7-STAR 七星购物

CHINA SEVEN STAR SHOPPING LIMITED

(Incorporated in Hong Kong with limited liability)

Stock Code : 245

ANNUAL REPORT 2007

Contents

Corporate Information

Directors

Executive Directors
Ni Xinguang *(Chairman)*
Wang Zhiming *(Managing Director)*

Independent Non-executive Directors
Chan Wai Sum
Ho Wai Ip
Lu Wei

Audit Committee

Chan Wai Sum
Ho Wai Ip
Lu Wei

Remuneration Committee

Chan Wai Sum
Ho Wai Ip
Lu Wei

Qualified Accountant and Company Secretary

Chen Man Wai, Molly

Principal Bankers

China Merchants Bank
China Construction Bank
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited
UBS

Stock Code

245 HK

Solicitors

Anthony Chiang & Partners
Arculli Fong & Ng
Boase Cohen & Collins
Or, Ng & Chan

Independent Auditor

RSM Nelson Wheeler
Certified Public Accountants

Registered Office

Suite 1206, 12/F.
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Principal Place of Business in Shanghai

No.568 Hongxu Road
Minhang District
Shanghai, China

Registrars and Transfer Office

Tricor Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

Website

www.sevenstar.hk

Market Review

PRC consumer goods market analysis

The total retail sales of consumer goods in the PRC has been maintaining at a real growth rate of approximately 12% since 2005, while the percentage reached a record high of 12.9% in 1H07. The Group considers that the PRC retail industry is at the onset of another boom round. With the continuous increase in the income level in the PRC, structural upgrade in consumption expenditures led by the change in consumption attitudes and the sustained improvement in social security system, it is believed that the retail sales growth momentum will maintain enormous in a long run, underpinned by the strong consumption power of the PRC consumers. In addition, strengthening of the Renminbi (RMB) and the hosting of the Olympics further stimulate the growth of the retail industry.

The per capita disposable income of urban residents in the first three quarters in 2007 was RMB10,346, exhibited a nominal year-on-year growth rate of 17.6% or real growth rate of 13.2%. The per capita cash income of rural residents was RMB3,321, at a real growth rate of 14.8%, 3.4% higher compared with that of the corresponding period last year. The per capita consumption expenditure of urban residents in the first three quarters in 2007 was RMB7,395, increased by 14.1% and 9.8% on nominal and real basis respectively. As consumption growth is largely and fundamentally dependant on the income growth of residents, the Group recognizes the strong spending power of the PRC residents (including rural population) as a key driver for China's consumption theme.

Besides, the apparent changes in residents' spending structure also add prospects to China's retail industry: 1) Downward trend in Engle coefficient – the 2006 Engle coefficient of the PRC urban and rural residents were lowered by 1.9% and 3.2% respectively from 2002; 2) Increase in proportion of consumption for development and enjoyment – expenditures for development and enjoyment purposes such as transportation and communications, education and entertainment as well as medical and health care all gain in proportion to total spending. As motor vehicles and electronic products such as computers and handsets become more affordable for the PRC families, transportation and communications products prone to be new drivers for consumption spending; 3) Increase in proportion for service expenditure – consumption and demand for service and its relative proportion in consumption expenditure is likely to exhibit continuous increase with the upgrade in the living standards of the PRC residents. In 2006, the per capita service consumption expenditure of urban and rural residents increased by 47.9% and 1.8% respectively compared with that of in 2002; 4) Higher lodging expenses of urban residents – improvement in living standard leads to a higher consciousness on living condition and environment from a comfort and environmental-friendly perspective. In 2006, the per capita expense on lodging of urban residents increased by 44.9% compared with that of in 2002; 5) Continuous increase in proportion of currency consumption of rural residents – the cash expenditure for living consumption of rural residents increased by 64.6% to RMB2,415 in 2006 from RMB1,468 in 2002. The Group believes that the consumption ability and the actual expenditure incurred by the PRC residents will be further enhanced owing to the increased income effect, establishment and improvement in the social security system, RMB appreciation as well as change in consumption attitude, casting a solid impetus for a continuous growth.

PRC television shopping market analysis

Benefiting all parties, including the television industry, the retailers and consumers, television shopping is an ideal shopping solution with an enormous market potential. However, the rapid growth of the industry in China also generated industry issues in the early stages of its development. As of today, the industry in the country is still recovering from the "over-speedy expansion" in mid-late 1990s and "goodwill crisis" during 1999-2000, facing problems including monotonous products, presence of numerous small players and inadequate consumer confidence. The Group considers the lack of disciplined operators in the television shopping industry is the major reason that prevents the market from developing to its full potential. Thus, it is important for the Government to formulate specific industrial policies, establish a sound and complete regulatory framework, cultivate an efficient nationwide logistics system and encourage the setting up of a few authoritative television shopping channels to push forward a healthy development of the industry.

The television shopping industry in the PRC is currently in transformation, characterized by coexistence of television shopping channels and infomercials which have been competing directly for market share in the past two years. Since the prohibition of sales on five major types of consumer products (including medicines, medical appliances, bust cream, slimming and growth enhancing products) ("five major products") from 2006, the television shopping industry has been actively exploring new ideas to tap the huge market. We believe that such pattern shall persist for the industry over the short term, i.e. television shopping companies will seek for series of appropriate products and promoted them through television media. But from a product development perspective, the ban of the "five major products" selling on television, together with negative propaganda from time to time, poses difficulty in finding appropriate products. Hence, we believe that the key to success for the television shopping industry lies in flexible and adaptive media strategy, high quality call center management and effective marketing strategies.

Outlook and Strategies

Globally speaking, television shopping can be regarded as the third revolution in sales after retail and supermarket. With the breadth of China's consumer market and high television penetration, the Group sees great potential and investment value for television shopping industry in the PRC. Based on the national digital television development plan, it is expected that the country will achieve a full digitalization of television transmission signal by 2010 and the analogue transmission signal phasing out completely by 2015. Development in the digital technology shall help to transform the consumers' television sets into intelligent information centers, allowing the television shopping companies to fulfill the residents' consumption needs in a simple, convenient and economical fashion. Judging by the fact that 362 million households in the PRC own a television in 2006, we believe that the development in digital broadcasting and subsequent penetration of digital televisions has laid a solid foundation for the future development of television shopping channels.

In 2008, the Group will proactively enhance its cost effectiveness by focusing resources on potential provinces and cities. The Group planned to purchase more airtime in provincial television channels that would lower the cost and enhance sales effectiveness as compared to its nationwide advertisement broadcast in the past. Moreover, the Group will continuously upgrade its logistics management system to strengthen its nationwide sales and distribution modules so as to enhance its logistics and operation efficiencies.

Looking ahead, the Group will remain pragmatic and cautious given the weak business environment in the short run. The Group will seek to realize the full potential of its resources and pursue fine management to create the most effective marketing mechanism covering from promotion to sales, logistics and after-sale support and with the complement of the Internet, product catalogs and call-center. The Group will solidify its leadership in the TV shopping sector and strive to expand market coverage by applying its advantages in cost and inventory, and mastery of a medium that transcend boundaries, and offering products with strong margins. Furthermore, the Group will also actively explore potential business partners and actualize product diversification, in order to lay a firm foundation for upcoming television shopping market opportunities in PRC in the long run.

Business Review

For the year ended 31 December 2007, the Group's total turnover amounted to HK$680,228,000, representing an increase of 6.4 times compared with that of in 2006. The substantial increase was mainly due to the full year revenue contribution in 2007 from Seven Star (Shanghai) that joined the Group in the fourth quarter of 2006. The Group's gross margin was 45.7% (2006: 71.9%), decreased by 26.2 percentage points owing to the risen proportion of television shopping revenue in 2007. The loss attributable to equity holders amounted to HK$385,289,000 (2006: profit attributable to equity holders was approximately HK$29,556,000). Loss per share was 6.2 HK cents.

The board of directors (the "Board") does not recommend the payment of any dividend for the year ended 31 December 2007 (2006: HK$Nil).

The loss for the year was mainly attributable to a goodwill impairment loss of HK$247,663,000 (2006: HK$Nil) related to the acquisition of the Top Pro Group. In determining the impairment loss on goodwill related to the Top Pro Group acquisition, the recoverable amount of the cash-generating unit of retail and distribution of consumer products and the provision of media management services is derived from value in use calculations. The Company prepares cash flow projections based on management's forecast on turnover, budgeted gross margin and overheads and determine the recoverable amount using discount rate for present value and perpetuity growth rate of 18% and 3% respectively. Owing to the unfavorable changes in the operating environment for the television shopping industry in the PRC in the second half of 2007, together with the competitive industry landscape, low visibility on earning's quality due to restrictive environment in products selection and change in business strategy, at 31 December 2007, the aforesaid recoverable amount was insignificant and hence the Board considered it prudent to make a full impairment loss on the two entries of goodwill related to the Top Pro acquisition, where amounts of HK$28,422,000 and HK$219,241,000 have been booked respectively in 2006 annual results and 2007 interim results. (Note 19). With the loss contributed from the abovesaid impairment loss, coupled with the significant increase in advertising cost and deterioration of industry landscape, the operating loss for the year was about HK$380,272,000.

During the year, the Company has announced on 27 August 2007 the entering into non-binding memorandum of understanding with Sinolong Technology (Shanghai) Co Ltd and Shanghai LS Investment Co Ltd in relation to a proposed investment in 上海其樂通訊科技有限公司; and also on 25 September 2007 the entering into non-binding memorandum of understanding with 顧新惠 and 熊碧輝 regarding a proposed acquisition of equity interest in Uniscope Company Limited, 上海優思通信有限公司 and 上海浦歌電子有限公司. Subsequent to the balance sheet date, the Company and the other parties have agreed not to proceed with the two deals due to commercial reasons.

Sales results and performance review

Retail revenue at approximately HK$659,043,000 was 10.1 times higher than that in previous year (2006: approximately HK$59,185,000); and media service income was 37% lower year-on-year to HK$20,316,000 mainly due to declined volume in wholesales sales of the cookware category. (2006: HK$32,434,000). Gross margin for merchandise sales for the year under review was lowered to 45% against the previous year due to heightened market competition (2006: 56%).

Due to heightened competition in the mobile handset product category that constituted about 83% of our total turnover and also the limited availability of products that are suitable for infomercial selling owing to regulatory restriction, the Group suffered from a decline in turnover of about 36% in 2H07 when compared half-on-half, while the significant upsurge in advertising expenses decreased the effectiveness measure of our advertisement, which is reflected in the ratio of turnover to advertising expenses. The advertisement effectiveness measure for the year was 2.1, down from 4.1 at 1H07. Apart from advertising expenses, the Group succeeded in containing other operating costs under the inflationary environment, with the second largest cost item – staff cost maintained at around 4.2% of turnover on an ex-equity-settled share-based payment basis (2006: 6.5%). Total expenses relating to equity-settled share-based payments that charged to the profit and loss in 2007 was about HK$8,460,000 (2006: HK$5,576,000).

During the year, the Group continued its product diversification strategy to introduce more household products apart from its popular handsets and insurance products. The Group's product strategy is underscored by the principle of "designing for the home and professional delivery" and applied in the most popular household product categories (3C, kitchen ware, jewelry and accessories, beauty and health). The Group endeavored to build a professional management team and consolidate upstream resources to realize penetration of all market segments and ensure to operate a supply chain with strong core competitiveness.

The Group has in place brand building measures targeting at nourishing customer loyalty and boosting the reputation of different brand, and creating favorable words of mouth, thereby lower media cost. By encouraging repeated purchases, the Group hopes to raise sales while lowering costs. The Group will strive to raise the brand profile of "Seven Star" to highlight integrity of the brand. It will also step up after-sale services including setting up a strata membership system complemented by the award of scores from purchase, introducing a national service hotline, etc., with the aim of retaining loyal customers and creating greater value for the Group.

Property Investments

As at 31 December 2007, the Group held one investment property for resale. At carrying value of HK$10,300,000, this property is currently on lease at a short-term passing yield of approximately 9.3%. The Board will dispose the remaining investment property at an appropriate time in the future to focus on its core television shopping business.

Financial Resources and Liquidity

As at 31 December 2007, the Group's bank and cash balances amounted to approximately HK$275,529,000 (2006: HK$141,407,000) with no borrowings (2006: HK$10,229,000).

On 12 February 2007, the Company placed 575,000,000 new shares at approximately HK$0.659 per share to professional investors through a top-up placement and raised approximately HK$378.7 million to fund business expansion. As at 31 December 2007, with a net cash position of approximately HK$275,529,000 (2006: HK$131,178,000) of the Group, the Directors are of the opinion that there is sufficient cash resources for the Group to meet its financial obligation and business requirements.

As at 31 December 2007, the Group had no material contingent liabilities.

Exposure to Exchange Rate Fluctuation and Related Hedging

The Directors considered that 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 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.

Staff and Remuneration Policy

The Group has 1,204 employees (including Directors) as at 31 December 2007 (2006: 206). The Group recruits and promotes individuals based on their performance and development potential in the positions held. Remuneration package is determined with reference to an employee's performance and the prevailing salary levels in the market. In addition, the Group adopts a share option scheme for eligible employees (including Directors) to provide incentives to participants for their contributions and continuing efforts to promote the interests of the Group.

The directors submit their report together with the audited financial statements for the year ended 31 December 2007.

Principal activities

The Group is principally engaged in the retail and distribution of consumer products as well as the provision of media management services in the PRC, and property holding and investment in Hong Kong.

The Group's turnover is mainly derived from business activities in Mainland China. An analysis of the Group's income for the year is set out in Note 7 to the financial statements.

Particulars of the Company's major subsidiaries as at 31 December 2007 are set out in Note 20 to the financial statements.

Results, financial position and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 24.

The state of the Group's and the Company's affairs at 31 December 2007 is set out in the consolidated balance sheet and balance sheet on pages 25 and 26.

The directors do not recommend the payment of a dividend.

Fixed assets

Details of the movements in fixed assets are set out in Note 18 to the financial statements.

Principal properties

Details of the properties held for resale are set out on page 74.

Share capital

Details of the movements in share capital are set out in Note 31 to the financial statements.

Reserves

Details of the movements in reserves during the year are set out in Note 33 to the financial statements.

Distributable reserves

Distributable reserves of the Company as at 31 December 2007, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK$Nil (2006: HK$Nil).

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association ("Articles") or the laws of Hong Kong.

Purchase, sale or redemption of shares

Save for the issue of 575,000,000 shares in placement, 214,380,000 shares in share option scheme and 1,471,658,839 shares as settlement in the equity portion of the contingent consideration for Top Pro Group acquisition in 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

Five year financial summary

The results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, are summarised on page 73.

Directors

The directors who held office during the year and up to the date of this report were:

Executive Directors
Mr. Ni Xinguang *(Chairman)*
Mr. Wang Zhiming *(Managing Director)**

Independent Non-executive Directors

Mr. Chan Wai Sum	
Mr. Lu Wei	
Mr. Ho Wai Ip	(appointed on 3 April 2007)
Mr. Tang Chi Wing	(resigned on 3 April 2007)

* Mr. Wang Zhiming was appointed Managing Director of the Company with effect from 15 October 2007.

In accordance with article 116 of the Articles, Mr. Ni Xinguang and Mr. Lu Wei will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Pursuant to the Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), each independent non-executive directors re-affirmed his independent status with the Company as at 31 December 2007, and the Company considered that they are independent.

Directors' profiles

Directors' profiles are set out on page 21.

Directors' service contracts

The appointments of the present independent non-executive directors are not for specific terms. However, they are subject to retirement by rotation in accordance with the Articles.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company within one year without payment of compensation, other than normal statutory compensation.

Directors' interests and short positions in shares and underlying shares

As at 31 December 2007, the directors and their respective associated corporations had interests in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") as follows:

	Number of shares held			**Percentage**
Name of director	**Personal interests**	**Corporate interests**	**Total**	**of the issued share capital***
Ni Xinguang	95,780,000	1,886,680,000 *(Note)*	1,982,460,000	27.07%
Wang Zhiming	94,780,000	1,886,680,000 *(Note)*	1,981,460,000	27.05%

Note: *1,886,680,000 shares were owned by Group First Limited, a private company beneficially owned by Mr. Ni Xinguang as to 60% and Mr. Wang Zhiming as to 40%, representing approximately 25.76% of the issued share capital of the Company.*

* *The percentage has been calculated based on the total number of 7,324,280,839 ordinary shares of the Company in issue as at 31 December 2007.*

Apart from the aforesaid, none of the directors of the Company or any of their spouses or children under the age of 18 or their associated corporations (within the meaning of Part XV of the SFO) has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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"). The 2004 Share Option Scheme will expire on 27 May 2014.

Movements of the options, which were granted under the 2004 Share Option Scheme, during the year were listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant	Number of option shares held as at 01/01/2007	Number of option shares granted during the year	Number of option shares exercised during the year	Number of option shares lapsed during the year	Number of option shares held as at 31/12/2007	Exercise price HK$	Exercise period
Directors								
Ni Xinguang	20/12/2004	37,000,000	–	(37,000,000)	–	–	0.113	27/06/2005-26/12/2007
Wang Zhiming	20/12/2004	37,000,000	–	(37,000,000)	–	–	0.113	27/06/2005-26/12/2007
Employees	13/06/2006	59,000,000	–	(59,000,000)	–	–	0.180	13/12/2006-12/06/2008
	27/12/2006	6,320,000	–	(6,320,000)	–	–	0.157	27/03/2007-26/03/2017
	27/12/2006	6,330,000	–	(6,330,000)	–	–	0.157	27/06/2007-26/06/2017
	27/12/2006	12,660,000	–	(12,660,000)	–	–	0.157	27/12/2007-26/12/2017
	27/12/2006	12,660,000	–	–	–	12,660,000	0.157	27/06/2008-26/06/2018
	27/12/2006	12,660,000	–	–	–	12,660,000	0.157	27/12/2008-26/12/2018
	08/03/2007	–	10,000,000	–	(5,000,000)*	5,000,000	0.722	08/03/2007-07/03/2015
	08/03/2007	–	10,000,000	–	(5,000,000)*	5,000,000	0.722	08/03/2008-07/03/2015
	08/03/2007	–	10,000,000	–	(5,000,000)*	5,000,000	0.722	08/03/2009-07/03/2015
	08/03/2007	–	10,000,000	–	(5,000,000)*	5,000,000	0.722	08/03/2010-07/03/2015
	08/03/2007	–	70,000	(70,000)	–	–	0.722	08/03/2007-07/03/2009
	30/04/2007	–	240,000	–	–	240,000	1.230	30/04/2008-29/04/2015
Consultants	13/06/2006	71,000,000	–	(56,000,000)	–	15,000,000	0.180	13/12/2006-12/06/2008
		254,630,000	40,310,000	(214,380,000)	(20,000,000)	60,560,000		

* 20,000,000 share options lapsed during the year due to the resignation of an employee.

Further details of share options were stipulated in Note 32 to the financial statements.

Apart from the aforesaid, at no time during the year ended 31 December 2007 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Directors' interests in contracts

Apart from the particulars disclosed in Note 39 under the heading "Related Party Transactions" to the financial statements there were no other contracts of significance in relation to the Company's business, to which the Company or any of the Company's subsidiaries was a party nor there were any other contracts of significance in relation to the Company's business between the Company or any of the Company's subsidiaries subsisting at the end of the year or at any time during the year in which a director had, whether directly or indirectly, a material interest.

Substantial shareholders' interests

As at 31 December 2007, the interests of those persons (other than the directors) in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	**Capacity in which ordinary shares were held**	**Number of ordinary shares**	**Percentage of the issued share capital** *(Note (c))*
Group First Limited	Beneficial owner *(Note(a))*	1,886,680,000	25.76%
Hou Chong Yu ("Ms. Hou")	Beneficial	33,200,000	20.55%
	Interests controlled through Corporations *(Note (b))*	1,471,658,839	
Best Idea International Limited *(Note (b))*	Beneficial owner	771,658,839	10.54%
Keywise Capital Management (HK) Limited	Investment Manager	515,688,000	7.04%

Notes:

(a) Group First Limited is a private company beneficially owned by Mr. Ni Xinguang as to 60% and by Mr. Wang Zhiming as to 40%. Both Mr. Ni Xinguang and Mr. Wang Zhiming are executive directors of the Company. Accordingly, the 1,886,680,000 shares owned by Group First Limited is also deemed to be the corporate interests of each of Mr. Ni Xinguang and Mr. Wang Zhiming.

(b) The following corporations, which are wholly controlled by Ms. Hou, hold the following interests in the Company: –

Name of Corporations	**Number of Shares held**
Golden Pioneer Investments Inc	350,000,000
Best Idea International Limited	771,658,839
Talent Sky Group Limited	350,000,000

(c) The percentage has been calculated based on the total number of 7,324,280,839 ordinary shares of the Company in issue as at 31 December 2007.

All the interests disclosed under this section represent long position in the shares of the Company.

Apart from the aforesaid, as at 31 December 2007, the Company had not been notified of any interests and short position in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Retirement benefits

The Group did not operate any retirement scheme up to 30 November 2000. With effect from 1 December 2000, MPF Scheme has been set up for employees, including executive directors of the Company, in Hong Kong, in accordance with the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"). Under the MPF Scheme, the Group's contributions are at 5% of employees' relevant income as defined in the MPF Ordinance up to a maximum of HK$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's contributions to the MPF Scheme and PRC pension scheme for PRC staff charged to the consolidated income statement during the year amounted to approximately HK$69,000 (2006: HK$69,000) and HK$773,000 (2006: HK$238,000) respectively.

Major customers and suppliers

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

The largest customer	3.7%
Five largest customers in aggregate	12.2%
The largest supplier	22.5%
Five largest suppliers in aggregate	80.0%

Public float

Based on the information that is publicly available to the Company and within the knowledge of the directors throughout the year ended 31 December 2007, there was a sufficiency of public float the Company's securities as required under the Listing Rules. As at 31 December 2007, 72% (2006: 58%) of the Company's securities were in public hands.

Events after the balance sheet date

Details of the events after the balance sheet date are set out in Note 40 to the financial statements.

Auditor

A resolution to re-appoint the retiring auditor, RSM Nelson Wheeler, will be proposed at the forthcoming annual general meeting.

By order of the board
Ni Xinguang
Chairman

Hong Kong, 28 April 2008

Corporate Governance Practices

The board of directors of the Company (the "Board") is committed to maintaining and ensuring high standards of corporate governance as good corporate governance can safeguard the interests of all shareholders and enhance corporate value. The Board continuously reviews and improves the corporate governance practices and standards of the Group from time to time to ensure that business activities and decision making processes are regulated in a proper manner.

The Board has adopted the principles and complied all the applicable provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended 31 December 2007 except for deviation from provisions A.4.1, A.4.2 and A.2.1 of the Code.

Provisions A.4.1 and A.4.2 stipulate that (a) non-executive directors should be appointed for a specific term, subject to re-election; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

None of the existing Independent Non-executive Directors ("INEDs") of the Company is appointed for a specific term, and, pursuant to the articles of association of the Company, all directors appointed to fill a casual vacancy shall hold office only until the next following annual general meeting and these both constitutes deviations.

Although the non-executive directors are not appointed for a specific term, the Company believes that as all directors are subject to retirement by rotation and re-election at the annual general meeting at least once for every three years pursuant to the articles of association of the Company, such practice meets the same objective and is no less exacting than those prescribed under provision A.4.1.

Regarding the provision A.4.2, the Company has proposed to amend the relevant articles of association of the Company at the forthcoming annual general meeting to the effect that any director appointed by the Board to fill a causal vacancy shall hold office until the next following general meeting instead of the next following annual general meeting to ensure compliance with the Code.

The deviation from provision A.2.1 of the Code continued until the appointment of Mr. Wang Zhiming as the Managing Director of the Company in mid October 2007, segregating the duplicate role of Mr. Ni Xinguang as Chairman and temporary Managing Director of the Company.

Board of Directors

Functions and role

The Board has overall responsibility in formulating the strategic development of the Group, monitoring and controlling the Company's operation and financial performance. All the appointed directors are subject to rotation for re-appointment at the annual general meeting, and each of the directors is subject to retirement by rotation at least once every three years. Appropriate and sufficient information was provided to each of the directors to keep abreast of his responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

The INEDs are expressly identified in all corporate communications such as circular, announcement or relevant corporate communications in which the names of directors of the Company are disclosed. Each of the INEDs has filed an annual confirmation to the Company confirming their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors meet the independent guideline set out in Rule 3.13 of the Listing Rules and are independent.

To the best knowledge of the Company, there is no financial, business, family relationship among the members of the Board as at 31 December 2007. All of them are free to exercise their individual judgment.

Composition

The Board comprises five directors, of which two are Executive Directors and three are INEDs. One of the three INEDs possesses appropriate professional accounting qualifications and financial management expertise, which complies with the requirement of the Listing Rules. The directors' respective biographical information is set out in this annual report under the heading "Directors' Profiles" and the names of current directors on board and their positions are as follows:

Name of directors	**Position**
Executive directors	
Mr. Ni Xinguang	Chairman
Mr. Wang Zhiming	Managing Director*
Independent Non-executive directors	
Mr. Chan Wai Sum	Independent Non-executive Director
Mr. Ho Wai Ip**	Independent Non-executive Director
Mr. Lu Wei	Independent Non-executive Director

* Mr. Wang Zhiming was appointed Managing Director of the Company on 15 October 2007.

** Mr. Ho Wai Ip was appointed Independent Non-executive Director of the Company on 3 April 2007 to fill the casual vacancy left by the resignation of Mr. Tang Chi Wing on the same date.

The Board held 6 Board meetings during the financial year ended 31 December 2007. Appropriate and sufficient information was provided to the Board in a timely manner for their review before the meetings. Attendance of individual directors at Board meetings is set out in the section of "Attendance of Board, Audit Committee and Remuneration Committee Meetings in 2007".

Chairman and Managing Director

Mr. Ni Xinguang, the Chairman of the Company, assumed the role of Managing Director on a temporary basis until Mr. Wang Zhiming filled the vacancy of Managing Director of the Company in mid October 2007. A deviation from provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive officer should be separated and should not be the same individual lasts for about ten months during this year.

During the period of assuming the dual roles as Chairman and Managing Director, Mr. Ni Xinguang is responsible for the leadership of the Board, and oversees the business development of the Company and its subsidiaries including strategic and corporate development. The Board does not consider that this structure will impair the balance of power and authority between the Board and the management of the Company given there is a division of responsibility for the individual business operation of the Group. Upon Mr. Wang Zhiming's appointment as Managing Director of the Company in mid October 2007, Mr. Wang took up the responsibility for the management of day-to-day operation of the Group.

Board Practices

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of annual budgets and business plans; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary. With the support of executive directors and the Company Secretary, the Chairman seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. Six Board meetings were held during the year for facilitating the function of the Board. The Board believes that the six Board meetings held during the financial year were adequate to cover all major issues during the year. In any event all directors were available for consultation by management from time to time during the year.

Management is responsible for the day-to-day operations of the Group under the leadership of the Managing Director. The Managing Director, working with the management team is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group. All directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Group. Apart from the regular Board meetings, the Chairman may hold meetings with the INEDs without the presence of executive directors.

In order to ensure that the Board is able to fulfill its responsibilities, the Board has established and delegated specific responsibilities to the Audit Committee and Remuneration Committee. The details of the committees are stipulated on pages 18 and 19 of this report.

Sufficient formal notice of every regular board meeting is given to all directors to give them the opportunity to attend. Board papers are circulated not less than three days before the Board meetings to enable the directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors shall have full access to information on the Group and are able to seek independent professional advice whenever deemed necessary by the directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings. Draft and final versions of board minutes have sent to all directors for their comment and records respectively within a reasonable time after the board meeting.

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the directors and officers of the Group from their risk exposure arising from the businesses of the Group.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that the Board is fully briefed on all legislative, regulatory and corporate governance developments and has regarded to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordnance and other applicable laws, rules and regulations.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. With the assistance of the Qualified Accountant of the Company, the Directors also ensure the publication of the financial statements of the Group in a timely manner.

The report of the external auditors of the Company, RSM Nelson Wheeler, with regard to their reporting responsibilities on the Company's financial statements is set out in the Independent Auditor's Report on pages 22 and 23.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Director Nomination Procedures

The Company has not set up a Nomination Committee yet. According to the Articles of Association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a causal vacancy or as an addition to the Board. The current nomination procedures for appointment of new directors would normally take into consideration of the candidates' past experience, qualifications and any other factors, if any, which are relevant to the Company's business. Then, shortlisted candidates with their profiles would be brought to the Board before meeting for consideration as soon as it is practicable.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company in 2007. All the directors of the Board have confirmed, following specific enquiries made by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2007.

Audit Committee

Composition

The Company has established an Audit Committee since 1999. Written terms of reference is formulated and continuously updated in accordance with the requirements of the Listing Rules. The Audit Committee consists of all three INEDs, namely Mr. Ho Wai Ip (Chairman), Mr. Chan Wai Sum and Mr. Lui Wei. Mr. Ho Wai Ip replaced Mr. Tang Chi Wing as Chairman of the Audit Committee with effect from 3 April 2007. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The Audit Committee meets twice a year on a half year basis, or more frequently if required. Two Audit Committee meetings were held during the year and the record of attendance of individual member is listed out on page 19.

Functions and Role

The primary functions of the Audit Committee are, inter alias, to assist the Board in fulfilling its overseeing responsibilities with respect to maintaining appropriate relationship with external auditors, and, to review the annual and interim report and other financial information provided by the Company to its shareholders, the public and others and matters within the scope of the terms of reference. The term of reference have been posted on the Company's website.

In discharging its responsibilities, the Audit Committee performed the following work during the year of 2007:

(i) reviewed the effectiveness of audit process in accordance with applicable standards;

(ii) reviewed the change in accounting principles and policies and assessment of potential impacts on the Group's financial statements;

(iii) reviewed the Group's internal control system and discussed the relevant issues including financial, operational and compliance controls and risk management functions; and

(iv) reviewed the external auditor's management letter and ensure the board will provide a timely response to the issues raised therein.

Remuneration Committee

Functions and Role

The primary objectives of the Remuneration Committee include determining the remuneration policy, structure and remuneration packages of the directors and senior management and make recommendations to the Board, and other related matters. The Remuneration Committee is responsible for establishing transparent procedures to develop such remuneration policy and structure which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The terms of reference have been posted on the Company's website.

The Executive Directors are responsible for reviewing the market conditions, time commitment, responsibilities, performance of individuals and any other relevant information and propose to the Remuneration Committee for consideration and approval. None of the Executive Directors can determine his own remuneration.

During the year, the Remuneration Committee has reviewed and approved the remuneration of executive directors and senior management.

Composition

The Remuneration Committee members consists of Mr. Chan Wai Sum (the Chairman), Mr. Ho Wai Ip and Mr. Lu Wei, all are INEDs. The Remuneration Committee meets at least once a year. The Remuneration Committee held one meeting during the year and reviewed the existing remuneration policy and structure of the Company. The record of attendance of individual member is listed below:

Attendance of Board, Audit Committee and Remuneration Committee Meetings in 2007

	Attendance/Number of Meetings Held		
	Board	Audit Committee	Remuneration Committee
Directors			
Executive Directors:			
Ni Xinguang	6/6	N/A	N/A
Wang Zhiming	6/6	N/A	N/A
Independent Non-executive Directors:			
Chan Wai Sum	6/6	2/2	1/1
Ho Wai Ip*	4/6**	2/2	1/1
Lu Wei	5/6	2/2	1/1
Tang Chi Wing*	2/6**	0/2	0/1

* Mr. Tang Chi Wing resigned as Independent Non-executive Director of the Company with effect from 3 April 2007 and Mr. Ho Wai Ip was appointed Independent Non-executive Director of the Company with effect from 3 April 2007.

** The two directors attended all the board meetings during the period of their terms of office.

Auditor's Remuneration

During the year, the fees paid or payable to external auditor of the Company, RSM Nelson Wheeler were approximately HK$1,500,000 for statutory audit services rendered and for non-audit services rendered were HK$688,000 to the Group respectively.

Internal Controls and Risks Management

The Board has overall responsibilities for introducing and continuously maintaining sound and effective internal control systems of the Group and review its adequacy and effectiveness. It is committed to review and implement effective and sound internal control systems to safeguard shareholders' interests. The Board has delegated to the management with defined structure and limits of authority, to conduct reviews on and maintenance of all material controls including proper financial and accounting records, operational and compliance and risk management functions as well as the implementation of the internal control system to ensure compliance with relevant legislations and regulations.

The internal control systems will be reviewed on an ongoing basis by the Board in order to make it practical and effective.

Investor Relationship and Communication

The Company endeavors to maintain good investor relationship with shareholders and potential investors by way of annual general meeting, publication of interim and annual reports on the websites of the Company and the Stock Exchange, and timely press releases on Company's website.

Shareholders are encouraged to attend the annual general meetings for which a notice would be served with at least 21 days period. The Chairman and/or Directors are available to answer questions on the Group's business at the meetings. At general meetings, separate resolutions are proposed on each substantial and separate issue such as the election of individual directors and re-appointment of auditor.

Details of poll voting procedures and the rights of shareholders to demand poll are included in the circular to shareholders accompanying this annual report. The circular also includes relevant details on proposed resolutions, and biographies of each retiring director that stands for re-election.

Executive Director

Mr. Ni Xinguang, aged 38, is the Chairman of the Board and an executive director of the Company and has extensive experience in the retail, distribution and printing business in the PRC. Further to a Diploma in Education, Mr. Ni also has a Degree of Master of Business Administration from the Nanyang Technological University in the Republic of Singapore. As at 31 December 2007 pursuant to the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, Mr. Ni personally owns 95,780,000 shares and is deemed to have 1,886,680,000 shares interest in the Company. The deemed interest in 1,886,680,000 shares is held by Group First Limited, in which Mr. Ni owns 60% interest.

Mr. Wang Zhiming, aged 37, joined the Group in 2004 as an executive director of the Company and resigned on 11 November 2005 due to personal commitments. Mr. Wang remained thereafter as a business consultant of the Company and director of the operating subsidiaries of the Company and was appointed an executive director of the Company again on 18 November 2006. Mr. Wang was also appointed Managing Director of the Company with effect from 15 October 2007. Mr. Wang obtained a Certificate in Law in the PRC and a Degree of Master of Business Administration from the Nanyang Technological University in the Republic of Singapore. Mr. Wang has extensive experience in marketing and management of retail and distribution operations in the PRC. As at 31 December 2007 pursuant to the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, Mr. Wang personally owns 94,780,000 shares and is deemed to have 1,886,680,000 shares interest in the Company. The deemed interest in 1,886,680,000 shares is held by Group First Limited, in which Mr. Wang owns 40% interest.

Independent Non-executive Director

Mr. Chan Wai Sum, aged 51, is the senior executive in various joint ventures in Hong Kong and China. Mr. Chan obtained a bachelor degree in Social Science from the University of Hong Kong and a Master of Business Administration degree from California State University. Mr. Chan has extensive experience in project evaluation and implementation and in the management of local as well as overseas business operations.

Mr. Lu Wei, aged 44, is currently a professor and vice dean of the Antai College of Economics & Management of Shanghai Jiao Tong University in the PRC. He graduated from the School of Management in Shanghai Fu Dan University with a Ph.D. degree. Mr. Lu is also an independent non-executive director of WuXi Little Swan Co., Ltd., Shanghai Syp Grass Co., Ltd. and HuaLin Tire Co., Ltd., all are companies listed on the Shanghai / Shenzhen Stock Exchange.

Mr. Ho Wai Ip, aged 44, possesses over 20 years of experience in financial advisory, taxation and business management. He was a senior manager of PricewaterhouseCoopers. In 2002, he started his public practice by establishing Alliance & Associates, Certified Public Accountants. Mr. Ho is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

RSM! Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
CHINA SEVEN STAR SHOPPING LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Seven Star Shopping Limited (the "Company") set out on pages 24 to 72, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong, 28 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	7	**680,228**	92,430
Cost of sales		**(369,317)**	(25,999)
Gross profit		**310,911**	66,431
Other income	8	**16,333**	4,178
Gain on disposal of a subsidiary		**–**	6,200
Reversal of write down of properties held for resale	23	**500**	100
Impairment loss on goodwill	19	**(247,663)**	–
Distribution costs		**(379,485)**	(11,201)
Administrative expenses		**(51,687)**	(17,650)
Other operating expenses		**(29,181)**	(2,983)
(Loss)/profit from operations		**(380,272)**	45,075
Finance costs	10	**(311)**	(945)
Share of loss of a jointly controlled entity		**(1,320)**	–
(Loss)/profit before tax		**(381,903)**	44,130
Income tax expense	11	**(12,636)**	(11,927)
(Loss)/profit for the year	12	**(394,539)**	32,203
Attributable to:			
Equity holders of the Company	15	**(385,289)**	29,556
Minority interests		**(9,250)**	2,647
		(394,539)	32,203
(Loss)/earnings per share	17		
Basic		**(6.18) cents**	0.70 cents
Diluted		**N/A**	0.69 cents

At 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Fixed assets	18	**17,394**	2,792
Goodwill	19	**–**	28,422
Investment in a jointly controlled entity	21	**2,081**	–
Available-for-sale financial assets	22	**160**	150
		19,635	31,364
Current assets			
Properties held for resale	23	**10,300**	9,800
Inventories	24	**38,652**	2,199
Trade and bills receivables	25	**88,422**	66,673
Other receivables, prepayments and deposits	26	**91,752**	57,941
Bank and cash balances	27	**275,529**	141,407
		504,655	278,020
Current liabilities			
Trade payables	28	**23,763**	13,716
Other payables and accruals	29	**23,449**	15,295
Loans from a shareholder	30	**–**	10,229
Current tax liabilities		**12,230**	16,761
		59,442	56,001
Net current assets		**445,213**	222,019
NET ASSETS		**464,848**	253,383
Capital and reserves			
Share capital	31	**732,428**	506,324
Other reserves	33	**1,259,389**	879,461
Accumulated losses		**(1,529,328)**	(1,142,167)
Equity attributable to equity holders of the Company		**462,489**	243,618
Minority interests		**2,359**	9,765
TOTAL EQUITY		**464,848**	253,383

Approved by the Board of Directors on 28 April 2008.

Ni Xinguang
Director

Wang Zhiming
Director

Balance Sheet

At 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Fixed assets	18	**192**	341
Interests in subsidiaries	20	**80,919**	27,087
		81,111	27,428
Current assets			
Trade receivables	25	**–**	22
Other receivables, prepayments and deposits	26	**263**	63,765
Bank and cash balances		**179,880**	115,279
		180,143	179,066
Current liabilities			
Other payables and accruals	29	**2,878**	4,767
Loans from a shareholder	30	**–**	10,229
		2,878	14,996
Net current assets		**177,265**	164,070
NET ASSETS		**258,376**	191,498
Capital and reserves			
Share capital	31	**732,428**	506,324
Other reserves	33	**1,238,007**	876,097
Accumulated losses		**(1,712,059)**	(1,190,923)
TOTAL EQUITY		**258,376**	191,498

Approved by the Board of Directors on 28 April 2008.

Ni Xinguang
Director

Wang Zhiming
Director

For the year ended 31 December 2007

	Attributable to equity holders of the Company					
	Share capital HK$'000	**Other reserves HK$'000**	**Accumulated losses HK$'000**	**Total HK$'000**	**Minority interests HK$'000**	**Total equity HK$'000**
At 1 January 2006	372,279	797,006	(1,169,134)	151	1,610	1,761
Translation differences	–	641	–	641	6	647
Share issue expenses	–	(1,726)	–	(1,726)	–	(1,726)
Net expense recognised directly in equity	–	(1,085)	–	(1,085)	6	(1,079)
Profit for the year	–	–	29,556	29,556	2,647	32,203
Total recognised income and expense for the year	–	(1,085)	29,556	28,471	2,653	31,124
Issue of shares (Note 31)	134,045	75,375	–	209,420	–	209,420
Business combination	–	–	–	–	5,502	5,502
Recognition of share-based payments	–	5,576	–	5,576	–	5,576
Transfer	–	2,589	(2,589)	–	–	–
At 31 December 2006	506,324	879,461	(1,142,167)	243,618	9,765	253,383
At 1 January 2007	506,324	879,461	(1,142,167)	243,618	9,765	253,383
Translation differences	–	14,745	–	14,745	28	14,773
Share issue expenses	–	(345)	–	(345)	–	(345)
Net income recognised directly in equity	–	14,400	–	14,400	28	14,428
Loss for the year	–	–	(385,289)	(385,289)	(9,250)	(394,539)
Total recognised income and expense for the year	–	14,400	(385,289)	(370,889)	(9,222)	(380,111)
Issue of shares (Note 31)	226,104	355,196	–	581,300	–	581,300
Capital injection by minority shareholders of subsidiaries	–	–	–	–	1,816	1,816
Recognition of share-based payments	–	8,460	–	8,460	–	8,460
Transfer	–	1,872	(1,872)	–	–	–
At 31 December 2007	732,428	1,259,389	(1,529,328)	462,489	2,359	464,848

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(381,903)**	44,130
Adjustments for:			
Finance costs		**311**	945
Share of loss of a jointly controlled entity		**1,320**	–
Interest income		**(11,103)**	(1,624)
Depreciation		**2,077**	774
Share-based payments		**8,460**	5,576
Reversal of write down of properties held for resale		**(500)**	(100)
Allowance for inventories		**7,573**	–
Allowance for other receivables		**5,193**	540
Allowance for trade receivables		**20,836**	2,412
Fixed assets written off		**991**	162
Loss on disposal of fixed assets		**2**	–
Write back of other payables and accruals		**(913)**	(1,037)
Gain on disposal of a subsidiary		**–**	(6,200)
Reversal of allowance for other receivables		**(555)**	–
Reversal of allowance for trade receivables		**(2,107)**	–
Impairment loss on goodwill		**247,663**	–
Operating (loss)/profit before working capital changes		**(102,655)**	45,578
(Increase)/decrease in inventories		**(44,026)**	33
Increase in trade and bills receivables, other receivables, prepayments and deposits		**(70,433)**	(108,628)
Increase in trade payables, other payables and accruals		**19,794**	7,119
Cash used in operations		**(197,320)**	(55,898)
Interest paid		**(991)**	(286)
Tax paid		**(18,094)**	(682)
Net cash used in operating activities		**(216,405)**	(56,866)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of fixed assets		**(17,618)**	(808)
Proceeds from disposal of fixed assets		**1**	–
Payment for properties under development		**–**	(739)
Interest received		**11,103**	1,624
Balance payment for acquisition of a subsidiary		**–**	(20,000)
Capital payment for a jointly controlled entity		**(11,903)**	–
Deferred cash consideration paid for acquisition of a subsidiary	19	**(50,000)**	–
Net cash inflow from acquisition of subsidiaries		**–**	1,139
Net cash outflow from disposal of a subsidiary		**–**	(4)
Net cash used in investing activities		**(68,417)**	(18,788)

	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital to minority shareholders of subsidiaries	**1,816**	–
Bank loan raised	**10,260**	–
Repayment of bank loan	**(10,260)**	–
Repayment of other loans	**–**	(1,721)
Repayment of loans from a shareholder	**(10,229)**	(15,571)
Other loans raised	**–**	1,904
Loan from a shareholder	**–**	20,000
Net proceeds from issue of shares	**411,714**	207,694
Net cash generated from financing activities	**403,301**	212,306
NET INCREASE IN CASH AND CASH EQUIVALENTS	**118,479**	136,652
Exchange differences	**15,643**	752
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**141,407**	4,003
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**275,529**	141,407

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 "Stock Exchange").

The Company is an investment holding company. The principal activities of its major subsidiaries are set out in Note 20 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 that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2007. 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 Group has already commenced on assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Significant Accounting Policies

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

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

3. Significant Accounting Policies *(Continued)*

(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) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly controlled entity is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the jointly controlled entity 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 jointly controlled entity's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. 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.

3. Significant Accounting Policies *(Continued)*

(c) Joint venture (Continued)

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The gain or loss on the disposal of a jointly controlled entity 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 jointly controlled entity which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) 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)*

(d) 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.

(e) 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.

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	20%
Motor vehicles	20%

3. Significant Accounting Policies *(Continued)*

(e) Fixed assets (Continued)

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.

(f) 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.

(g) 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 estimates based on prevailing market condition.

(h) 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.

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

3. Significant Accounting Policies *(Continued)*

(j) 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) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the income statement.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised directly in equity, until the investments are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the income statement.

Impairment losses recognised in the income statement for equity investments classified as available-for-sale financial assets are not subsequently reversed through the income statement. Impairment losses recognised in the income statement for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in the income statement if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

(k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and 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.

3. Significant Accounting Policies *(Continued)*

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(q) 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.

3. Significant Accounting Policies *(Continued)*

(r) 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.

(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.

(s) 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.

(t) 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)*

(t) Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, 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.

(u) 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)*

(v) 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 segments 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.

(w) 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.

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.

3. Significant Accounting Policies *(Continued)*

(x) 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.

(y) 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. The Group 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. 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.

4. Critical Judgements and Key Estimates *(Continued)*

(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 unit to which the goodwill has been 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 2007 was HK$Nil (2006: HK$28,422,000) after an impairment loss of HK$247,663,000 (2006: HK$Nil) recognised during 2007. Details of the impairment testing of goodwill are provided in Note 19 to the financial statements.

(d) Impairment of trade and other receivables

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including evaluation of collectibility, aging analysis of accounts subsegment settlement and on management's judgement. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2007, allowance for doubtful debts on trade and other receivables of HK$45,220,000 (2006: HK$20,695,000) have been recognised on the Group's balance sheet.

(e) Allowance for inventories

Allowance for slow-moving inventories is made based on the aging and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to serve industry cycles. The Group will reassess the estimates by each balance sheet date.

(f) Share-based payment expenses

The fair value of the share options granted to the directors and employees determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share-based payment reserve. In assessing the fair value of the share options, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Black-Scholes Model requires the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

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 the functional currency of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. 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's credit risk is primarily attributable to its trade and other receivables. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

(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

The Group's significant bank deposits bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

Except as stated above, the Group has no other significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest 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. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net cash and net cash equivalents, and equity attributable to equity holders of the Company comprising issued share capital, reserves and accumulated losses.

6. Capital Risk Management *(Continued)*

The directors of the Company review the capital structure at least on an annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associates with each class of capital. Based on the results of the review of the directors of the Company, the Group will balance its overall capital structure through raising new share capital or issue of new debt.

7. Turnover

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

	2007 **HK$'000**	2006 HK$'000
Manufacture, retail and distribution of consumer products	**659,043**	59,185
Media management service fees	**20,316**	32,434
Rental income	**869**	811
	680,228	92,430

8. Other Income

	2007 **HK$'000**	2006 HK$'000
Interest income	**11,103**	1,624
Reversal of allowance for trade receivables	**2,107**	–
Reversal of allowance for other receivables	**555**	–
Write back of other payables and accruals	**913**	1,037
Sundry income	**1,655**	1,517
	16,333	4,178

9. Segment Information

(a) *Primary reporting format – business segments*

The Group is organised into two main business segments:

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.

9. Segment Information *(Continued)*

Primary reporting format – business segments

	PRC retail and distribution HK$'000	Property investment HK$'000	Corporate and unallocated HK$'000	Consolidated HK$'000
Year ended 31 December 2007				
Turnover	679,359	869	–	680,228
Segment results	(373,872)	934	–	(372,938)
Other income				12,329
Unallocated expenses				(19,663)
Loss from operations				(380,272)
Finance costs				(311)
Share of loss of a jointly controlled entity	(1,320)	–	–	(1,320)
Loss before tax				(381,903)
At 31 December 2007				
Segment assets	331,159	10,433	–	341,592
Investment in a jointly controlled entity	2,081	–	–	2,081
Unallocated assets				180,617
Total assets				524,290
Segment liabilities	42,999	279	–	43,278
Unallocated liabilities				16,164
Total liabilities				59,442
Other segment information:				
Capital expenditure	17,547	–	71	17,618
Depreciation	(1,857)	–	(220)	(2,077)
Impairment loss on goodwill recognised in consolidated income statement	(247,663)	–	–	(247,663)
Fixed assets written off	(991)	–	–	(991)
Bad debts/impairment charges	(33,580)	–	(22)	(33,602)
Reversal of write down of properties held for resale	–	500	–	500

9. Segment Information *(Continued)*

Primary reporting format – business segments (Continued)

	PRC retail and distribution HK$'000	Property investment HK$'000	Corporate and unallocated HK$'000	Consolidated HK$'000
Year ended 31 December 2006				
Turnover	91,619	811	–	92,430
Segment results	50,262	472	–	50,734
Other income				8,883
Unallocated expenses				(14,542)
Profit from operations				45,075
Finance costs				(945)
Profit before tax				44,130
At 31 December 2006				
Segment assets	183,325	9,933	–	193,258
Unallocated assets				116,126
Total assets				309,384
Segment liabilities	23,695	280	–	23,975
Unallocated liabilities				32,026
Total liabilities				56,001
Other segment information:				
Capital expenditure	392	739	416	1,547
Depreciation	(647)	–	(127)	(774)
Fixed assets written off	(135)	–	(27)	(162)
Bad debts/impairment charges	(2,952)	–	–	(2,952)
Reversal of write down of properties held for resale	–	100	–	100

10. Finance Costs

	2007 HK$'000	2006 HK$'000
Interest on bank loans	279	–
Interest on other loans wholly repayable within five years	–	188
Interest on loans from a shareholder wholly repayable within five years	32	680
Interest on loan from a minority shareholder wholly repayable within five years	–	77
	311	945

11. Income Tax Expense

	2007 HK$'000	2006 HK$'000
Hong Kong Profits Tax		
– underprovision in prior years	27	–
PRC tax		
– current	27,281	11,927
– overprovision in prior years	(14,672)	–
	12,636	11,927

No provision for Hong Kong Profits Tax has been made since each individual Hong Kong company sustained losses for taxation purposes.

Taxes on profits assessable in the PRC have been provided at the applicable rates of tax in the PRC in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

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). Fuzhou Landun is located in Fuzhou Economic and Technological Development District (福州經濟技術開發區) and is therefore entitled to a reduced tax rate of 15%. 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. During the current year, an overprovision for the year ended 31 December 2006 of approximately of HK$1,356,000 was reversed.

11. Income Tax Expense *(Continued)*

The subsidiary, Seven Star Shopping (China) Co., Ltd. (formerly known as Shanghai Pei Lian Trading Company Limited) ("Seven Star (China)") operating in the PRC, is currently subject to enterprise income tax calculated at the rate determined by the local tax authority at effective tax rate of 3.3% on the turnover (2006: 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. However, Seven Star (China) received a confirmation which was issued by Shanghai Jia Ding District State Tax Bureau (上海市嘉定區國家税務局) dated 6 March 2008 that the aforesaid tax rate of enterprise income tax was accepted for the years ended 31 December 2004, 2005, 2006 and 2007 and it is also in accordance with State Tax Law (2008) Issue no. 30 Notice of "Enterprise Income Tax Deemed Profit Method" (國税法 (2008) 30號《企業所得税核定征收辦法》) which the applicable tax rate is within the allowed range. The difference of tax liabilities which is calculated by using the aforesaid tax rate and the standard enterprise income tax rate of 33% of approximately HK$13,316,000 for the prior years from 2004 to 2006 was reversed in current year.

During the year, four newly incorporated subsidiaries operating in the PRC, are subject to 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税暫行條例). However, pursuant to notices issued by Beijing Haidian District State Tax Bureau (北京海淀區國家税務局), Beijing Daxing District State Tax Bureau (北京大興區國家税務局) and Shanghai Luwan District Local Tax Bureau (上海盧灣區地方税務局) on 26 March 2007, 2 July 2007, 6 and 7 December 2007 respectively, these subsidiaries are entitled to full exemption from enterprise income tax for the year 2007.

The reconciliation between the income tax expense and the product of (loss)/profit before tax multipled by the Hong Kong Profits Tax rate is as follows:

	2007 **HK$'000**	2006 HK$'000
(Loss)/profit before tax	**(381,903)**	44,130
Tax at Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	**(66,833)**	7,723
Tax effect of income that is not taxable	**(334)**	(1,102)
Tax effect of expenses that are not deductible	**105,167**	2,521
Tax effect of preferential tax rate given by the PRC tax authority	**(1,727)**	(831)
Tax effect of unrecognised temporary differences	**84**	–
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**(11,888)**	3,893
Tax effect of unused tax losses not recognised	**2,581**	13
Tax effect of utilisation of tax losses not previously recognised	**–**	(290)
Tax effect of share of result of a jointly controlled entity	**231**	–
Net overprovision in prior years	**(14,645)**	–
Income tax expense	**12,636**	11,927

11. Income Tax Expense *(Continued)*

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law will be effective from 1 January 2008. The detailed implementation rules and regulations have been issued and the financial impact of the new tax law to the Group is not material.

At the balance sheet date the Group and the Company has unused tax losses of approximately HK$18,419,000 (2006: HK$40,270,000) and HK$3,739,000 (2006: HK$16,363,000) respectively available for offset against future profits. During the year, 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 (2006: HK$664,000) that have not yet been agreed by the Inland Revenue Department.

12. (Loss)/Profit for the Year

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

	2007 HK$'000	2006 HK$'000
Advertising costs	**330,425**	7,725
Allowance for trade receivables (included in other operating expenses)	**20,836**	2,412
Allowance for inventories (included in cost of inventories sold)	**7,573**	–
Allowance for other receivables (included in other operating expenses)	**5,193**	540
Auditor's remuneration	**1,500**	900
Cost of inventories sold	**360,182**	23,607
Depreciation	**2,077**	774
Direct operating expenses that generate rental income	**423**	577
Fixed assets written off	**991**	162
Loss on disposal of fixed assets	**2**	–
Operating lease on land and buildings	**8,049**	1,230
Staff costs (including directors' emoluments) (Note 13)	**36,882**	8,573

13. Staff Costs (Including Directors' Emoluments)

	2007 HK$'000	2006 HK$'000
Wages and salaries	**27,696**	5,843
Equity-settled share-based payments	**8,460**	2,557
Overprovision of unutilised annual leave	**(116)**	(134)
Retirement benefits scheme contributions	**842**	307
	36,882	8,573

14. Directors' and Employees' Emoluments

(a) Directors' emoluments

The emoluments of each director were as follows:

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Inducement fees HK$'000	Other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Compensation for loss of office as director HK$'000	Share-based payments HK$'000	Total HK$'000
Mr. Ni Xinguang	–	960	–	–	–	12	–	–	972
Mr. Wang Zhiming	–	591	–	–	–	12	–	–	603
Mr. Chan Wai Sum	120	–	–	–	–	–	–	–	120
Mr. Ho Wai Ip (i)	89	–	–	–	–	–	–	–	89
Mr. Tang Chi Wing (ii)	31	–	–	–	–	–	–	–	31
Mr. Lu Wei	120	–	–	–	–	–	–	–	120
Total for 2007	360	1,551	–	–	–	24	–	–	1,935

Name of director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Inducement fees HK$'000	Other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Compensation for loss of office as director HK$'000	Share-based payments HK$'000	Total HK$'000
Mr. Ni Xinguang	–	810	–	–	–	12	–	–	822
Mr. Wang Zhiming (iii)	–	52	–	–	–	2	–	–	54
Mr. Ha Shu Tong (iv)	–	44	–	–	–	1	–	–	45
Mr. Ng Chun Chuen, David (v)	–	960	80	–	–	12	–	–	1,052
Mr. Chan Wai Sum	120	–	–	–	–	–	–	–	120
Mr. Tang Chi Wing	120	–	–	–	–	–	–	–	120
Mr. Lu Wei	120	–	–	–	–	–	–	–	120
Total for 2006	360	1,866	80	–	–	27	–	–	2,333

(i) Appointed on 3 April 2007.

(ii) Resigned on 3 April 2007.

(iii) Appointed on 18 November 2006.

(iv) Resigned on 17 January 2006.

(v) Resigned on 30 December 2006.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2006 and 2007.

14. Directors' and Employees' Emoluments *(Continued)*

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included 2 (2006: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2006: 3) individuals are set out below:

	2007 HK$'000	2006 HK$'000
Basic salaries, allowances and benefits in kind	**1,411**	185
Equity-settled share-based payments	**8,364**	2,509
Retirement benefit scheme contributions	**13**	–
	9,788	2,694

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
HK$Nil to HK$1,000,000	**–**	3
HK$1,000,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$4,000,000	**1**	–
Over HK$4,000,000	**1**	–

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.

15. (Loss)/Profit for the Year attributable to Equity Holders of the Company

The (loss)/profit for the year attributable to equity holders of the Company included a loss of approximately HK$522,537,000 (2006: HK$12,554,000) which has been dealt with in the financial statements of the Company.

16. Dividend

The Directors do not recommend the payment of any dividend for the year ended 31 December 2007 (2006: HK$Nil).

17. (Loss)/Earnings Per Share

Basic (loss)/earnings per share

The calculation of basic loss (2006: earnings) per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of approximately HK$385,289,000 (2006: profit attributable to equity holders of the Company of approximately HK$29,556,000) and the weighted average number of ordinary shares of 6,229,749,000 (2006: 4,252,328,000) in issue during the year.

Diluted (loss)/earnings per share

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2007.

For the year ended 31 December 2006, the calculation of diluted earnings per share attributable to equity holders of the Company was 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.

18. 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 2006	339	203	1,239	992	34	304	3,111
Acquisition of a subsidiary	–	–	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 and 1 January 2007	–	465	1,251	1,610	37	346	3,709
Additions	–	6,277	6,259	3,362	11	1,709	17,618
Disposal/write off	–	–	(100)	(1,654)	–	–	(1,754)
Exchange differences	–	5	70	44	3	24	146
At 31 December 2007	–	6,747	7,480	3,362	51	2,079	19,719
Accumulated depreciation and impairment							
At 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 and 1 January 2007	–	175	298	350	7	87	917
Charge for the year	–	486	818	492	9	272	2,077
Disposal/write off	–	–	(40)	(720)	–	–	(760)
Exchange differences	–	16	43	15	2	15	91
At 31 December 2007	–	677	1,119	137	18	374	2,325
Carrying amount							
At 31 December 2007	–	6,070	6,361	3,225	33	1,705	17,394
At 31 December 2006	–	290	953	1,260	30	259	2,792

18. Fixed Assets *(Continued)*

	The Company		
	Leasehold improvements HK$'000	**Office equipment HK$'000**	**Total HK$'000**
Cost			
At 1 January 2006	128	132	260
Additions	387	29	416
Write off	(128)	–	(128)
At 31 December 2006 and 1 January 2007	387	161	548
Additions	–	71	71
At 31 December 2007	387	232	619
Accumulated depreciation and impairment			
At 1 January 2006	88	93	181
Charge for the year	110	17	127
Write off	(101)	–	(101)
At 31 December 2006 and 1 January 2007	97	110	207
Charge for the year	193	27	220
At 31 December 2007	290	137	427
Carrying amount			
At 31 December 2007	97	95	192
At 31 December 2006	290	51	341

19. Goodwill

	The Group HK$'000
Cost	
At 1 January 2006 and 31 December 2006	28,422
Arising on acquisition of a subsidiary (Note)	219,241
At 31 December 2007	247,663
Accumulated impairment losses	
At 1 January 2006 and 31 December 2006	–
Impairment loss recognised in the current year	247,663
At 31 December 2007	247,663
Carrying amount	
At 31 December 2007	–
At 31 December 2006	28,422

Note: During the year, the increase in goodwill of approximately HK$219,241,000 represented deferred consideration paid for the acquisition of Top Pro Group.

The Company acquired Top Pro Group in 2005. In accordance with the sales and purchase agreement for the aforesaid acquisition, the consideration comprised a cash consideration of HK$25,000,000 ("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 with the Cash Consideration being 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 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$50,000,000.

The aggregate value of the Consideration Shares 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 shares.

In accordance with the terms as stipulated in the agreement relating to the aforesaid acquisition, Deferred Cash Consideration of HK$50,000,000 was paid and Consideration Shares of approximately 1,471,659,000 shares were issued in 2007. (Note 31(e)).

19. Goodwill *(Continued)*

The Group determines whatever the goodwill generated from the acquisition of the Top Pro Group at least on annual basis. The recoverable amount of the cash-generating unit ("CGU") of retail and distribution of consumer products and the provision of media management services is determined from value in use calculations. The key assumptions for the value in use calculations included turnover, budgeted gross margin and overheads during the period. Management estimates discount 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 turnover, gross margin and overhead assumptions 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 for present value is 18% and the terminal value of cash flows beyond the five-year period are determined using a perpetuity growth rate of 3%.

At 31 December 2007, the recoverable amount of the goodwill was insignificant and full impairment loss was made for the year.

20. Interests in Subsidiaries

	The Company	
	2007	2006
	HK$'000	HK$'000
Unlisted investments, at cost	**257,897**	38,656
Loans to subsidiaries	**1,155,096**	836,345
	1,412,993	875,001
Less: impairment losses	**(1,332,074)**	(847,914)
	80,919	27,087

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.

20. 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	Indirect	
Cheong Wa Limited ("Cheong Wa")	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
Beijing Seven Star Lianqiang International Trading Co., Ltd.^,# 北京七星聯強國際商貿有限公司	The PRC, limited liability company	RMB10,000,000	–	85%	Retail and distribution of consumer products through TV channels
Beijing Northern Seven Star Technology Co., Ltd.^ 北京北方七星科技有限公司 ("Beijing Northern Seven Star")	The PRC, limited liability company	RMB2,000,000	–	90%	Retail and wholesale of educational appliance
Fuzhou Landun Science of Life Co., Ltd	The PRC, wholly-foreign owned enterprise with limited liability	HK$40,000,000	–	70%	Distribution of consumer products and became inactive
Fuzhou Shenxing Network Information Consultant Service Co., Ltd.^,# 福州盛星網絡信息諮詢服務有限公司	The PRC, limited liability company	RMB500,000	–	100%	Provision of call centre service to group company

20. 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	Indirect	
Seven Star Shopping (China) Co., Ltd.^ 七星購物（中國）有限公司 ("Seven Star (China)") (Formerly known as Shanghai Pei Lian Trading Company Limited 上海佩蓮商貿有限公司)	The PRC, wholly-foreign owned enterprise with limited liability	RMB360,000,000*	–	100%	Investment holding, retail and wholesale of consumer products, and provision of media management services
Seven Star Shopping Limited (Formerly known as Smartest Limited)	Hong Kong, limited liability company	1 ordinary share of HK$1	–	100%	Investment holding
Shanghai Seven Star Electronic Commence Co., Ltd.^,# 上海七星電子商務有限公司	The PRC, limited liability company	RMB1,000,000	–	100%	Wholesale of mobile handsets
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 through TV channels
Shanghai Seven Star Marketing Co., Ltd.^,# 上海七星營銷有限公司	The PRC, limited liability company	RMB1,000,000	–	100%	Retail and distribution of consumer products in Shanghai

^ For identification purposes only

* The registered capital of Seven Star (China) is RMB360,000,000 and RMB294,230,000 has been paid up as at 31 December 2007.

Directly held by Seven Star (Shanghai)

Note: Although the Group does 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.

21. Investment in a Jointly Controlled Entity

	The Group 2007 HK$'000	2006 HK$'000
Unlisted investment:		
Share of net assets	**2,081**	–

Details of the jointly controlled entity at 31 December 2007 are as follows:

Name	Place of incorporation/ registration and operation and kind of legal entity	Registered capital	Percentage of ownership interest	Principal activities
			Indirect	
Shanghai Xishiduo Hanying Kitchen Ware Ltd.^ 上海喜世多漢英廚具有限公司 ("Shanghai Xishiduo")	The PRC, Sino-foreign equity joint venture with limited liability	RMB4,200,000	76%	Retail and wholesale of kitchen wares

^ For identification purposes only

Note: The Group has over 50% equity interest but only has joint control in the financial and operating policies of Shanghai Xishiduo. Therefore it is treated as a jointly controlled entity.

The following amounts are the Group's share of the jointly controlled entity included in the Group's financial statements that are accounted for by the equity method of accounting.

	2007 HK$'000	2006 HK$'000
At 31 December		
Current assets	**7,854**	–
Non-current assets	**209**	–
Current liabilities	**(5,982)**	–
Net assets	**2,081**	–
Year ended 31 December		
Turnover	**3,155**	–
Expenses	**4,475**	–

22. Available-for-sale Financial Assets

	The Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**150**	–
Acquisition of a subsidiary	**–**	150
Exchange differences	**10**	–
At 31 December	**160**	150

Available-for-sale financial assets include the following:

	The Group	
	2007	2006
	HK$'000	HK$'000
Unlisted equity securities, at cost	**160**	150

Unlisted equity securities with carrying amount of HK$160,000 (2006: HK$150,000) was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

23. Properties Held for Resale

	The Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**9,800**	9,700
Reversal of write down	**500**	100
At 31 December	**10,300**	9,800

The Hong Kong property market is continuously improving and a reversal of write down of HK$500,000 (2006: HK$100,000) was made for the year.

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

	The Group	
	2007	2006
	HK$'000	HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**10,300**	9,800

(a) At 31 December 2007, the carrying value of properties held for resale that was carried at net realisable value amounted to HK$10,300,000 (2006: HK$9,800,000).

(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. The aforesaid pledge was released in 2007.

24. Inventories

	The Group	
	2007	2006
	HK$'000	HK$'000
Finished goods	**38,652**	2,199

25. Trade and Bills Receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables (Note)	**85,641**	66,673	**-**	22
Bills receivables	**2,781**	–	**-**	–
	88,422	66,673	**-**	22

Note:

The Group's turnover included the invoiced amounts of products sold or services rendered and rental income. The payment terms of the sales to retail customers in the PRC retail and distribution segment are on cash-on-delivery basis to the logistic providers who received on the Group's behalf upon delivery of goods and reimburse the fund so collected within 15 to 60 days. The payment terms of the sales to distributors in the PRC retail and distribution segment are normally from 30 to 180 days. The payment terms of media management services provided are normally at 180 days. The rental income is paid in accordance with the terms of the respective agreements, which is normally due on the first day of the month.

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
0 – 90 days	**66,124**	64,990	**-**	–
91 – 180 days	**18,836**	1,374	**-**	–
181 – 365 days	**681**	287	**-**	–
Over 365 days	**-**	22	**-**	22
	85,641	66,673	**-**	22

For the year ended 31 December 2007, an allowance was made for estimated irrecoverable trade receivables of approximately HK$20,836,000 (2006: HK$2,412,000). The allowance has been included in other operating expenses in the consolidated income statement.

25. Trade and Bills Receivables *(Continued)*

As at 31 December 2007, trade receivables of HK$12,305,000 (2006: HK$2,408,000) were overdue but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Up to 3 months	**11,159**	2,099	**-**	–
3 to 6 months	**634**	–	**-**	–
Over 6 months	**512**	309	**-**	22
	12,305	2,408	**-**	22

Subsequent to 31 December 2007, the Group received cash settlement amount of about HK$3.6 million for balance overdue up to 3 months, about HK$0.2 million for balance overdue from 3 to 6 months and about HK$0.4 million for balance overdue for 6 months. The Group also applied a net off of deposit received of about HK$2.1 million for settlement of overdue balance of up to 3 months. For the remaining balance overdue, these relate to a number of independent customers that have good track record with the Group. Base on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral over these balances.

26. Other Receivables, Prepayments and Deposits

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other receivables	**19,353**	11,877	**-**	3
Prepayments and deposits	**72,399**	39,469	**263**	263
Loans to subsidiaries (Note (a))	**-**	–	**-**	38,000
Due from a subsidiary (Note (b))	**-**	–	**-**	25,499
Due from a related company (Note (c))	**-**	6,595	**-**	–
	91,752	57,941	**263**	63,765

Notes:

(a) The loans to subsidiaries to the extent of HK$35,000,000 (2006: HK$35,000,000) is unsecured, interest bearing at 12% per annum and is repayable on demand. Subsequent to the balance sheet date, the loan of HK$30,000,000 was capitalised as total consideration for 6,000 rights shares of Cheong Wa (Note 40). However, owing to the recoverability of these loans were in doubt and an allowance of HK$35,000,000 (2006: HK$Nil) was made for the year. The remaining balance of HK$3,000,000 as at 31 December 2006 was fully repaid during the year.

(b) The amount due was unsecured, interest free and had no fixed repayment terms.

26. Other Receivables, Prepayments and Deposits *(Continued)*

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

Name	Name of directors having beneficial interest	The Group Balance at 31 December 2007 HK$'000	Balance at 1 January 2007 HK$'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 was fully repaid during the year.

27. Bank and Cash Balances

At 31 December 2007, the bank and cash balances of the Group denominated in Renminbi ("RMB") and kept in the PRC amounted to HK$44,708,000 (approximately RMB41,861,000) (2006: HK$22,897,000 (approximately RMB22,897,000)). 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.

28. Trade Payables

The aging analysis of trade payables, based on date of receipt of goods, is as follows:

	The Group		The Company	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
0 – 90 days	**6,756**	13,178	**-**	–
91 – 180 days	**6,156**	–	**-**	–
181 – 365 days	**10,220**	439	**-**	–
Over 365 days	**631**	99	**-**	–
	23,763	13,716	**-**	–

29. Other Payables and Accruals

	The Group		The Company	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
Other payables and accruals	**19,377**	14,867	**2,878**	4,742
Deposits received	**3,033**	372	**-**	–
Due to directors (Note)	**1,039**	56	**-**	25
	23,449	15,295	**2,878**	4,767

Note: The amounts due are unsecured, interest free and have no fixed repayment terms.

30. Loans from a shareholder

The loans from a shareholder were fully repaid during the year.

31. Share Capital

	Note	No. of shares '000	HK$'000
Authorised:			
Ordinary shares of HK$0.1 (2006: HK$0.1) each			
At 31 December 2006 and 2007		16,000,000	1,600,000
Issued and fully paid:			
Ordinary shares of HK$0.1 (2006: HK$0.1) each			
At 1 January 2006		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 and 1 January 2007		5,063,242	506,324
Issue of shares on placements	(c)	575,000	57,500
Issue of shares on share option scheme	(d)	214,380	21,438
Issue of shares for acquisition of Top Pro Group	(e)	1,471,659	147,166
		2,261,039	226,104
At 31 December 2007		7,324,281	732,428

Notes:

(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 were 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.

(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.

31. Share Capital *(Continued)*

(c) On 12 February 2007, Group First entered into a placing agreement with a placing agent. 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 subscribed 575,000,000 shares of the Company at a price of approximately HK$0.659 per share. The placing and subscription was completed on 26 February 2007. The premium on the issue of shares, amounting to approximately HK$321,473,000, net of share issue expenses of HK$311,000, was credited to the Company's share premium account.

(d) During the year ended 31 December 2007, 214,380,000 share options were exercised. The premium on the issue of shares, amounting to approximately HK$11,648,000, net of share issue expenses of HK$4,000, was credited to the Company's share premium account. Details of the exercise of share options are as follows:

Date of exercise of share options	**Number of shares issued '000**	**Exercise price HK$**
7 February 2007	11,000	0.180
26 April 2007	6,320	0.157
26 April 2007	70	0.722
16 May 2007	70,000	0.180
14 June 2007	15,000	0.180
14 August 2007	6,330	0.157
14 August 2007	74,000	0.113
3 December 2007	19,000	0.180
27 December 2007	12,660	0.157
	214,380	

(e) On 10 August 2007, Consideration Shares of approximately 1,471,659,000 shares were issued at a price of HK$0.115 each for the acquisition of Top Pro Group (Note 19). The premium on the issue of shares, amounting to approximately HK$22,075,000, net of share issue expenses of HK$30,000, was credited to the Company's share premium account.

32. Share Options

Equity-settled share option scheme

On 28 May 2004, the shareholders of the Company approved the adoption of a new share option scheme (the "2004 Share Option Scheme"). The 2004 Share Option Scheme will expire on 27 May 2014.

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.

At 31 December 2007, the following options to subscribe for shares were outstanding under the 2004 Share Option Scheme:

	Date of grant	**Exercise price per share HK$**	**Number of outstanding options**	**Exercise period**
Employees	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
	8 March 2007	0.722	5,000,000	8 March 2007 – 7 March 2015
	8 March 2007	0.722	5,000,000	8 March 2008 – 7 March 2015
	8 March 2007	0.722	5,000,000	8 March 2009 – 7 March 2015
	8 March 2007	0.722	5,000,000	8 March 2010 – 7 March 2015
	30 April 2007	1.230	240,000	30 April 2008 – 29 April 2015
Consultant	13 June 2006	0.180	15,000,000	13 December 2006 – 12 June 2008
			60,560,000	

	2007		2006	
	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	**0.156**	**254,630,000**	0.113	144,000,000
Granted during the year	**0.725**	**40,310,000**	0.174	180,630,000
Exercised during the year	**0.154**	**(214,380,000)**	0.113	(70,000,000)
Lapsed during the year	**0.722**	**(20,000,000)**	–	–
At 31 December	**0.354**	**60,560,000**	0.156	254,630,000

There were no option cancelled in 2006 and 2007.

32. Share Options *(Continued)*

2004 Share Option Scheme (Continued)

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.80 (2006: HK$0.155). The options outstanding at the end of the year have a weighted average remaining contractual life of 7.01 years (2006: 3.26 years) and the exercise prices range from HK$0.157 to HK$1.23 (2006: HK$0.113 to HK$0.180). In 2007, 40,070,000 and 240,000 share options were granted on 8 March and 30 April 2007 respectively. The estimated fair values of the options on those dates are approximately HK$16,121,000 and HK$114,000 respectively. 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 approximately 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			
	8 March 2007	**30 April 2007**	13 June 2006	27 December 2006
Weighted average share price	**HK$0.72**	**HK$1.23**	HK$0.150	HK$0.157
Weighted average exercise price	**HK$0.722**	**HK$1.230**	HK$0.180	HK$0.157
Expected volatility	**76.78 – 98.48%**	**97.89%**	84.94%	71.30%
Expected life	**1 – 4 years**	**2 years**	1 year	2 years
Risk free rate	**3.951 – 4.068%**	**3.941%**	4.42%	3.52%
Expected dividend yield	**0%**	**0%**	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.

33. 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 2006		64,395	5,778	726,699	134	–	797,006
Issue of shares	31	75,375	–	–	–	–	75,375
Share issue expenses	31	(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
At 1 January 2007		140,853	8,545	726,699	775	2,589	879,461
Issue of shares	31	355,196	–	–	–	–	355,196
Share issue expenses	31	(345)	–	–	–	–	(345)
Recognition of share–based payments		–	8,460	–	–	–	8,460
Exercise of share options		9,226	(9,226)	–	–	–	–
Translation differences							
– Subsidiaries		–	–	–	14,753	–	14,753
– Jointly controlled entity		–	–	–	(8)	–	(8)
Transfer from/(to) accumulated losses		–	(1,401)	–	–	3,273	1,872
At 31 December 2007		504,930	6,378	726,699	15,520	5,862	1,259,389

The Company

	Note	Share premium HK$'000	Share-based payments reserve HK$'000	Special capital reserve HK$'000	Total HK$'000
At 1 January 2006		64,395	5,778	726,699	796,872
Issue of shares	31	75,375	–	–	75,375
Share issue expenses	31	(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
At 1 January 2007		140,853	8,545	726,699	876,097
Issue of shares	31	355,196	–	–	355,196
Share issue expenses	31	(345)	–	–	(345)
Recognition of share–based payments		–	8,460	–	8,460
Exercise of share options		9,226	(9,226)	–	–
Transfer to accumulated losses		–	(1,401)	–	(1,401)
At 31 December 2007		504,930	6,378	726,699	1,238,007

33. 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(s) 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(d)(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.

34. Notes to the Consolidated Cash Flow Statement

Major non-cash transaction

During the year, Consideration Shares of approximately 1,471,659,000 shares of HK$0.115 each were issued to settle part of Deferred Consideration for the acquisition of Top Pro Group (Notes 19 and 31(e)).

35. Pending Litigation

(a) 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.

(b) Beijing Northern Seven Star is involved in a civil litigation in Beijing, the PRC. On 4 January 2008, the Group obtained judgement against the defendants who were the ex-general manager and accountant of Beijing Northern Seven Star. On 23 January 2008, one of the defendants filed appeal with the 1st Intermediary People's Court in Beiing. Beijing Northern Seven Star intends to contest the appeal.

The Company is currently seeking legal advice on the litigations mentioned above. The directors believe that appropriate provisions have been made in the financial statements of the Group and the Group has valid claim/defence regarding the above litigations and consider that these outstanding litigations would not have material impact on the Group.

36. Capital Commitments

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

	2007 HK$'000	2006 HK$'000
Contracted but not provided for:		
Fixed assets	**2,008**	–
Capital contribution to a jointly controlled entity (Note)	**7,830**	3,192

Note: The Group has 76% interest in a jointly controlled entity named Shanghai Xishiduo which was incorporated in the PRC on 19 January 2007 with registered capital of RMB4,200,000. On 29 October 2007, the registered capital of Shanghai Xisiduo was approved to increase by RMB15,800,000 to RMB20,000,000 and the Group's interest will be increased to 92.8% subject to the total fulfillment of its further investment obligation to the extent of approximately HK$16,324,000. At 31 December 2007, the Group has paid up to the extent of approximately HK$8,494,000 as included in other receivables, prepayments and deposits.

37. Operating Lease Commitments

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		**The Company**	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Within one year	**3,777**	1,382	**222**	593
In the second to fifth years inclusive	**11,026**	281	**-**	219
After five years	**46,708**	–	**-**	–
	61,511	1,663	**222**	812

Operating lease payments represent rentals payable by the Group for certain of its office and warehouses. Leases are negotiated for terms ranging from one to twenty years and rentals are fixed over the lease terms and do not include contingent rentals.

38. Operating Lease Arrangements

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,837**	914	**–**	–
In the second to fifth years inclusive	**7,431**	1,934	**–**	–
	10,268	2,848	**–**	–

39. 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:

	2007	2006
	HK$'000	HK$'000
Interests paid to Group First (Note (i))	**32**	680
Other income received from a jointly controlled entity	**10**	–
Purchases from:		
– 上海力星生化科技有限公司(「上海力星」)(Note (ii))	**–**	61
– related companies (Note (iv))	**78**	–
– a jointly controlled entity	**2,581**	–
Sales to 上海力星 (Note (ii))	**273**	1,311
Rental paid to a related company (Note (iii))	**125**	292

Notes :

(i) Mr. Ni Xinguang ("Mr. Ni") and Mr. Wang Zhiming ("Mr. Wang"), the executive directors of the Company, have 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 until 31 January 2007.

(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 management contract was terminated on 31 March 2007.

(iv) Mr. Ni and Mr. Wang have respectively 60% and 40% equity interest in the ultimate parent of these related companies.

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

39. Related Party Transactions *(Continued)*

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

	2007 HK$'000	2006 HK$'000
Trade receivables from a related company (Note (i))	**–**	554
Prepayments to:		
– a jointly controlled entity (Note (ii))	**5,018**	–
– related companies (Note (iii))	**38**	1,676
Trade payables to:		
– a jointly controlled entity (Note (i))	**(2,067)**	–
– a related company (Note (i))	**(443)**	(19)
Other payables to related companies (Note (iv))	**(1,722)**	(3,272)

Notes:

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

(ii) The prepayments are for purchases of merchandise in 2008.

(iii) The prepayments included advertising fee prepaid through and deposits paid for purchases to a related company.

(iv) 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.

40. Events after the Balance Sheet Date

On 18 February 2008, Cheong Wa, a 70% owned subsidiary of the Company, proposed to raise approximately HK$30,000,000 by way of a rights issue (the "Rights Issue") of a maximum of 6,000 rights shares at a price of HK$5,000 per rights share (the "Rights Shares") payable in full on acceptance. Prior to 12 March 2008, World Sea Limited which has 30% interest in Cheong Wa has replied that it will not accept the allotment of 1,800 Rights Shares under provisional allotment of the Rights Issue. On 12 March 2008, the Company accepted the allotment of 4,200 Rights Shares under provisional allotment of the Rights Issue and has undertaken to Cheong Wa that it will accept the excess 1,800 Rights Shares to be allotted to the Company. The total consideration to be paid by the Company for the 6,000 Rights Shares will be satisfied by way of capitalisation of part of the shareholder's loan (the "Shareholder's Loan") of HK$30,000,000. The principal of the Shareholder's Loan is HK$35,000,000 and is unsecured, interest bearing at 12% per annum and is repayable on demand (Note 26(a)). On 25 March 2008, the 6,000 Rights Shares are issued and allotted to the Company and the interest of the Company in Cheong Wa is increased from 70% to approximately 99.51%. Details please refer to the Company's announcement dated 12 March 2008.

41. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 April 2008.

	2007 **HK$'000**	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
Results					
Turnover	**680,228**	92,430	23,090	30,977	9,657
Profit/(loss) attributable to:					
– Equity holders	**(385,289)**	29,556	(16,572)	132,974	(36,162)
– Minority interests	**(9,250)**	2,647	(753)	847	–
Assets and liabilities					
Total assets	**524,290**	309,384	67,289	35,685	40,289
Total liabilities	**(59,442)**	(56,001)	(65,528)	(22,527)	(244,580)
Total equity	**464,848**	253,383	1,761	13,158	(204,291)

Properties held for resale

Location	Lease Term	Existing use
Unit A26 on Ground Floor and Unit A on 2/F, Smiling Plaza, Hung Yu Mansion, Nos. 155-181 Castle Peak Road, Nos. 162-188 Un Chau Street, Nos. 143-147 Camp Street and Nos. 162-164 Pratas Street, Sham Shui Po, Kowloon	Medium term lease	On lease