Above HK$50,000	**337.0**	**48.3**	336.6	49.8	0.1
Total	**698.0**	**100.0**	676.4	100.0	3.2
By geographical locations					
Hong Kong	**543.3**	**77.8**	548.6	81.1	(1.0)
The PRC	**64.5**	**9.2**	79.4	11.7	(18.8)
Macau	**82.1**	**11.8**	48.4	7.2	69.6
Singapore(1)	**8.1**	**1.2**	–	–	N/A
Total	**698.0**	**100.0**	676.4	100.0	3.2

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

Cost of sales

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

Gross profit and gross profit margin

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

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

Inventory

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

The following table sets forth an aging analysis of inventories for the Group's handbag products as at 31 December of the two comparative years:

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

The following table sets forth an aging analysis of inventories for the Group's other products as at 31 December of the two comparative years:

	31 December	
	2013	2012
	HK'000	HK'000
Aging of inventories (other products)		
0 to 45 days	**225**	639
46 to 90 days	**254**	194
91 days to 1 year	**860**	358
Over 1 year	**2**	6
Total	**1,341**	1,197

The following table sets forth an aging analysis of inventories for the Group's premium priced handbag products over HK$50,000 as at 31 December of the two comparative years:

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

Other income and gains

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

Selling expenses

The major items of the Group's selling expenses include rent and rates, employee benefit expenses for sales staff and bank credit card charges. For the year ended 31 December 2013, selling expenses of the Group were approximately HK$138.4 million, representing 19.8% of its revenue (2012: approximately HK$109.4 million, representing 16.2% of revenue). Selling expenses continued to grow during the year under review, mainly due to an increase in advertising expenses for promotion, rental expenses for retail shops and commission paid to the company who run the exclusive clubhouses in Macau.

Administrative and other operating expenses

Administrative and other operating expenses of the Group for the year ended 31 December 2013 amounted to approximately HK$57.7 million, increased by approximately HK$5.4 million as compared to last year on year-on-year basis, representing approximately 8.3% of the turnover. The Group's administrative and other operating expenses mainly consisted of directors' remuneration, employee benefit expenses for the senior management and administrative staff, as well as legal and professional expenses. Administrative and other operating expenses continued to grow during the year under review, mainly due to an increase in salary paid to administrative staff especially for the expansion of PRC online shopping business.

Finance costs

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

Loss attributable to equity holders

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

Employees and remuneration policy

As at 31 December 2013, the Group had a total of 173 employees (2012: 158 employees). The Group's remuneration policy was determined according to the position, performance and experience of the staff as well as the market trend. Staff benefits of the Group include basic salaries, subsidies, insurance and commission/bonus. The remuneration policy was reviewed by the Board from time to time. Emoluments of Directors were reviewed by the remuneration committee of the Company and recommended to the Board for approval after considering the Group's operating results, individual performance and comparing with marketing conditions.

Liquidity and financial resources

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

As at 31 December 2013, the Group's total balance of cash and cash equivalents, total liabilities and shareholders' equity were approximately HK$81.3 million, HK$58.2 million and HK$319.0 million, respectively (2012: approximately HK$128.4 million, HK$57.1 million and HK$354.5 million, respectively). The Group's gearing ratio *(Note 1)*, current ratio *(Note 2)* and quick ratio *(Note 3)* as at 31 December 2013 were approximately 7.2%, 4.6 and 2.0, respectively (2012: 8.9%, 5.4 and 3.3, respectively). The Group's gearing ratio and quick ratio dropped for the year ended 31 December 2013 mainly due to the repayment of interest-bearing borrowings, and decrease in cash and cash equivalents, respectively.

Notes

1. 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%.

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

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 year.

Pledge of assets

As at 31 December 2013, the Group's land and building with a carrying value of HK$77.3 million and the Group's bank deposits of HK$1.0 million were pledged to banks to secure the bank borrowing and general banking facilities granted to the Group.

Foreign exchange policy

The Group carried on its trading transactions mainly in Hong Kong dollars, Renminbi ("RMB"), United States ("US") dollars and Singapore dollars. It is the Group's policy to continue maintaining the balance of its sales and purchases in the same currency. The Group did not have any hedging arrangement on foreign exchange. The Directors are of the view that the transactional exposure of the Group in currencies other than the functional currencies is maintained at acceptable level.

Contingent liabilities

As at 31 December 2013, the Group did not have any significant contingent liabilities.

Capital commitments

The Group's capital commitments including property, plant and equipment amounted to approximately HK$4.6 million and HK$0.2 million as at 31 December 2013 and 2012, respectively.

Future plans relating to the material investment

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

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

OUTLOOK

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

Development strategy

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

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

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

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

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as the code of conduct regarding securities transactions by the Directors (the "Model Code"). Having made specific enquiry to the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2013.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

The proceeds from the Listing, after deduction of related issuance expenses, amounted to approximately HK$202.7 million. Up to 31 December 2013, approximately HK$131.0 million has been utilised, of which (i) HK$66.4 million was applied for expansion of retail network in the PRC market; (ii) HK$8.4 million was applied for decorating new retail shops, relocating and redecorating several existing shops in Hong Kong, Mainland China and Macau; (iii) HK$9.5 million was applied for marketing and promotion of the Group; (iv) HK$2.1 million was applied for design and development of private label "MS" brand products; (v) HK$2.4 million was applied for exploration of online sales channel; (vi) HK$2.7 million was applied for upgrading of the Group's information technology system; (vii) HK$0.5 million was applied for staff training and development; (viii) HK$37.5 million was applied for acquisition of a property for the Group's own use; and (ix) HK$1.5 million was applied for general working capital.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2013, the Company complied with all applicable code provisions under the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the following deviations.

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

Code provision A.5.1 of the CG Code requires the nomination committee of listed issuers comprises a majority of independent non-executive directors. Subsequent to the resignation of Mr. Ip Shu Kwan, Stephen ("Mr. Ip") on 15 March 2013, the Nomination Committee of the Company did not comprise a majority of non-executive directors.

Rule 3.10(1) of the Listing Rules provides that every board of directors of a listed issuer must include at least three independent non-executive directors. Moreover, Rule 3.21 of the Listing Rules provides that the audit committee of a listed issuer must comprise a minimum of three members. Further, Rule 3.25 of the Listing Rules provides that a listed issuer must establish a remuneration committee which comprises a majority of independent non-executive directors. Subsequent to Mr. Ip's resignation on 15 March 2013, the Company did not have three independent non-executive Directors. The members of the Audit Committee and the Remuneration Committee of the Company also fell below the required number under Rules 3.10(1), 3.21 and 3.25 of the Listing Rules, respectively.

On 25 March 2013, the Board appointed Mr. Fan Chun Wan, Andrew ("Mr. Fan") as an independent non-executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Following Mr. Fan's appointment, the Company fully complied with the requirements of Rules 3.10(1), 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of the CG Code.

REVIEW OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 31 December 2013 and the accounting principles and practices adopted by the Group during the year under review and matters of auditing, internal controls and financial reporting have been discussed with the management and reviewed by the Audit Committee of the Company.

DIVIDENDS

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

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.milanstation.com.hk. The 2013 annual report containing all information required by the Listing Rules will be published on the above websites and dispatched to the shareholders of the Company by the end of April 2014.

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

Hong Kong, 31 March 2014

As at the date of this announcement, the Board comprises Mr. YIU Kwan Tat and Mr. YIU Kwan Wai, Gary 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. FAN Chun Wah, Andrew and Mr. MUI Ho Cheung, Gary as independent non-executive Directors.