1. GENERAL INFORMATION

The Company was incorporated in Hong Kong as a company with limited liability under the Hong Kong Companies Ordinance. The address of its registered and business office is Suite 1206, 12/F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its major subsidiaries are set out in Note 19 to the financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in Note 4 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Foreign currency translation *(continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Fixed assets *(continued)*

Depreciation of fixed assets is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	over the lease term
Furniture, fixtures and office equipment	20%
Call centre system	20%
Plant and equipment	10%
Motor vehicles	10%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents call centre system pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(e) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

(f) Properties held for resale

Properties held for resale are stated at the lower of cost and net realisable value. Costs of properties include acquisition costs and other direct costs attributable to such properties. Net realisable value is determined by reference to sale proceeds received after the balance sheet date less selling expenses, or by management estimates based on prevailing market condition.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(j) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(k) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Revenue from media management services is recognised when the services are rendered.

Rental income is recognised on a straight-line basis over the lease term.

Interest income is recognised on a time-proportion basis using the effective interest method.

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(o) Employee benefits *(continued)*

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Share-based payments

The Group issues equity-settled share-based payments to certain directors, key employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(q) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(r) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of fixed assets, goodwill, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(t) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(t) Impairment of assets *(continued)*

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(v) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Fixed assets and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions. Management will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income taxes

The Group is subject to income taxes in different jurisdictions. Significant estimates are required in determining the provision for income taxes. There are occasions that the tax policy currently adopted by an entity may be subject to review based on subsequent interpretations or for administrative reasons with retrospective effect. The Group recognises liabilities for the different in tax policy on the most prudent ground by assuming the worst scenario would be resulted. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax in the period in which such determination is made.

(c) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$28,422,000 (2005: HK$28,422,000). Details of the impairment testing of goodwill are provided in Note 20 to the financial statements.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group has exposure to fair value interest rate risk as most of its borrowings bear interests at fixed rates.

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

6. TURNOVER

The Group's turnover which represents sales of consumer products to customers, media management service fees, sales of properties and rental income are as follows:

	2006 HK$'000	2005 HK$'000
Manufacture, retail and distribution of consumer products	**59,185**	9,797
Media management service fees	**32,434**	4,836
Proceeds on disposal of properties	**–**	8,380
Rental income	**811**	77
	92,430	23,090

7. OTHER INCOME

	2006 HK$'000	2005 HK$'000
Interest income	**1,624**	8
Write back of other payables and accruals	**1,037**	–
Sundry income	**1,517**	85
	4,178	93

8. SEGMENT INFORMATION

(a) Primary reporting format – business segments

During the year, the Group has re-aligned its business activities and the new classification of business segments for the year ended 31 December 2006 was as follows:

PRC retail and distribution	–	manufacture, retail and distribution of consumer products as well as the provision of media management services in the PRC
Property investment	–	property holding and investment

(b) Secondary reporting format – geographical segments

No geographical segment information is presented as the Group's revenue and assets are substantially derived from customers and operations based in the PRC and accordingly, no further analysis of the Group's geographical segments is disclosed.

8. SEGMENT INFORMATION *(CONTINUED)*

Primary reporting format – business segments

	PRC retail and distribution HK$'000	Property investment HK$'000	Other operations HK$'000	Consolidated HK$'000
Year ended 31 December 2006				
Turnover	91,619	811	–	92,430
Segment results	50,262	472	(1,126)	49,608
Other income				7,824
Unallocated expenses				(12,357)
Profit from operations				45,075
Finance costs				(945)
Profit before tax				44,130
At 31 December 2006				
Segment assets	299,233	9,933	218	309,384
Unallocated assets				–
Total assets				309,384
Segment liabilities	28,437	280	238	28,955
Unallocated liabilities				27,046
Total liabilities				56,001
Other segment information:				
Capital expenditure	392	739	416	1,547
Depreciation	(647)	–	(127)	(774)
Bad debts/impairment charges	(2,952)	–	–	(2,952)
Reversal of write down of properties held for resale	–	100	–	100
Other non-cash expenses	–	–	–	–

There are no sales or other transactions between the business segments.

8. SEGMENT INFORMATION *(CONTINUED)*

Primary reporting format – business segments

	PRC retail and distribution HK$'000	Property investment HK$'000	Other operations HK$'000	Consolidated HK$'000
Year ended 31 December 2005				
Turnover	14,633	8,457	–	23,090
Segment results	3,299	(5,017)	178	(1,540)
Other income				8
Unallocated expenses				(13,296)
Loss from operations				(14,828)
Finance costs				(530)
Loss before tax				(15,358)
At 31 December 2005				
Segment assets	51,945	13,874	93	65,912
Unallocated assets				1,377
Total assets				67,289
Segment liabilities	13,235	11,940	117	25,292
Unallocated liabilities				40,236
Total liabilities				65,528
Other segment information:				
Capital expenditure	109	848	19	976
Depreciation	(142)	(1)	(47)	(190)
Bad debts/impairment charges	(894)	(4,823)	–	(5,717)
Reversal of write down of properties held for resale	–	1,200	–	1,200
Other non-cash expenses	–	–	–	–

There are no sales or other transactions between the business segments.

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on bank loans and overdrafts	–	37
Interest on other loans wholly repayable within five years	188	142
Interest on loans from a shareholder wholly repayable within five years	680	95
Interest on loan from a minority shareholder wholly repayable within five years	77	256
	945	530

10. INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000
Current tax		
– PRC taxation	11,927	1,967

No provision for Hong Kong Profits Tax is required for current year since each individual Hong Kong company sustained losses for taxation purposes.

The subsidiary, Fuzhou Landun Science of Life Co., Ltd. ("Fuzhou Landun") operating in the PRC, is subject to enterprise income tax rate at 33% in accordance with Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法). However, pursuant to a notice issued by Fuzhou Economic & Technological Development District State Tax Bureau (福州經濟技術開發區國家稅務局), Fuzhou Landun is exempted from enterprise income tax for two years starting from the first year of profitable operation in 2004, followed by a 50% reduction for the next three years.

The subsidiary, Shanghai Pei Lian Trading Company Limited ("Shanghai Pei Lian") is currently subject to enterprise income tax calculated at the rate determined by the local tax authority at 0.6% and 4.8% on the invoiced amount of the retail sales and media management service fees respectively. Such locally determined tax rate may in certain area inconsistent with the national tax law and may subject to a subsequent review when new interpretation of tax law or guidance note is being released or executed. On prudent measure, the taxable profit of Shanghai Pei Lian upon consolidation is provided at the standard enterprise income tax rate of 33% in accordance with Provisional Regulations of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例).

10. INCOME TAX EXPENSE *(CONTINUED)*

The subsidiaries, Shanghai Seven Star International Shopping Co., Ltd., Beijing Seven Star Landun Bio-technology Co., Ltd., Chongqing Seven Star Householding Products Co., Ltd. and Fuzhou Century Seven Star Bio-technology Co., Ltd. operating in the PRC, are subject to enterprise income tax rate at 33% in accordance with Provisional Regulations of the People's Republic of China on Enterprises Income Tax (中華人民共和國企業所得稅暫行條例).

The tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the Hong Kong Profits Tax rate is as follows:

	2006	2005
	HK$'000	HK$'000
Profit/(loss) before tax	**44,130**	(15,358)
Tax at Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**7,723**	(2,688)
Tax effect of income that is not taxable	**(1,102)**	(254)
Tax effect of expenses that is not deductible	**2,521**	3,563
Tax effect of profits that is exempted from PRC tax authority	**(831)**	–
Tax effect of unrecognised temporary differences	**–**	(72)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**3,893**	958
Tax effect of unused tax losses not recognised	**13**	460
Tax effect of utilisation of tax losses not previously recognised	**(290)**	–
Income tax expense	**11,927**	1,967

At the balance sheet date the Group and the Company has unused tax losses of approximately HK$40,270,000 (2005: HK$30,077,000) and HK$16,363,000 (2005: HK$3,739,000) respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams for most Hong Kong dormant subsidiaries. Included in unused tax losses of the Group are losses of HK$664,000 (2005: HK$664,000) that have not yet been agreed by the Inland Revenue Department.

11. PROFIT/(LOSS) FOR THE YEAR

The Group's profit/(loss) for the year is stated after charging the following:

	2006 **HK$'000**	2005 HK$'000
Advertising costs, net (Note)	**7,725**	2,990
Auditors' remuneration	**900**	650
Bad debts written off	**–**	466
Cost of inventories sold	**23,607**	4,837
Deposit written off	**–**	20
Depreciation on fixed assets	**774**	190
Direct operating expenses that generate rental income	**577**	626
Staff costs (including directors' emoluments) (Note 12)	**8,573**	10,593
Loss on disposal of fixed assets	**–**	6
Operating lease on land and buildings	**1,230**	776
Allowance for bad and doubtful debts	**2,412**	159
Allowance for other receivables	**540**	269
Fixed assets written off	**162**	–

Note: The amount represented advertising costs paid net of proceeds arising from unused air time sold. During the year ended 31 December 2006, the Group had no unused air time. During the year ended 31 December 2005, the Group sold its unused air time to various independent companies in the PRC for approximately HK$3,691,000.

12. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 **HK$'000**	2005 HK$'000
Wages and salaries	**5,843**	4,425
(Overprovision of)/unutilised annual leave	**(134)**	250
MPF contributions	**69**	79
Pension costs	**238**	61
Employee share option benefits (equity-settled)	**2,557**	5,778
	8,573	10,593

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments of each director were as follows:

Name of director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Sub-total	Employee share option benefits (equity-settled)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Ni Xinguang	-	810	-	-	-	12	-	822	-	822
Mr. Wang Zhiming (i)	-	52	-	-	-	2	-	54	-	54
Mr. Ha Shu Tong (iv)	-	44	-	-	-	1	-	45	-	45
Mr. Ng Chun Chuen, David (v)	-	960	80	-	-	12	-	1,052	-	1,052
Mr. Chan Wai Sum	120	-	-	-	-	-	-	120	-	120
Mr. Tang Chi Wing (vi)	120	-	-	-	-	-	-	120	-	120
Mr. Lu Wei	120	-	-	-	-	-	-	120	-	120
Total for 2006	360	1,866	80	-	-	27	-	2,333	-	2,333

Name of director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Sub-total	Employee share option benefits (equity-settled)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Ni Xinguang	-	360	-	-	-	12	-	372	1,485	1,857
Mr. Wang Zhiming (i)	-	413	-	-	-	11	-	424	1,485	1,909
Mr. Ha Shu Tong	-	960	-	-	-	12	-	972	1,404	2,376
Mr. Ng Chun Chuen, David	-	720	-	-	-	12	-	732	1,404	2,136
Mr. Chan Wai Sum	120	-	-	-	-	-	-	120	-	120
Mr. Tang Chi Wing	120	-	-	-	-	-	-	120	-	120
Mr. Lu Wei (ii)	65	-	-	-	-	-	-	65	-	65
Mr. Lee Kit Ming, Edmund (iii)	55	-	-	-	-	-	-	55	-	55
Total for 2005	360	2,453	-	-	-	47	-	2,860	5,778	8,638

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(CONTINUED)*

(a) Directors' emoluments *(continued)*

(i) Mr. Wang Zhiming resigned as executive director of the Company on 11 November 2005 and reappointed as executive director of the Company on 18 November 2006.

(ii) Mr. Lu Wei appointed as independent non-executive director of the Company on 15 June 2005.

(iii) Mr. Lee Kit Ming, Edmund resigned as independent non-executive director of the Company on 15 June 2005.

(iv) Mr. Ha Shu Tong resigned as executive director of the Company on 17 January 2006.

(v) Mr. Ng Chun Chuen, David resigned as executive director of the Company on 30 December 2006.

(vi) Mr. Tang Chi Wing resigned as independent non-executive director of the Company on 3 April 2007.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2005 and 2006.

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included 2 (2005: 3 (Note (ii))) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2005: 2) individuals are set out below:

	2006 **HK$'000**	2005 HK$'000
Basic salaries, allowances and benefits in kind	**185**	843
MPF contributions	**–**	24
Employee share option benefits (equity-settled)	**2,509**	1,485
	2,694	2,352

(i) The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
Nil to HK$1,000,000	**3**	1
HK$1,000,001 to HK$2,000,000	**–**	1

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(CONTINUED)*

(b) Five highest paid individuals *(continued)*

(ii) Mr. Wang Zhiming resigned as executive director on 11 November 2005. Included in the five highest paid individuals above for the year ended 31 December 2005 was director's emolument of HK$1,909,000 paid to Mr. Wang Zhiming, which was included in Note 13(a) above.

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company included a loss of approximately HK$12,554,000 (2005: loss of HK$8,787,000) which has been dealt with in the financial statements of the Company.

15. DIVIDEND

The Directors do not recommend the payment of a dividend for the year (2005: HK$Nil).

16. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

The calculation of basic earnings (2005: loss) per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately HK$29,556,000 (2005: loss attributable to equity holders of the Company of approximately HK$16,572,000) and the weighted average number of ordinary shares of 4,252,328,000 (2005: 3,722,792,000) in issue during the year.

Diluted earnings/(loss) per share

The calculation of diluted earnings per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately HK$29,556,000 and the weighted average number of ordinary shares of 4,279,426,000, being the weighted average number of ordinary shares of 4,252,328,000 in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 27,098,000 assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date.

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2005.

17. FIXED ASSETS

	The Group						
	Construction in progress-call centre system HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Call centre system HK$'000	Plant and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At 1 January 2005	–	128	165	–	32	49	374
Acquisition of a subsidiary	339	–	1,021	992	–	254	2,606
Additions	–	75	61	–	1	–	137
Disposals	–	–	(9)	–	–	–	(9)
Exchange differences	–	–	1	–	1	1	3
At 31 December 2005 and 1 January 2006	339	203	1,239	992	34	304	3,111
Acquisition of subsidiaries	–	–	8	–	–	30	38
Additions	225	387	194	–	2	–	808
Disposal of a subsidiary	–	–	(9)	–	–	–	(9)
Write off	–	(128)	(225)	–	–	–	(353)
Exchange differences	14	3	44	40	1	12	114
Transfer	(578)	–	–	578	–	–	–
At 31 December 2006	–	465	1,251	1,610	37	346	3,709
Accumulated depreciation and impairment							
At 1 January 2005	–	62	76	–	1	2	141
Charge for the year	–	63	70	39	3	15	190
Disposals	–	–	(2)	–	–	–	(2)
At 31 December 2005 and 1 January 2006	–	125	144	39	4	17	329
Charge for the year	–	149	244	309	3	69	774
Disposal of a subsidiary	–	–	(1)	–	–	–	(1)
Write off	–	(101)	(90)	–	–	–	(191)
Exchange differences	–	2	1	2	–	1	6
At 31 December 2006	–	175	298	350	7	87	917
Carrying amount							
At 31 December 2006	–	290	953	1,260	30	259	2,792
At 31 December 2005	339	78	1,095	953	30	287	2,782

17. FIXED ASSETS *(CONTINUED)*

	The Company		
	Leasehold improvements HK$'000	**Office equipment** HK$'000	**Total** HK$'000
Cost			
At 1 January 2005	128	113	241
Additions	–	19	19
At 31 December 2005 and 1 January 2006	128	132	260
Additions	387	29	416
Write off	(128)	–	(128)
At 31 December 2006	387	161	548
Accumulated depreciation and impairment			
At 1 January 2005	62	72	134
Charge for the year	26	21	47
At 31 December 2005 and 1 January 2006	88	93	181
Charge for the year	110	17	127
Write off	(101)	–	(101)
At 31 December 2006	97	110	207
Carrying amount			
At 31 December 2006	290	51	341
At 31 December 2005	40	39	79

18. PROPERTIES UNDER DEVELOPMENT

	The Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**1,861**	5,825
Additions	**739**	839
Impairment loss	**–**	(4,803)
Disposal of a subsidiary	**(2,600)**	–
At 31 December	**–**	1,861

19. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted investments, at cost	**38,656**	38,656
Loans to subsidiaries	**836,345**	833,509
	875,001	872,165
Less: impairment losses	**(847,914)**	(845,927)
	27,087	26,238

The loans to subsidiaries are unsecured, interest free and will not be repayable within the next twelve months.

Details of subsidiaries which, in the opinion of the directors of the Company, materially contributed to the results of the Group or held a material portion of assets or liabilities of the Group are set out below. To give full details of subsidiaries would, in the opinion of the directors of the Company, result in particular of excessive length.

19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation/ registration and operation and kind of legal entity	Issued share capital/ registered capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Direct subsidiaries				
Cheong Wa Limited	Hong Kong, limited liability company	100 ordinary shares of HK$1 each	70%	Investment holding
Marson Development Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	100%	Property Investment
Top Pro Limited	The British Virgin Islands limited liability company	1 ordinary shares of US$1	100%	Investment holding
Indirect subsidiaries				
Beijing Seven Star Landun Bio-technology Co., Ltd.^,# 北京七星藍頓生物科技有限公司	The PRC, limited liability company	RMB500,000	100% (Note)	Retail and wholesale of consumer products
Chongqing Seven Star Householding Products Co., Ltd. ^,# 重慶七星日用品有限責任公司	The PRC, limited liability company	RMB500,000	100% (Note)	Retail and wholesale of consumer products
Fuzhou Century Seven Star Bio-technology Co., Ltd. ^,# 福州世紀七星生物科技有限公司	The PRC, limited liability company	RMB500,000	100% (Note)	Retail and wholesale of consumer products
Fuzhou Landun Science of Life Co., Ltd	The PRC, wholly-foreign owned enterprise with limited liability	HK$40,000,000	70%	Manufacture and distribution of consumer products
Shanghai Pei Lian Trading Company Limited ^ 上海佩蓮商貿有限公司 ("Shanghai Pei Lian")	The PRC, wholly-foreign owned enterprise with limited liability	RMB100,000,000*	100%	Retail and distribution of consumer products, and provision of media management services
Shanghai Seven Star International Shopping Co., Ltd. ^ 上海七星國際購物有限公司 ("Seven Star (Shanghai)")	The PRC, limited liability company	RMB6,000,000	100% (Note)	Investment holding, retail and wholesale of consumer products
Smartest Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	100%	Investment holding

19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

^ For identification purposes only

* The registered capital of Shanghai Pei Lian is RMB100,000,000 and RMB23,000,000 has been paid up as at 31 December 2006.

Directly held by Seven Star (Shanghai)

Note: Although the Group has not owned any equity interest in Seven Star (Shanghai), Seven Star (Shanghai) and its subsidiaries ("Seven Star (Shanghai) Group") are treated as subsidiaries because the Group is able to control the financial and operating policies of Seven Star (Shanghai) Group as a result of the Structured Contracts (as defined in the announcement of the Company dated 7 September 2006) entered into by the Group.

None of the subsidiaries has issued any debt securities.

20. GOODWILL

	The Group **HK$'000**
Cost	
Acquisition of a subsidiary (Note 31(a)), at 31 December 2005 and at 31 December 2006	28,422
Carrying amount	
At 31 December 2005 and at 31 December 2006	28,422

Goodwill acquired in a business combination is allocated, at acquisition to the Group's cash-generating unit ("CGU") of retail and distribution of consumer products and the provision of media management services, that are expected to benefit from that business combination.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on long-term average economic growth rate of the general PRC retail business in which the CGU operates. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow projections based on financial budgets covering a five-year period approved by the management. The discount rate applied to cash flow projections is 15% and cash flows beyond the five-year period are extrapolated using a growth rate of 4%.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**–**	997
Acquisition of a subsidiary	**150**	–
Disposal of a subsidiary	**–**	(997)
At 31 December	**150**	–

Available-for-sale financial assets include the following:

	The Group	
	2006	2005
	HK$'000	HK$'000
Unlisted equity securities, at cost	**150**	–

Unlisted equity securities with carrying amount of HK$150,000 (2005: HK$Nil) was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliability measured.

22. PROPERTIES HELD FOR RESALE

	The Group	
	2006	2005
	HK$'000	HK$'000
At 1 January	**9,700**	16,880
Disposals	**–**	(8,380)
Reversal of write down	**100**	1,200
At 31 December	**9,800**	9,700

An analysis of the carrying value of properties held for resale is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**9,800**	9,700

(a) At 31 December 2006, the carrying value of properties held for resale that was carried at net realisable value amounted to HK$9,800,000 (2005: HK$9,700,000).

(b) At 31 December 2006, the properties held for resale were pledged to a bank as a security for trade payables of HK$34,000 (2005: HK$2,089,000). Subsequent to the balance sheet date, the pledge of the aforesaid properties held for resale was released by the bank.

23. INVENTORIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Finished goods	**2,199**	2,232

24. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables (Note (a))	**66,673**	11,324	**22**	22
Other receivables	**30,083**	20,367	**3**	42
Less: allowance for doubtful debts	**(18,206)**	(17,641)	**–**	–
	11,877	2,726	**3**	42
Prepayments and deposits	**39,469**	4,239	**263**	110
Loans to subsidiaries (Note (b))	**–**	–	**38,000**	–
Due from a subsidiary (Note (c))	**–**	–	**25,499**	–
Due from a related company (Note (d))	**6,595**	–	**–**	–
	124,614	18,289	**63,787**	174

Notes:

(a) The Group's turnover included consideration received on the disposal of properties and rental income which are paid in accordance with the terms of the respective agreements, with rental income normally due on the first day of the month. The other portion of the turnover is the invoiced amounts of products sold or services rendered. The payment terms of the sales to customers/distributors in the PRC retail and distribution segment is normally from 30 to 180 days. The payment terms of media management services provided are normally at 180 days.

The ageing analysis of trade receivables is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
0 – 90 days	**64,990**	8,990	**–**	–
91 – 180 days	**1,374**	100	**–**	–
181 – 365 days	**287**	2,212	**–**	–
Over 365 days	**22**	22	**22**	22
	66,673	11,324	**22**	22

During the year 2006, trade receivables of HK$4,185,000 was assigned to set-off against other loan of same amount. (Note 27(b))

24. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(b) The loans to subsidiaries to the extent of HK$35,000,000 is unsecured, interest bearing at 12% per annum and is repayable on demand. The remaining balance is unsecured, interest bearing at 8% per annum and is repayable within one year.

(c) The amount due from a subsidiary is unsecured, interest free and has no fixed repayment terms.

(d) The amount due from a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

		The Group		
Name	**Name of directors having beneficial interest**	**Balance at 31 December 2006 HK$'000**	**Balance at 31 December 2005 HK$'000**	**Maximum amount outstanding during the year HK$'000**
Win Town Holdings Limited	Mr. Ni Xinguang and Mr. Wang Zhiming	6,595	–	6,595

The amount due is unsecured, interest free and has no fixed repayment terms. Subsequent to the balance sheet date, approximately HK$3,000,000 was settled. Details please refer to Note 36(a)(iii) to the financial statements.

The Group has recognised a loss of HK$2,412,000 (2005: HK$625,000) for the impairment of its trade receivables during the year ended 31 December 2006. The loss has been included in other operating expenses in the consolidated income statement.

25. BANK AND CASH BALANCES

At 31 December 2006, the bank and cash balances of the Group denominated in Renminbi ("RMB") and kept in the PRC amounted to HK$22,897,000 (approximately RMB22,897,000) (2005: HK$1,973,000 (approximately RMB2,052,000)). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables (Note (a))	**13,716**	6,491	**–**	–
Other payables and accruals (Note (b))	**14,867**	32,368	**4,742**	27,572
Deposits received	**372**	189	**–**	–
Due to directors (Note (c))	**56**	1,574	**25**	1,133
	29,011	40,622	**4,767**	28,705

Notes:

(a) The ageing analysis of trade payables is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
0 – 90 days	**13,178**	907	**–**	–
91 – 180 days	**–**	2,087	**–**	–
181 – 365 days	**439**	2,624	**–**	–
Over 365 days	**99**	873	**–**	–
	13,716	6,491	**–**	–

(b) The other payables and accruals of the Group and the Company included consideration of HK$Nil (2005: HK$20,000,000) to be paid on business combination, which was fully paid in 2006.

(c) The amounts due to directors are unsecured, interest free and have no fixed repayment terms.

27. BORROWINGS

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Other loans, secured (Note (a))	**–**	3,097	**–**	–
Other loans, unsecured (Note (a))	**–**	3,000	**–**	–
Loan from a minority shareholder (Note (a))	**–**	3,000	**–**	–
	–	9,097	**–**	–
Current				
Other loans, unsecured (Note (b))	**–**	4,706	**–**	521
Loans from a shareholder (Note (c))	**10,229**	5,800	**10,229**	7,700
	10,229	10,506	**10,229**	8,221
Total borrowings	**10,229**	19,603	**10,229**	8,221

Notes:

(a) These loans were disposed of at the time of the disposal of a subsidiary.

(b) During the year 2006, other loan of HK$4,185,000 was set-off against trade receivables of same amount. (Note 24(a))

(c) Included in loans from a shareholder (Group First Limited ("Group First")) is a loan of HK$229,000 drawn down from the loan facility of HK$30,000,000, which is unsecured, interest bearing at prime rate or below of the HSBC (be agreed and fixed at the draw date) and is repayable in 6 months from draw date. Subject to the pre approval from Group First, the loan can be extended for another 12 months upon the first maturity date.

The remaining loan balance of HK$10,000,000 is unsecured, interest bearing at 6% per annum (but the first quarter interest was exempt) and is repayable in 6 months from draw date. Subject to the pre approval from Group First, the loan could be extended for 12 months from date of repayment.

Subsequent to the balance sheet date, the loans from a shareholder were fully repaid.

27. BORROWINGS *(CONTINUED)*

The borrowings are repayable as follows:

	The Group				The Company			
	Other loans		Loans from a minority shareholder/ shareholder		Other loans		Loans from a minority shareholder/ shareholder	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within 1 year	**-**	4,706	**10,229**	5,800	**-**	521	**10,229**	7,700
Between 1 and 2 years	**-**	3,000	**-**	3,000	**-**	–	**-**	–
Between 2 and 5 years	**-**	3,097	**-**	–	**-**	–	**-**	–
	-	10,803	**10,229**	8,800	**-**	521	**10,229**	7,700

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	The Group		The Company	
	Hong Kong dollars	RMB	Hong Kong dollars	RMB
	HK$'000	HK$'000	HK$'000	HK$'000
2006				
Loans from a shareholder	**10,229**	**-**	**10,229**	**-**
2005				
Other loans	6,618	4,185	521	–
Loan from a minority shareholder/shareholder	8,800	–	7,700	–
	15,418	4,185	8,221	–

The effective interest rates were as follows:

	2006	2005
Other loans	**N/A**	6.11%
Loan from a minority shareholder	**N/A**	6.11%
Loans from a shareholder	**6%**	6%

The other loans and loans from a minority shareholder/shareholder of HK$10,229,000 (2005: HK$6,321,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. The remaining balances of 2005 were arranged at variable interest rates.

27. BORROWINGS *(CONTINUED)*

At 31 December 2006, the Group had available HK$29,771,000 (2005: HK$30,103,000) of undrawn borrowing facilities. The facilities have been arranged to help finance the proposed expansion of the Group's activities.

28. SHARE CAPITAL

	Note	**No. of shares '000**	**HK$'000**
Authorised:			
Ordinary shares of HK$0.1 (2005: HK$0.1) each			
At 31 December 2005 and 2006		16,000,000	1,600,000
Issued and fully paid:			
Ordinary shares of HK$0.1 (2005: HK$0.1) each			
At 1 January and 31 December 2005		3,722,792	372,279
Issue of shares on placements	(a)	1,270,450	127,045
Issue of shares on share option scheme	(b)	70,000	7,000
		1,340,450	134,045
At 31 December 2006		5,063,242	506,324

(a) On 19 April 2006, the Company entered into a share placing agreement with a third party in respect of the placing of 200,000,000 shares of HK$0.1 each to investors at a price of HK$0.118 per share. On the same day, the Company entered into a subscription agreement with another third party in respect of the subscription of 238,250,000 shares of HK$0.1 each at a price of HK$0.118 per share. The placing and subscription was completed on 26 April 2006. The premium on the issue of shares, amounting to approximately HK$7,889,000, net of share issue expenses of HK$1,726,000, was credited to the Company's share premium account.

On 28 September 2006, the Company entered into a conditional subscription agreement with Group First, the substantial shareholder of the Company in respect of the subscription of 832,200,000 shares of HK$0.1 each at a price of HK$0.18 per share. The subscription was completed on 12 October 2006. The premium on the issue of shares, amounting to approximately HK$66,576,000 was credited to the Company's share premium account.

28. SHARE CAPITAL *(CONTINUED)*

(b) On 10 May 2006 and 16 May 2006, 35,000,000 and 35,000,000 share options were exercised respectively at a price of HK$0.113 each and the premium on the issue of shares, amounting to approximately HK$910,000 was credited to the Company's share premium account.

29. SHARE OPTIONS

On 28 May 2004, the shareholders of the Company approved the adoption of a new share option scheme (the "2004 Share Option Scheme").

2004 Share Option Scheme
Under the 2004 Share Option Scheme, the directors of the Company may, at their discretion, grant options to executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be such price as the board of directors of the Company may in its absolute discretion determine at the time of grant of the relevant option subject to the compliance with the requirements for share option schemes under the Listing Rules.

Options to subscribe for 254,630,000 option shares of the Company have been granted to directors, key employees and consultants of the Company under the 2004 Share Option Scheme. The 2004 Share Option Scheme will expire on 27 May 2014.

At 31 December 2006, the following options to subscribe for shares were outstanding under the 2004 Share Option Scheme:

	Date of grant	**Exercise price per share**	**Number of outstanding options**	**Exercise period**
		HK$		
Directors	20 December 2004	0.113	74,000,000	27 June 2005 – 26 December 2007
Employees	13 June 2006	0.180	59,000,000	13 December 2006 – 12 June 2008
	27 December 2006	0.157	6,320,000	27 March 2007 – 26 March 2017
	27 December 2006	0.157	6,330,000	27 June 2007 – 26 June 2017
	27 December 2006	0.157	12,660,000	27 December 2007 – 26 December 2017
	27 December 2006	0.157	12,660,000	27 June 2008 – 26 June 2018
	27 December 2006	0.157	12,660,000	27 December 2008 – 26 December 2018
Consultants	13 June 2006	0.180	71,000,000	13 December 2006 – 12 June 2008
			254,630,000	

29. SHARE OPTIONS *(CONTINUED)*

	2006		2005	
	Weighted average exercise price in HK$ per share	**Number of share options**	Weighted average exercise price in HK$ per share	Number of share options
At 1 January	**0.113**	**144,000,000**	0.113	144,000,000
Granted during the year	**0.174**	**180,630,000**	–	–
Exercised during the year	**0.113**	**(70,000,000)**	–	–
At 31 December	**0.156**	**254,630,000**	0.113	144,000,000

There were no option forfeited or cancelled in 2005 and 2006. Subsequent to the balance sheet date, 11,000,000 share options were exercised.

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.155. The options outstanding at the end of the year have a weighted average remaining contractual life of 3.26 years (2005: 1.98 years) and the exercise prices range from HK$0.113 to HK$0.180 (2005: HK$0.113). In 2006, 130,000,000 and 50,630,000 share options were granted on 13 June and 27 December respectively. The estimated fair values of the options on those dates are HK$5,528,000 and HK$3,225,000 respectively.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share options granted on	
	13 June 2006	**27 December 2006**
Weighted average share price	HK$0.150	HK$0.157
Weighted average exercise price	HK$0.180	HK$0.157
Expected volatility	84.94%	71.30%
Expected life	1 year	2 years
Risk free rate	4.42%	3.52%
Expected dividend yield	0%	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 260 trading days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

30. OTHER RESERVES

The Group

	Note	Share premium HK$'000	Share-based payments reserve HK$'000	Special capital reserve HK$'000	Foreign currency translation reserve HK$'000	Statutory surplus reserve HK$'000	Total HK$'000
At 1 January 2005		64,395	–	726,699	–	–	791,094
Translation differences		–	–	–	134	–	134
Recognition of share-based payments		–	5,778	–	–	–	5,778
At 31 December 2005		64,395	5,778	726,699	134	–	797,006
At 1 January 2006		64,395	5,778	726,699	134	–	797,006
Issue of shares	28	75,375	–	–	–	–	75,375
Share issue expenses	28	(1,726)	–	–	–	–	(1,726)
Recognition of share-based payments		–	5,576	–	–	–	5,576
Exercise of share options		2,809	(2,809)	–	–	–	–
Translation differences		–	–	–	641	–	641
Transfer from accumulated losses		–	–	–	–	2,589	2,589
At 31 December 2006		140,853	8,545	726,699	775	2,589	879,461

The Company

	Note	Share premium HK$'000	Share-based payments reserve HK$'000	Special capital reserve HK$'000	Total HK$'000
At 1 January 2005		64,395	–	726,699	791,094
Recognition of share-based payments		–	5,778	–	5,778
At 31 December 2005		64,395	5,778	726,699	796,872
At 1 January 2006		64,395	5,778	726,699	796,872
Issue of shares	28	75,375	–	–	75,375
Share issue expenses	28	(1,726)	–	–	(1,726)
Recognition of share-based payments		–	5,576	–	5,576
Exercise of share options		2,809	(2,809)	–	–
At 31 December 2006		140,853	8,545	726,699	876,097

30. OTHER RESERVES *(CONTINUED)*

Nature and purpose of reserves

(a) Share premium

Under section 48B of the Hong Kong Companies Ordinance, the funds in the share premium account of the Company can be applied in paying up unissued shares to be issued to shareholders as fully paid bonus shares; or in writing off the preliminary expenses or the expenses of, or the commission paid or discount allowed on, any issue of shares of the Company.

(b) Share-based payments reserve

The fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in Note 3(p) to the financial statements.

(c) Special capital reserve

The application of the special capital reserve is subject to the court order granted by the High Court of Hong Kong SAR. Pursuant to the High Court Order dated 20 November 2002, as long as the Company shall remain a listed company, the balances shall be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Hong Kong Companies Ordinance or any statutory re-enactment or modification thereof provided that (1) the Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied; and (2) the amount standing to the credit of the special capital reserve may be reduced by the amount of any increase, after the effective date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as a result of the payment up of shares by the receipt of new consideration or the capitalisation of distributable profits.

(d) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 3(c)(iii) to the financial statements.

(e) Statutory surplus reserve

In accordance with the PRC Company Law and the respective company's articles of association, a subsidiary of the Group established in the PRC, being a wholly foreign-owned enterprise, is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. With the approval from the relevant authorities, the statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. The reserve fund cannot be distributed in the form of cash.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

For the year ended 31 December 2006

On 31 August 2006, by entering into the Structured Contracts (as defined in the announcement of the Company dated 7 September 2006), the Group acquired full control over the business and operations of Seven Star (Shanghai). Seven Star (Shanghai) was engaged in investment holding, retail and wholesale of consumer products in the PRC during the year.

The fair value of the identifiable assets and liabilities of Seven Star (Shanghai) Group acquired as at its date of acquisition, which has no significant difference from its carrying amount, is as follows:

	HK$'000
Net assets acquired:	
Fixed assets	38
Available-for-sale financial assets	150
Trade and other receivables	5,834
Bank and cash balances	1,139
Other payables	(1,659)
	5,502
Minority interests	5,502
Goodwill	–
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	1,139

Seven Star (Shanghai) Group contributed approximately HK$3,283,000 to the Group's turnover and approximately a loss of HK$1,418,000 to the Group's profit before tax, for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2006, total Group turnover for the year would have been HK$93,762,000, and profit for the year would have been HK$31,981,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is intended to be a projection of future results.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

(a) Acquisition of subsidiaries (continued)

For the year ended 31 December 2005

On 1 November 2005, the Group effectively controlled 100% of the share capital of Top Pro Limited and its subsidiaries ("Top Pro Group"), which is engaged in retail and distribution of consumer products and provision of media management services in the PRC.

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of Top Pro Group.

The fair value of the identifiable assets and liabilities of Top Pro Group acquired as at its date of acquisition, which had no significant difference from its carrying amount, was as follows:

	HK$'000
Net liabilities acquired:	
Fixed assets	2,606
Inventories	3,039
Trade and other receivables	11,069
Bank and cash balances	378
Trade and other payables	(16,200)
Current tax liabilities	(3,396)
	(2,504)
Goodwill (Note 20)	28,422
	25,918
Satisfied by:	
– Cash paid	5,000
– Payable upon completion of acquisition	20,000
– Direct costs relating to the acquisition	918
Total purchase consideration	25,918
Net cash outflow arising on acquisition:	
Cash consideration paid	(5,918)
Cash and cash equivalents acquired	378
	(5,540)

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

(b) Disposal of a subsidiary

During the year 2006, the Group disposed of its subsidiary, Henrich Development Limited.

Net liabilities at the date of disposal were as follows:

	HK$'000
Fixed assets	8
Properties under development	2,600
Prepayments	1,000
Bank and cash balances	1
Other payables	(11)
Borrowings	(9,801)
Net liabilities disposed of	(6,203)
Direct costs to the disposal	202
Gain on disposal of a subsidiary	6,200
Total consideration – satisfied by cash	199
Net cash outflow arising on disposal:	
Cash consideration received	199
Cash and cash equivalents disposed	(1)
Cash paid for direct costs	(202)
	(4)

During the year 2005, the Group disposed of its subsidiary, Wisehall Star Limited.

Net assets at the date of disposal were as follows:

	HK$'000
Available-for-sale financial assets	997
Gain on disposal of a subsidiary	253
Total consideration – satisfied by cash	1,250
Net cash inflow arising on disposal:	
Cash consideration received	1,250

32. PENDING LITIGATION

The Group is pursuing a legal proceeding against the vendor, a director of the vendor and two ex-directors of the Company in connection with the acquisition of a PRC hotel at a consideration of HK$120 million undertaken by the Group in September 2000. The Group is claiming for the costs and expenses associated with the acquisition and as at the reporting date, the parties of the case are still attending to interlocutory matters and no hearing date has yet been fixed.

33. CAPITAL COMMITMENTS

The Group's capital commitments at the balance sheet date are as follows:

	2006 HK$'000	2005 HK$'000
Capital contribution to a joint venture	**3,192**	–

Pursuant to an equity joint venture agreement dated 1 November 2006 the Group has a 76% investment in a joint venture named 上海喜世多漢英廚具有限公司 (the "Joint Venture") which has been incorporated in the PRC on 19 January 2007 for an operation period of twenty years. The Joint Venture is engaged in manufacturing and trading of healthy, oil-fume-free, non-stick pans. The total investment cost of the Group in proportion to its respective interest in the Joint Venture is HK$3,192,000 which is to be financed in the form of cash by the Group. At 31 December 2006 the Group has yet fulfilled its investment obligation in the Joint Venture. Subsequent to the balance sheet date, HK$2,142,000 has been paid up.

34. OPERATING LEASE COMMITMENTS

At 31 December 2006, the total future aggregate minimum lease payments in respect of office premises under non-cancellable operating leases are payable as follows:

	The Group		**The Company**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Within one year	**1,382**	324	**593**	136
In the second to fifth years inclusive	**281**	–	**219**	–
	1,663	324	**812**	136

35. OPERATING LEASE ARRANGEMENTS

At 31 December 2006, the total future aggregate minimum lease receipts under non-cancellable operating leases are receivable as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**914**	–
In the second to fifth years inclusive	**1,934**	–
	2,848	–

36. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2006	2005
	HK$'000	HK$'000
Interests paid to Group First (Note (i))	**680**	–
Purchases from 上海力星生化科技有限公司（「上海力星」）(Note (ii))	**61**	–
Sales to 上海力星(Note (ii))	**1,311**	–
Rental paid to a related company (Note (iii))	**292**	–

Notes :

(i) Mr. Ni Xinguang ("Mr. Ni") and Mr. Wang Zhiming ("Mr. Wang"), the executive directors of the Company, has 60% and 40% equity interest in Group First respectively. Group First is the substantial shareholder of the Company.

(ii) Mr. Wang has 90% equity interest in 上海力星.

(iii) In May 2006, the Group entered into a management agreement with a related company owned as to 60% and 40% by Mr. Ni and Mr. Wang respectively, for taking over the operation and management control of a manufacturing plant in the PRC which is a subsidiary of that related company from June 2006 onwards for two years. The Group is responsible for the day-to-day operating profits or losses of the manufacturing plant and in return has committed to pay rental of HK$500,000 per annum. However, pursuant to the management agreement, the assets and liabilities of the manufacturing plant do not belong to the Group. The Group has recognised the rental of HK$292,000 to this related company during the year. As at 31 December 2006, the amount due from this related company for the aforesaid arrangement is disclosed in Note 24(d).

(iv) The abovesaid related party transactions were made under normal commercial terms and conditions that would also be available to unrelated third parties.

36. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) At balance sheet date, the following balances with related parties included in:

	2006 **HK$'000**	2005 HK$'000
Trade receivables from a related company (Note (i))	**554**	–
Prepayments to related companies (Note (ii))	**1,676**	–
Trade payables to a related company (Note (i))	**(19)**	–
Other payables to related companies (Note (iii))	**(3,272)**	–

Notes:

(i) The above amounts are trade in nature, unsecured, interest free and repayable in normal trading terms.

(ii) The prepayments included advertising fee prepaid through a related company of approximately HK$1,500,000 and deposits paid for purchases to a related company of approximately HK$176,000.

(iii) The other payables mostly included expenses paid on behalf of the Group by related companies. The amounts due are unsecured, interest free and have no fixed repayment terms.

37. EVENTS AFTER THE BALANCE SHEET DATE

(a) On 12 February 2007, Group First entered into a placing agreement (the "Placing Agreement") with a placing agent (the "Placement"). Pursuant to the Placing Agreement, the placing agent agreed to place up to the maximum of 575,000,000 shares at a price of HK$0.68 per share on behalf of Group First to not less than six independent placees. On the same date, the Company entered into a conditional subscription agreement (the "Subscription Agreement") with Group First (the "Subscription"). Pursuant to the Subscription Agreement, Group First subscribes 575,000,000 shares of the Company at a price of HK$0.658 per share. The Placement and Subscription was completed on 26 February 2007.

The aggregate net proceeds of the Subscription of about HK$378.4 million will be used for future expansion of the Group in the retail and wholesale of consumer products and television shopping in the PRC.

37. EVENTS AFTER THE BALANCE SHEET DATE *(CONTINUED)*

(b) The National People's Congress of the PRC has approved the new PRC enterprise income tax law on 16 March 2007. The tax rate will be unified for both domestic and foreign investment enterprises at 25% and the previous preferential tax treatments will be changed, with certain grandfathering provisions with effect from 1 January 2008. The Company's management is in the process of accessing its impact to the Group.

(c) The Company acquired Top Pro Group in 2005 and the consideration comprises a cash consideration of HK$25 million ("Cash Consideration"), a deferred cash consideration ("Deferred Cash Consideration") and issue of consideration shares ("Consideration Shares"). The acquisition of Top Pro Group was completed in April 2006. The Cash Consideration had been paid in full upon completion. The Deferred Cash Consideration and issue of the Consideration Shares represented the contingent portion of the consideration which is associated with future financial performance of Top Pro Group.

The Deferred Cash Consideration, if payable, would be equivalent to the audited consolidated net profit of Top Pro Group for the first full financial year after completion (the "Deferred Consideration Period"). The maximum amount of the Deferred Cash Consideration shall not be more than HK$50 million.

The aggregate value of the Consideration Shares, if required to be issued, would be equivalent to 3 times the audited consolidated net profit of Top Pro Group for the Deferred Consideration Period. The maximum number of the Consideration Shares shall be limited to 1,500,000,000.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 April 2007.