A N N U A L   R E P O R T   **2 0 0 8**

7-STAR 七星购物

CHINA SEVEN STAR SHOPPING LIMITED

(Incorporated in Hong Kong with limited liability)

Stock Code : 245

CONTENTS

CORPORATE INFORMATION

Board of Directors

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

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

Audit Committee

Ho Wai Ip *(Chairman)*
Chan Wai Sum
Lu Wei

Remuneration Committee

Chan Wai Sum *(Chairman)*
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

Boase Cohen & Collins
ONC Lawyers
Trend Associates

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

Registrar and Transfer Office

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

Website

www.sevenstar.hk

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

PRC consumer goods market analysis

Despite the economic slowdown brought by the global financial turmoil in the fourth quarter of 2008, the rapid economic growth in the first three quarters of the year has encouraged the PRC economy to grow at a relatively fast pace for its full year at 9%, with annual per capita disposable income of urban residents up by 8.4%. The overall retail sales of consumer goods climbed even quicker by a substantial 21.6% year-on-year, 4.8 percentage points faster than the previous year. Nevertheless, the worsening global economy since the beginning of 2009 posted significant negative impacts on the overall economic development worldwide. In combat, the PRC Government launched a series of policies to stimulate domestic demand and spending, aiming at sustaining a steady economic growth for the year 2009.

PRC television shopping market analysis and prospect

Television shopping is a new modern consumption form, integrating shopping platforms of television, newspapers and magazines, Internet and telephones. Meanwhile, television shopping has been an important sales channel gradually adopted by global and domestic renowned corporations with increasing efforts. Despite a RMB10 billion market value of the PRC television shopping industry in 2007 (according to the statistics of relevant organizations), factors like excessive numbers of monitory organizations, lack of self-discipline, and relatively low entry barriers have obstructed the development of the sector. Television shopping sales only accounted for 0.1% of the retail sales of the entire country, compared to that of approximately 5% in Korea and 8% in the US, demonstrating the immense potential of television shopping industry in the PRC.

Two industrial standards are planned to be launched in 2009 to establish positive industry image and to create a healthy and fair environment for all players, after the integrity crisis of the industry started a few years back. Under the supervision of The State Administration of Radio Film and Television, "The PRC TV Shopping Program Standard" is understood to classify television shopping as program, and be distinguished from advertisements. With the content of shopping program, including product quality, guest speakers and scripts of anchors censored by television stations, this program standard aims to enhance the overall industry integrity. And in an attempt to advance the quality of the industry, "The PRC TV Shopping Industry Standard" sets entry criteria to various related operators and platforms, including television shopping channels, television shopping operators, manufacturers, program, Internet and call centers. We believe that the industry potential would be unveiled subsequent to the two upcoming industry standards.

The shortened sales chain as promoted by television shopping gained popularity among manufacturers, causing the formation of new cooperation models combining television station, television shopping operators, manufacturers and retail terminals. In this regard, the Group recently established joint venture arrangement with Fuzhou Television Station, as well as jointed hands with television shopping operators in Guangdong, Yunnan, Zhejiang, Guangxi and Jiangxi. Cooperation contracts were also signed between renowned supermarkets and the Group to set up television shopping counters, contributing towards a solid foundation for the Group's development in a more standardized industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During 2008, the Group undertook a business model reform to shift business focus from product-oriented to service-oriented, that is, to diversify the product range from high concentration in a particular product type to a rich universe of choices. With customer needs as first priority, the Group developed a comprehensive sales platform integrating different channels that includes television, print media, online and retail to provide a more diverse and convenient shopping model, offering abundant product choices to customers. As a pioneer and a leader in the PRC television shopping industry, the Group continues to enhance its brand and customer confidence in products, programs and services. Meanwhile, the Group also strengthened precision in management to enhance overall operational efficiency.

Ground on its efforts in the first half of the year, the Group further deepened the business reform in the second half. Since the positive impacts of the new business model have yet to be fully realized, the Group's turnover for the year ended 31 December 2008 declined by 56% against 2007 to HK$298 million from HK$680 million and adjustment in market strategy resulted in a decrease of gross margin to 40% (2007: 46%). Loss attributable to equity holders of the Company amounted to HK$166 million (2007 loss attributable to equity holders of the Company: HK$385 million). Basic loss per share amounted to HK2.26 cents (2007: Basic loss per share HK6.18 cents).

Sales results and performance review

As the optimized business model is yet to demonstrate its impact, keen market competition and sales strategy changes during the year caused the Group to register lower retail revenue at HK$297 million (2007: HK$659 million) and lower gross margin for merchandise sales of 41% (2007: 45%).

To date, the Group has successfully established a comprehensive shopping platform comprising television shopping, interactive online video shopping, print media shopping and retail distribution, which significantly enhanced its market influence. On the television-shopping front, the Group has adopted a more flexible approach on its airtime deployment, utilizing a matrix of provincial and local television stations to appeal to targeted consumer groups. Forming alliances with local television shopping companies in various cities and provinces for synergies also helped mitigating the impact of rising media costs on operation while at the same time disperse business risks. Capitalizing on the brand and supplier resources built up over the years, the Group has established four major product zones, namely Star Phone Fang, Diamond Fang, Brand Watch City and Star Home Fang, to sell digital products, jewelry, well-known brand watches and cosmetic products, leather bags and accessories, offering high quality product choices to consumers. As for the newly established interactive online shopping service, personalized shopping experience are further enhanced by allowing consumers to enquire sales staff directly features of our products.

To further enhance its service enterprise image, the Group has stepped up construction of its customer service platform, incorporating a 24-hour call center, online video shopping guide, nation-wide delivery service and multiple payment methods, with the aim of creating a more convenient, rapid and secured shopping environment to customers. The Group believes that to operate a brand-based business is a strategy critical for healthy growth of a television shopping enterprise and will continuously sought to strengthen the brand image of the "China Seven Star Shopping Platform"; in addition to continuous improvement in various aspects of operation including media purchase, product selection, program shooting and media scheduling.

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook and Strategy

Although the global economy is in recession, the PRC economy continues to enjoy strong fundamentals for its growth prospects with deepened urbanization and industrialization and both rising demand and supply. In addition, the government has introduced in-time a series of favorable policies, including 10 major measures to stimulate demand and encourage investment and 10 programs to adjust industry structure and invigorate different sectors. These efforts are expected to help the economy maintain steady growth.

With the establishment and enhancement of the new business model, the Group will reap greater synergies and economies of scale. The Group will take an optimistic yet cautious approach in tackling changes in the market and take reference of customer needs in optimizing its shopping platform, allocating its resources effectively, enriching its product offerings and enhancing cost effectiveness. It will strive to seize every opportunity arising in the developing PRC economy and more disciplined television industry.

Financial Resources and Liquidity

As at 31 December 2008, the Group had financial assets (excluding receivables) amounted to approximately HK$250,184,000 (2007: HK$275,529,000) of which approximately HK$217,113,000 (2007: HK$275,529,000) are liquid cash deposits.

The Directors are of the opinion that there is sufficient cash resources for the Group to meet its financial obligation and business requirements.

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 or Renminbi which is the functional currency of the Group entities. 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 had 580 employees (including Directors) as at 31 December 2008 (2007: 1,204). 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.

Gearing Ratio

As at 31 December 2008, the Group had a total assets of approximately HK$371,349,000 (2007: HK$524,290,000) and no borrowings (2007: HK$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Segment Information

The details of segment information are set out in note 9 to the financial statements.

Capital Structure

As at 31 December 2008, the Company's issued ordinary share capital was HK$732,428,084 divided into 7,324,280,839 shares of HK$0.10 each (at 31 December 2007: HK$732,428,084 divided into 7,324,280,839 shares of HK$0.10 each).

Charges on Group's Assets

Save for the details of pledged bank deposits as set out in note 29 to the financial statements, as at 31 December 2008, there were no charges on the Group's assets.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2008.

Capital Commitments

The Group did not have any significant capital commitments as at 31 December 2008.

Material Acquisitions and Disposals of Subsidiaries and Associates

Save for the details of the acquisition of interests in Shanghai Xishiduo Hanying Kitchen Ware Ltd. and Shanghai Seven Star Internet Shopping Co. Ltd. as set out in note 35 to the financial statements, the Group did not have any material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2008.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report and audited financial statements for the year ended 31 December 2008.

Principal Activities

The Group is principally engaged in the retail and distribution of consumer products 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 2008 are set out in note 21 to the financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 26 of this report.

The state of the Group's and the Company's affairs at 31 December 2008 is set out in the consolidated balance sheet and balance sheet on pages 27 and 28 of this report.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2008 (2007: HK$Nil).

Annual General Meeting

The 2009 AGM will be held on Friday, 5 June 2009. Shareholders should refer to details regarding the 2009 AGM in the circular of the Company of 30 April 2009 and the notice of meeting and form of proxy accompanying thereto.

Closure of Register of Members

The Register of Members of the Company will be closed from Wednesday, 3 June 2009 to Friday, 5 June 2009, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming annual general meeting, all transfers of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 2 June 2009.

Fixed Assets

Details of movements in fixed assets of the Group during the year are set out in note 18 to the financial statements.

REPORT OF THE DIRECTORS

Share Capital

Details of the movements in share capital are set out in note 32 to the financial statements.

Reserves

Details of the movements in reserves during the year are set out in note 34 to the financial statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2008, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK$Nil (2007: HK$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

There were no purchase, sale or redemption of the Company's share by the Company or any of its subsidiaries 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 77.

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

In accordance with article 116 of the Articles, Mr. Wang Zhiming and Mr. Chan Wai Sum will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

Directors' Profiles

Directors' profiles are set out on pages 21 to 23 of this report.

Independence Confirmation

The Company has received, from each of the independent non-executive Directors, namely Mr. Chan Wai Sum, Mr. Ho Wai Ip and Mr. Lu Wei, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all of the independent non-executive Directors are independent.

Directors' Service Contracts

For the executive Directors, Mr. Ni Xinguang has entered into a new service contract with the Company for a period of two years commencing 1 April 2008 which could be terminated by one month's prior written notice. Mr. Wang Zhiming, as an executive Director, and the other independent non-executive Directors except for Mr. Ho Wai Ip have not entered into any written service contract with the Company and they are not appointed for specific term. Mr. Ho Wai Ip has entered into an appointment letter with the Company without specific term of service. All Directors 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' Interest in Shares

As at 31 December 2008, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

1. *Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations*

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

REPORT OF THE DIRECTORS

Notes:

(a) 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.

(b) The percentage was calculated based on the total number of 7,324,280,839 ordinary shares of the Company in issue as at 31 December 2008.

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executive of the Company had any interest in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

2. Aggregate short position in the shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2008, none of the Directors or chief executive of the Company, had any short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

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	Numer of option shares held as at 01/01/2008	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 reclassified during the year	Number of option shares held as at 31/12/2008	Exercise price HK$	Exercise period
Employees	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	5,000,000	–	–	–	–	5,000,000	0.722	08/03/2007-07/03/2015
	08/03/2007	5,000,000	–	–	–	–	5,000,000	0.722	08/03/2008-07/03/2015
	08/03/2007	5,000,000	–	–	–	–	5,000,000	0.722	08/03/2009-07/03/2015
	08/03/2007	5,000,000	–	–	–	–	5,000,000	0.722	08/03/2010-07/03/2015
	30/04/2007	240,000	–	–	–	(240,000)	–	1.230	30/04/2008-29/04/2015
Consultants	13/06/2006	15,000,000	–	–	(15,000,000) (Note)	–	–	0.180	13/12/2006-12/06/2008
	30/04/2007	–	–	–	–	240,000	240,000	1.230	30/04/2008-29/04/2015
	29/04/2008	–	3,490,000	–	–	–	3,490,000	0.143	29/04/2009-28/04/2016
		60,560,000	3,490,000	–	(15,000,000)	–	49,050,000		

Note: 15,000,000 share options lapsed during the year due to expiration of share options.

Further details of share options were stipulated in note 33 to the financial statements.

Apart from the aforesaid, at no time during the year ended 31 December 2008 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 40 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.

Emoluments of Directors and Five Highest Paid Individuals

Details of the emoluments of the Directors of the Company and the highest paid individuals of the Group are set out in note 14 to the financial statements.

Substantial Shareholders' Interests

As at 31 December 2008, so far as was known to the Directors of the Company, the following persons, other than the Directors and chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company, which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the shares and underlying shares of the Company

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 owner	12,820,000	19.04%
	Interests controlled through Corporations *(Note (b))*	1,381,658,839	
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%

REPORT OF THE DIRECTORS

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	260,000,000
	1,381,658,839

(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 2008.

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

Save as disclosed above, the Directors and the chief executive of the Company are not aware that there is any party who, as at 31 December 2008, had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Repurchase, Redemption or Sale of Listed Securities

During the year ended 31 December 2008, neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

Rights to acquire Company's Securities

Other than as disclosed under the sections "Share Options" and "Directors' Interest in Shares" above, at no time during the year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

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$70,000 (2007: HK$69,000) and HK$3,819,000 (2007: HK$773,000) respectively.

Competing Interests

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year and up to the date of this report.

Emolument Policy

The emolument policy of the employees and senior management of the Group is set up by the remuneration committee of the Company on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to market competitiveness, individual performance and achievement.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 33 to the financial statements.

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:

	2008	2007
The largest customer	**1.9%**	3.7%
Five largest customers in aggregate	**5.8%**	12.2%
The largest supplier	**14.4%**	22.5%
Five largest suppliers in aggregate	**53.6%**	80.0%

At no time during the year, none of the Directors, their associates or shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) has any interest in the customers or suppliers disclosed above.

REPORT OF THE DIRECTORS

Corporate Governance

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this annual report.

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 2008, there was a sufficiency of public float the Company's securities as required under the Listing Rules. As at 31 December 2008, 72% (2007: 72%) 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 41 to the financial statements.

Audit Committee

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process and internal controls of the Group. The Audit Committee currently comprises Mr. Ho Wai Ip (Chairman) , Mr. Chan Wai Sum and Mr. Lu Wei. The Audit Committee has reviewed and discussed with the management and the external auditors financial reporting matters including the annual results for the year ended 31 December 2008.

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
China Seven Star Shopping Limited
Ni Xinguang
Chairman

Hong Kong, 27 April 2009

Corporate Governance Practices

The Board of Directors of the Company (the "Board") and the management are 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 applied the principles and complied with all the applicable Code provisions and where applicable, the recommended practices 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 2008 except for deviation from Code provisions A.4.1 and A.4.2 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 (the "INEDs") of the Company is appointed for a specific term, and, pursuant to the articles of association of the Company ("Articles"), 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 INEDs 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 Articles, such practice meets the same objective and is no less exacting than those prescribed under provision A.4.1.

The deviation from provision A.4.2 of the Code continued until the passing of a special resolution at the annual general meeting of the Company held on 26 May 2008 whereby the Articles was amended to align with provision A.4.2 of the Code. Therefore, with effect from 26 May 2008, the Company has complied with the provision A.4.2 of the Code.

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.

CORPORATE GOVERNANCE REPORT

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 2008. 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	
Mr. Ho Wai Ip	
Mr. Lu Wei	

The Board held 4 regular Board meetings during the financial year ended 31 December 2008. 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 2008".

Chairman and Managing Director

The positions and roles of Chairman of the Board and Managing Director (having the same function of chief executive officer) of Company are held and performed separately by two individuals to ensure their respective independence, accountability and responsibility. Mr. Ni Xinguang, the Chairman of the Company, is responsible for the leadership of the Board, and oversees the business development of the Company and its subsidiaries including strategic and corporate development. Mr. Wang Zhiming, the Managing Director of the Company is responsible for the management of day-to-day operation of the Group.

CORPORATE GOVERNANCE REPORT

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. Four Board meetings were held during the year for facilitating the function of the Board. The Board believes that the 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. 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 responsible for advising the Board on 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.

CORPORATE GOVERNANCE REPORT

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 24 and 25 of this report.

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, 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. During the year ended 31 December 2008, no Director was appointed.

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 2008. 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 2008.

Audit Committee

Composition

The Company established an Audit Committee in 1999. It has written terms of reference in compliance with the requirements of the Listing Rules. The Audit Committee consists of three INEDs, namely Mr. Ho Wai Ip (Chairman), Mr. Chan Wai Sum and Mr. Lui Wei. 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. Three Audit Committee meetings were held during the year and the record of attendance of individual member is listed out on page 20 of this report.

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 2008:

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

(ii) reviewed the financial statements and reports and 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

Composition

The Remuneration Committee had been established with written terms of reference. 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 two meetings during the year and reviewed the existing remuneration policy and structure of the Company. The record of attendance of individual member is listed out on page 20 of this report.

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 held two meetings to review and approve the remuneration of executive Directors and senior management.

CORPORATE GOVERNANCE REPORT

Attendance of Board, Audit Committee and Remuneration Committee Meetings in 2008

	Attendance/Number of Meetings Held		
	Board	Audit Committee	Remuneration Committee
Directors			
Executive Directors:			
Ni Xinguang	4/4	N/A	N/A
Wang Zhiming	4/4	N/A	N/A
Independent non-executive Directors:			
Chan Wai Sum	4/4	3/3	2/2
Ho Wai Ip	4/4	3/3	2/2
Lu Wei	3/4	2/3	2/2

Auditor's Remuneration

During the year, the fees paid or payable to external auditor of the Company, RSM Nelson Wheeler were approximately HK$1,380,000 for statutory audit services rendered and for non-audit services rendered were HK$700,000 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 properly. 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.

DIRECTORS' PROFILES

Mr. Ni Xinguang, aged 39, was appointed as chairman and executive director of the Company on 12 March 2004. Mr. Ni 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.

Mr. Ni has entered into a new service contract with the Company for a period of two years commencing 1 April 2008 which could be terminated by either party by one month's prior written notice and is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the articles of association of the Company. Mr. Ni is entitled to an annual remuneration of HK$960,000, which is covered by his service contract, with discretionary bonus payment as determined by the remuneration committee of the Company based on Mr. Ni's and Company's performance. The remuneration package of Mr. Ni is determined by reference to his duties, responsibilities as well as the Company's remuneration policy and the market benchmark.

As at the report date, pursuant to Part XV of the Securities and Futures Ordinance ("SFO"), Mr. Ni has personal interest of 95,780,000 Shares in the Company and has 60% beneficial interest in Group First Limited, in which owned 1,886,680,000 Shares in the Company.

Save as disclosed above, Mr. Ni is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as disclosed above, Mr. Ni did not hold any positions in the Company or any of its subsidiaries and did not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. Save as disclosed above, Mr. Ni was not interested or deemed to be interested in any other shares or underlying shares of the Company pursuant to Part XV of the SFO as at the report date.

Mr. Wang Zhiming, aged 38, was appointed as an executive director of the Company on 12 March 2004 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 as managing director of the Company on 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.

Mr. Wang has not entered into any written service contract with the Company and is not appointed for a special term but is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the articles of association of the Company. Mr. Wang is entitled to an annual remuneration of HK$790,000 with discretionary bonus payment as determined by the remuneration committee of the Company based on Mr. Wang and Company's performance. The remuneration of Mr. Wang is not covered by any service contract. The remuneration package of Mr. Wang is determined by reference to his duties, responsibilities as well as the Company's remuneration policy and the market benchmark.

As at the report date, pursuant to Part XV of the SFO, Mr. Wang has personal interest of 94,780,000 Shares in the Company and has 40% beneficial interest in Group First Limited, in which owned 1,886,680,000 Shares in the Company.

DIRECTORS' PROFILES

Save as disclosed above, Mr. Wang is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as disclosed above, Mr. Wang did not hold any positions in the Company or any of its subsidiaries and did not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. Save as disclosed above, Mr. Wang was not interested or deemed to be interested in any other shares or underlying shares of the Company pursuant to Part XV of the SFO as at the report date.

Mr. Ho Wai Ip, aged 45, was appointed as an independent non-executive director of the Company on 3 April 2007. Mr. Ho is also the chairman and member of audit committee and member of remuneration committee of the Company. Mr. Ho 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.

Mr. Ho has entered into a letter of appointment with the Company without specific term of service but is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the articles of association of the Company. Mr. Ho is entitled to an annual remuneration of HK$162,000 which is covered by his letter of appointment without any bonus payment. The remuneration package of Mr. Ho is determined by reference to his duties, responsibilities and expected time commitment to the Company's affairs.

Save as disclosed above, Mr. Ho is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as disclosed above, Mr. Ho did not hold any positions in the Company or any of its subsidiaries and did not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the report date, Mr. Ho was not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the SFO.

Mr. Chan Wai Sum, aged 52, was appointed as an independent non-executive director of the Company on 5 November 2001. Mr. Chan is also the chairman and member of remuneration committee and member of audit committee of the Company. Mr. Chan 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. Chan has not entered into any written service contract with the Company and is not appointed for a specific term but is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the articles of association of the Company. Mr. Chan is entitled to an annual remuneration of HK$162,000 without any bonus payment. The remuneration of Mr. Chan is not covered by any service contract. The remuneration package of Mr. Chan is determined by reference to his duties, responsibilities as well as the Company's remuneration policy and the market benchmark.

DIRECTORS' PROFILES

Save as disclosed above, Mr. Chan is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as disclosed above, Mr. Chan did not hold any positions in the Company or any of its subsidiaries and did not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the report date, Mr. Chan was not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the SFO.

Mr. Lu Wei, aged 45, was appointed as an independent non-executive director of the Company on 15 June 2005. Mr. Lu is also the members of audit committee and remuneration committee of the Company Mr. Lu 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. Lu has not entered into any written service contract with the Company and is not appointed for a specific term but is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the articles of association of the Company. Mr. Lu is entitled to an annual remuneration of HK$162,000 without any bonus payment. The remuneration of Mr. Lu is not covered by any service contract. The remuneration package of Mr. Lu is determined by reference to his duties, responsibilities as well as the Company's remuneration policy and the market benchmark.

Save as disclosed above, Mr. Lu is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as disclosed above, Mr. Lu did not hold any positions in the Company or any of its subsidiaries and did not hold any directorships in any other listed companies on the Stock Exchange and any other stock exchange during the three years preceding the date of this report. As at the report date, Mr. Lu was not interested or deemed to be interested in any shares or underlying shares of the Company pursuant to Part XV of the SFO.

INDEPENDENT AUDITOR'S REPORT

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
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 26 to 76, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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.

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 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, 27 April 2009

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2008

	Note	**2008 HK$'000**	2007 HK$'000
Turnover	7	**298,296**	680,228
Cost of sales		**(179,728)**	(369,317)
Gross profit		**118,568**	310,911
Other income	8	**14,124**	16,333
(Write down)/reversal of write down of properties held for resale	24	**(1,600)**	500
Impairment loss on goodwill	19	**(6,860)**	(247,663)
Distribution costs		**(195,154)**	(379,485)
Administrative expenses		**(56,897)**	(51,687)
Other operating expenses		**(30,414)**	(29,181)
Loss from operations		**(158,233)**	(380,272)
Finance costs	10	**–**	(311)
Share of loss of a jointly controlled entity		**(4,019)**	(1,320)
Loss before tax		**(162,252)**	(381,903)
Income tax expense	11	**(5,510)**	(12,636)
Loss for the year	12	**(167,762)**	(394,539)
Attributable to:			
Equity holders of the Company	15	**(165,508)**	(385,289)
Minority interests		**(2,254)**	(9,250)
		(167,762)	(394,539)
Loss per share	17		
Basic		**(2.26) cents**	(6.18) cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Fixed assets	18	**19,268**	17,394
Goodwill	19	**–**	–
Intangible asset	20	**1,095**	–
Investment in a jointly controlled entity	22	**–**	2,081
Available-for-sale financial assets	23	**–**	160
		20,363	19,635
Current assets			
Properties held for resale	24	**8,700**	10,300
Inventories	25	**13,350**	38,652
Trade and bills receivables	26	**40,012**	88,422
Other receivables, prepayments and deposits	27	**38,740**	91,752
Financial assets at fair value through profit or loss	28	**23,772**	–
Pledged bank deposits	29	**9,299**	–
Bank and cash balances	29	**217,113**	275,529
		350,986	504,655
Current liabilities			
Trade and bills payables	30	**17,869**	23,763
Other payables and accruals	31	**19,540**	23,449
Current tax liabilities		**17,115**	12,230
		54,524	59,442
Net current assets		**296,462**	445,213
NET ASSETS		**316,825**	464,848
Capital and reserves			
Share capital	32	**732,428**	732,428
Other reserves	34	**1,277,872**	1,259,389
Accumulated losses		**(1,694,198)**	(1,529,328)
Equity attributable to equity holders of the Company		**316,102**	462,489
Minority interests		**723**	2,359
TOTAL EQUITY		**316,825**	464,848

Approved by the Board of Directors on 27 April 2009.

Ni Xinguang
Director

Wang Zhiming
Director

BALANCE SHEET

At 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Fixed assets	18	**73**	192
Interests in subsidiaries	21	**119,442**	80,919
		119,515	81,111
Current assets			
Other receivables, prepayments and deposits	27	**326**	263
Financial assets at fair value through profit or loss	28	**23,685**	–
Bank and cash balances		**147,105**	179,880
		171,116	180,143
Current liabilities			
Other payables and accruals	31	**2,997**	2,878
Net current assets		**168,119**	177,265
NET ASSETS		**287,634**	258,376
Capital and reserves			
Share capital	32	**732,428**	732,428
Other reserves	34	**1,240,703**	1,238,007
Accumulated losses		**(1,685,497)**	(1,712,059)
TOTAL EQUITY		**287,634**	258,376

Approved by the Board of Directors on 27 April 2009.

Ni Xinguang
Director

Wang Zhiming
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	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 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 32)*	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
At 1 January 2008	732,428	1,259,389	(1,529,328)	462,489	2,359	464,848
Translation differences	–	15,787	–	15,787	123	15,910
Loss for the year	–	–	(165,508)	(165,508)	(2,254)	(167,762)
Total recognised income and expense for the year	–	15,787	(165,508)	(149,721)	(2,131)	(151,852)
Business combination	–	–	–	–	495	495
Recognition of share-based payments	–	3,334	–	3,334	–	3,334
Transfer	–	(638)	638	–	–	–
At 31 December 2008	732,428	1,277,872	(1,694,198)	316,102	723	316,825

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Loss before tax		**(162,252)**	(381,903)
Adjustments for:			
Finance costs		**–**	311
Share of loss of a jointly controlled entity		**4,019**	1,320
Interest income		**(4,352)**	(11,103)
Depreciation		**3,921**	2,077
Share-based payments		**3,334**	8,460
Write-down/(reversal of write-down) of properties held for resale		**1,600**	(500)
Allowance for inventories		**3,607**	7,573
Allowance for other receivables		**1,074**	5,193
Allowance for trade receivables		**13,770**	20,836
Fair value loss on financial assets at fair value through profit or loss		**838**	–
Fixed assets written off		**265**	991
Inventories written off		**159**	–
Loss on disposals of fixed assets		**–**	2
Write back of other payables and accruals		**(10)**	(913)
Reversal of allowance for other receivables		**–**	(555)
Reversal of allowance for trade receivables		**–**	(2,107)
Impairment loss on available-for-sale financial assets		**169**	–
Impairment loss on fixed assets		**3,386**	–
Impairment loss on goodwill		**6,860**	247,663
Impairment loss on goodwill for investment in a jointly controlled entity		**884**	–
Impairment loss on prepayments and deposits		**5,357**	–
Operating loss before working capital changes		**(117,371)**	(102,655)
Decrease/(increase) in inventories		**23,029**	(44,026)
Decrease/(increase) in trade and bills receivables, other receivables, prepayments and deposits		**79,512**	(70,433)
(Decrease)/increase in trade and bills payables, other payables and accruals		**(26,586)**	19,794
Cash used in operations		**(41,416)**	(197,320)
Interest paid		**–**	(991)
Tax paid		**(1,417)**	(18,094)
Net cash used in operating activities		**(42,833)**	(216,405)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from investing activities			
Increase in pledged bank deposits		**(9,299)**	–
Payment for purchase of fixed assets		**(5,570)**	(17,618)
Proceeds from disposals of fixed assets		**–**	1
Purchase of financial assets at fair value through profit or loss		**(79,917)**	–
Proceeds from disposals of financial assets at fair value through profit or loss		**55,182**	–
Interest received		**4,352**	11,103
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	35	**4,606**	–
Net cash used in investing activities		**(30,646)**	(68,417)
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 loans from a shareholder		**–**	(10,229)
Net proceeds from issue of shares		**–**	411,714
Net cash generated from financing activities		**–**	403,301
Net (decrease)/increase in cash and cash equivalents		**(73,479)**	118,479
Exchange differences		**15,063**	15,643
Cash and cash equivalents at 1 January		**275,529**	141,407
Cash and cash equivalents at 31 December		**217,113**	275,529
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**217,113**	275,529

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

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 21 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 its accounting year beginning on 1 January 2008. 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, as modified by the revaluation of investments which are carried at their fair values.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

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.

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) Intangible asset

Internet platform

The internet platform is stated at acquisition cost less accumulated amortisation and impairment loss. It is amortised on a straight line basis over its estimated useful life of 5 years.

(h) 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.

(i) 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.

(j) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. Significant Accounting Policies *(Continued)*

(k) 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.

(l) 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)*

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) Equity instruments

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

(r) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. Significant Accounting Policies *(Continued)*

(s) 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.

(t) 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.

(u) Government subsidy

A government subsidy is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the subsidy will be received.

Government subsidy that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income in the period in which they become receivable.

3. Significant Accounting Policies *(Continued)*

(v) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. Significant Accounting Policies *(Continued)*

(w) 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.

(x) 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.

3. Significant Accounting Policies *(Continued)*

(y) 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.

(z) 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.

(aa) 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

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.

(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 2008 was HK$Nil (2007: HK$Nil) after an impairment loss of HK$6,860,000 (2007: HK$247,663,000) recognised during 2008. 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 2008, allowance for doubtful debts on trade and other receivables of HK$61,930,000 (2007: HK$45,220,000) 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.

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

(e) Allowance for inventories (Continued)

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, employees and consultants 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, price 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) Price risk

The Group's financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

The sensitivity analyses below have been determined based on the exposure to debt securities price risk at the balance sheet date.

If the unit price had been 10% higher/lower with all other variables held constant, consolidated loss after tax for the year ended 31 December 2008 would be decreased/increased by approximately HK$2,369,000 (2007: HK$Nil), as a result of the changes in fair value of financial assets at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

5. Financial Risk Management *(Continued)*

(c) Credit risk

The Group's credit risk is primarily attributable to its cash and bank balances, trade and other receivables, financial assets at fair value through profit or loss.

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.

The credit risk on cash and bank balances and financial assets at fair value through profit or loss is limited because the counter parties are banks with high credit-ratings assigned by international credit-rating agencies.

(d) 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.

(e) 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.

(f) 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.

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:

	2008 HK$'000	2007 HK$'000
Manufacture, retail and distribution of consumer products	**297,382**	659,043
Media management service fees	**–**	20,316
Rental income	**914**	869
	298,296	680,228

8. Other Income

	2008 HK$'000	2007 HK$'000
Interest income	**4,352**	11,103
Reversal of allowance for trade receivables	**–**	2,107
Reversal of allowance for other receivables	**–**	555
Tax subsidy	**3,528**	312
Write back of other payables and accruals	**10**	913
Sundry income	**6,234**	1,343
	14,124	16,333

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

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 2008				
Turnover	297,382	914	–	298,296
Segment results	(144,749)	(1,109)	–	(145,858)
Other income				4,362
Unallocated expenses				(16,737)
Loss from operations				(158,233)
Share of loss of a jointly controlled entity	(4,019)	–	–	(4,019)
Loss before tax				(162,252)
At 31 December 2008				
Segment assets	214,926	8,833	–	223,759
Unallocated assets				147,590
Total assets				371,349
Segment liabilities	33,873	309	–	34,182
Unallocated liabilities				20,342
Total liabilities				54,524
Other segment information:				
Capital expenditure	5,565	–	5	5,570
Depreciation	(3,797)	–	(124)	(3,921)
Impairment loss on goodwill	(6,860)	–	–	(6,860)
Fixed assets written off	(265)	–	–	(265)
Inventories written off	(159)	–	–	(159)
Bad debts/impairment charges	(28,247)	–	–	(28,247)
Write-down of properties held for resale	–	(1,600)	–	(1,600)

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 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	(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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

10. Finance Costs

	2008 HK$'000	2007 HK$'000
Interest on bank loans	**–**	279
Interest on loans from a shareholder wholly repayable within five years	**–**	32
	–	311

11. Income Tax Expense

	2008 HK$'000	2007 HK$'000
Hong Kong Profits Tax		
– underprovision in prior years	**–**	27
PRC tax		
– current	**5,443**	27,281
– under/(over)provision in prior years	**67**	(14,672)
	5,510	12,636

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 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 is effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements has been reflected in the current year's consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

11. Income Tax Expense *(Continued)*

The reconciliation between the income tax expense and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2008 HK$'000	2007 HK$'000
Loss before tax	**(162,252)**	(381,903)
Tax at Hong Kong Profits Tax rate of 16.5% (2007: 17.5%)	**(26,772)**	(66,833)
Tax effect of income that is not taxable	**–**	(334)
Tax effect of expenses that are not deductible	**31,462**	105,167
Tax effect of preferential tax rate given by the PRC tax authority	**–**	(1,727)
Tax effect of unrecognised temporary differences	**–**	84
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**(9,478)**	(11,888)
Tax effect of tax losses not recognised	**9,568**	2,581
Tax effect of share of result of a jointly controlled entity	**663**	231
Net under/(over)provision in prior years	**67**	(14,645)
Income tax expense	**5,510**	12,636

At the balance sheet date the Group and the Company has unused tax losses of approximately HK$66,301,000 (2007: HK$18,419,000) and HK$3,739,000 (2007: HK$3,739,000) 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. The unrecognised tax losses of approximately HK$542,000, HK$95,000, HK$3,849,000 and HK$49,094,000 will expire on 31 December 2010, 2011, 2012 and 2013 respectively. Other tax losses may be carried forward indefinitely. Included in unused tax losses of the Group are losses of approximately HK$54,839,000 (2007: HK$664,000) that have not yet been agreed by respective tax authorities.

No provision for deferred taxation has been made for both years ended 31 December 2007 and 2008 as the effect of all other temporary difference is not material.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

12. Loss for the Year

The Group's loss for the year is stated after charging the following:

	2008 HK$'000	2007 HK$'000
Advertising costs	**138,701**	330,425
Allowance for trade receivables (included in other operating expenses)	**13,770**	20,836
Allowance for inventories (included in cost of inventories sold)	**3,607**	7,573
Allowance for other receivables (included in other operating expenses)	**1,074**	5,193
Auditor's remuneration	**1,380**	1,500
Cost of inventories sold	**175,540**	360,182
Depreciation	**3,921**	2,077
Direct operating expenses that generate rental income	**422**	423
Fair value loss on financial assets at fair value through profit or loss	**838**	–
Fixed assets written off	**265**	991
Impairment loss on fixed assets (included in other operating expenses)	**3,386**	–
Impairment loss on available-for-sale financial assets (included in other operating expenses)	**169**	–
Impairment loss on goodwill for investment in a jointly controlled entity (included in other operating expenses)	**884**	–
Impairment loss on prepayments and deposits (included in other operating expenses)	**5,357**	–
Inventories written off (included in cost of inventories sold)	**159**	–
Loss on disposals of fixed assets	**–**	2
Operating lease on land and buildings	**9,034**	8,049
Staff costs (including directors' emoluments) (Note 13)	**46,116**	36,882

13. Staff Costs (Including Directors' Emoluments)

	2008 HK$'000	2007 HK$'000
Salaries and allowances	**39,146**	27,696
Equity-settled share-based payments	**3,081**	8,460
Overprovision of unutilised annual leave	**–**	(116)
Retirement benefits scheme contributions	**3,889**	842
	46,116	36,882

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

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	–	952	29	–	–	12	–	–	993
Mr. Wang Zhiming	–	757	17	–	–	12	–	–	786
Mr. Chan Wai Sum	154	–	–	–	–	–	–	–	154
Mr. Ho Wai Ip	154	–	–	–	–	–	–	–	154
Mr. Lu Wei	154	–	–	–	–	–	–	–	154
Total for 2008	462	1,709	46	–	–	24	–	–	2,241

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

(i) Appointed on 3 April 2007.

(ii) Resigned on 3 April 2007.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2007 and 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

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

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included 2 (2007: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2007: 3) individuals are set out below:

	2008 HK$'000	2007 HK$'000
Salaries and allowances	**1,929**	1,411
Equity-settled share-based payments	**3,081**	8,364
Retirement benefit scheme contributions	**30**	13
	5,040	9,788

The emoluments fell within the following bands:

	Number of individuals 2008	2007
HK$Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$3,000,000	**2**	–
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 for the Year attributable to Equity Holders of the Company

The loss for the year attributable to equity holders of the Company included a profit of approximately HK$25,924,000 (2007: loss of HK$522,537,000) 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 2008 (2007: HK$Nil).

17. Loss Per Share

Basic loss per share

The calculation of basic loss 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$165,508,000 (2007: approximately HK$385,289,000) and the weighted average number of ordinary shares of 7,324,281,000 (2007: 6,229,749,000) in issue during the year.

Diluted loss per share

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

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary sharing during the year ended 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

18. Fixed Assets

	The Group					
	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 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 and 1 January 2008	6,747	7,480	3,362	51	2,079	19,719
Additions	224	3,335	554	–	1,457	5,570
Acquisition of subsidiaries	890	901	788	–	255	2,834
Write-off	(211)	(195)	–	–	–	(406)
Exchange differences	392	475	213	3	140	1,223
At 31 December 2008	8,042	11,996	4,917	54	3,931	28,940
Accumulated depreciation and impairment						
At 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 and 1 January 2008	677	1,119	137	18	374	2,325
Charge for the year	794	1,833	649	11	634	3,921
Write-off	(53)	(88)	–	–	–	(141)
Impairment loss	–	1,394	1,961	23	8	3,386
Exchange differences	30	88	32	2	29	181
At 31 December 2008	1,448	4,346	2,779	54	1,045	9,672
Carrying amount						
At 31 December 2008	6,594	7,650	2,138	–	2,886	19,268
At 31 December 2007	6,070	6,361	3,225	33	1,705	17,394

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

18. Fixed Assets *(Continued)*

The Group carried out reviews of the recoverable amount of its fixed assets in 2008, having regard to its closure of certain call centres in the PRC. The reviews led to the recognition of an impairment loss of HK$3,386,000 (2007: HK$Nil), that has been recognised in the consolidated income statement.

	The Company		
	Leasehold improvements HK$'000	**Office equipment HK$'000**	**Total HK$'000**
Cost			
1 January 2007	387	161	548
Additions	–	71	71
At 31 December 2007 and 1 January 2008	387	232	619
Additions	–	5	5
At 31 December 2008	387	237	624
Accumulated depreciation and impairment			
1 January 2007	97	110	207
Charge for the year	193	27	220
At 31 December 2007 and 1 January 2008	290	137	427
Charge for the year	97	27	124
At 31 December 2008	387	164	551
Carrying amount			
At 31 December 2008	–	73	73
At 31 December 2007	97	95	192

19. Goodwill

	The Group HK$'000
Cost	
At 1 January 2007	28,422
Arising on acquisition of a subsidiary (Note (a))	219,241
At 31 December 2007	247,663
Arising on acquisition of a subsidiary (Note (b))	6,860
At 31 December 2008	254,523
Accumulated impairment losses	
At 1 January 2007	–
Impairment loss recognised in the current year	247,663
At 31 December 2007	247,663
Impairment loss recognised in the current year	6,860
At 31 December 2008	254,523
Carrying amount	
At 31 December 2008	–
At 31 December 2007	–

Notes:

(a) During the year 2007, 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 32(c)).

(b) During the year 2008, the goodwill was arisen on acquisition of Shanghai Seven Star Internet Shopping Co., Ltd ("Seven Star Internet") (Note 35(a)(i)) and is attributable to the cash-generating unit ("CGU") of retail and distribution of consumer products through Internet in the PRC.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

19. Goodwill *(Continued)*

The recoverable amount of the CGU of retail and distribution of consumer products through Internet in the PRC 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 2008, the recoverable amount of the goodwill was insignificant and full impairment loss was made for the year.

20. Intangible Asset

	The Group Internet platform HK$'000
Cost	
Acquired in a business combination and at 31 December 2008	1,095

The Group acquired the Internet platform through business combination as stated in Note 35(a)(i). The remaining amortisation period of the Internet platform is 5 years. No amortisation charge was made for the year ended 31 December 2008 as it was acquired in December 2008.

21. Interests in Subsidiaries

	The Company	
	2008 HK$'000	2007 HK$'000
Unlisted investments, at cost	**287,897**	257,897
Loans to subsidiaries	**1,156,453**	1,155,096
	1,444,350	1,412,993
Less: impairment losses	**(1,324,908)**	(1,332,074)
	119,442	80,919

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

21. Interests in Subsidiaries *(Continued)*

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.

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	Hong Kong, limited liability company	100 ordinary shares of HK$1 each	99.51%	–	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	–	84.58%	Retail and distribution of consumer products through TV channels
Fuzhou Landun Science of Life Co., Ltd	The PRC, wholly-foreign owned enterprise with limited liability	HK$40,000,000	–	99.51%	Investment holding
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	–	99.51%	Provision of call centre service to group companies
Shanghai Seven Star Internet Shopping Co., Ltd.^,# 上海七星網絡購物有限公司	The PRC, limited liability company	RMB1,000,000	–	59.71%	Retail and distribution of consumer products through Internet
Seven Star Shopping (China) Co., Ltd.^ 七星購物（中國）有限公司 ("Seven Star (China)")	The PRC, wholly-foreign owned enterprise with limited liability	RMB360,000,000*	–	100%	Investment holding, retail and wholesale of consumer products

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

21. 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 Direct	Indirect	Principal activities
Seven Star Shopping 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	–	99.56%	Investment holding, retail and wholesale of consumer products through TV channels
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	–	99.51% (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	–	99.51%	Retail and distribution of consumer products in Shanghai
Shanghai Seven Star Trading Co., Ltd.^,# 上海七星商貿有限公司	The PRC, limited liability company	RMB500,000	–	99.51%	Retail and distribution of consumer products through TV channels
Shanghai Seven Star Yixi Advertising Co., Ltd.^,# 上海七星益壐廣告有限公司	The PRC, limited liability company	RMB1,000,000	–	99.51%	Provision of advertising service
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 joint venture with limited liability company	RMB20,000,000**	–	92.6%	Retail and wholesale of kitchen wares

^ 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 2008.

** The registered capital of Shanghai Xishiduo is RMB20,000,000 and RMB12,100,000 has been paid up as at 31 December 2008.

Directly held by Seven Star (Shanghai)

41.8% is directly held by Seven Star (Shanghai)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

21. Interests in Subsidiaries *(Continued)*

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.

22. Investment in a Jointly Controlled Entity

	The Group	
	2008 **HK$'000**	2007 HK$'000
Unlisted investment:		
Share of net assets	**–**	2,081

During the year 2008, the Group has control over the jointly controlled entity and it is treated as a subsidiary.

23. Available-for-sale Financial Assets

	The Group	
	2008 **HK$'000**	2007 HK$'000
At 1 January	**160**	150
Exchange differences	**9**	10
Impairment loss	**(169)**	–
At 31 December	**–**	160

24. Properties Held for Resale

	The Group	
	2008 **HK$'000**	2007 HK$'000
At 1 January	**10,300**	9,800
(Write-down)/reversal of write-down	**(1,600)**	500
At 31 December	**8,700**	10,300

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

24. Properties Held for Resale *(Continued)*

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

	The Group	
	2008	2007
	HK$'000	HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**8,700**	10,300

At 31 December 2008, the carrying value of properties held for resale that was carried at net realisable value amounted to HK$8,700,000 (2007: HK$10,300,000).

25. Inventories

	The Group	
	2008	2007
	HK$'000	HK$'000
Finished goods	**13,350**	38,652

26. Trade and Bills Receivables

	The Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables (Note)	**40,012**	85,641
Bills receivables	**–**	2,781
	40,012	88,422

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 rental income is paid in accordance with the terms of the respective agreements, which is normally due on the first day of the month.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

26. Trade and Bills Receivables *(Continued)*

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

	The Group	
	2008	2007
	HK$'000	HK$'000
0 – 90 days	**28,969**	66,124
91 – 180 days	**11,043**	18,836
181 – 365 days	**-**	681
	40,012	85,641

For the year ended 31 December 2008, an allowance was made for estimated irrecoverable trade receivables of approximately HK$13,770,000 (2007: HK$20,836,000). The allowance has been included in other operating expenses in the consolidated income statement.

Movement of the allowance for trade receivables:

	The Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**22,115**	2,489
Allowance recognised on receivables	**13,770**	20,836
Amounts reversed	**-**	(2,107)
Exchange differences	**1,478**	897
At 31 December	**37,363**	22,115

As at 31 December 2008, trade receivables of HK$11,043,000 (2007: HK$12,305,000) 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	
	2008	2007
	HK$'000	HK$'000
Up to 3 months	**11,043**	11,159
3 to 6 months	**-**	634
Over 6 months	**-**	512
	11,043	12,305

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

26. Trade and Bills Receivables *(Continued)*
Subsequent to 31 December 2008, the Group received cash settlement amount of about HK$5.2 million for balance overdue 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.

27. Other Receivables, Prepayments and Deposits

	The Group		The Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Other receivables	**2,643**	19,353	**–**	–
Prepayments and deposits (Note)	**36,097**	72,399	**326**	263
	38,740	91,752	**326**	263

Note:

Included in the Group's prepayments and deposits are deposits paid for acquisition of two subsidiaries, an associate and setting up of a subsidiary amounted to approximately HK$4,722,000, HK$2,835,000 and HK$567,000 respectively. Subsequent to the balance sheet date, the transactions of one of the acquired subsidiaries and the newly set up subsidiary have been completed.

The financial information of the aforesaid investments at the date of completion was not available and therefore the effect of changes in the composition of the entity under business combination is not disclosed. Details please refer to Notes 41(a) and (b).

28. Financial Assets at Fair Value through Profit or Loss

	The Group		The Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Debt securities, at fair value listed outside Hong Kong	**23,685**	–	**23,685**	–
Equity securities, at fair value listed outside Hong Kong	**87**	–	**-**	–
Market value of listed securities	**23,772**	–	**23,685**	–
The carrying amounts of the above financial assets are classified as follows:				
Held for trading	**23,772**	–	**23,685**	–

The investments included above represent investments in listed debt and equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate.

The fair values of listed securities are based on current bid prices.

29. Pledged Bank Deposits and Bank and Cash Balances

The Group's pledged bank deposits represented deposits pledged to banks to secure bills payables of approximately HK$6,464,000 as set out in Note 30 to the financial statements. The deposits are in Renminbi ("RMB") and at fixed interest rates of 1.98% to 2.88% per annum and therefore are subject to foreign currency risk and fair value interest rate risk. Subsequent to the balance sheet date, the pledged bank deposits were fully released by the banks.

At 31 December 2008, the bank and cash balances of the Group denominated in RMB and kept in the PRC amounted to HK$69,656,000 (approximately RMB61,425,000) (2007: HK$44,708,000 (approximately RMB41,861,000)). 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

30. Trade and Bills Payables

	The Group	
	2008 HK$'000	2007 HK$'000
Trade payables (Note)	**11,405**	23,763
Bills payables (Note 29)	**6,464**	–
	17,869	23,763

Note:

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

	The Group	
	2008 HK$'000	2007 HK$'000
0 – 90 days	**5,552**	6,756
91 – 180 days	**265**	6,156
181 – 365 days	**773**	10,220
Over 365 days	**4,815**	631
	11,405	23,763

31. Other Payables and Accruals

	The Group		The Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Other payables and accruals	**18,366**	19,377	**2,997**	2,878
Deposits received	**960**	3,033	**–**	–
Due to directors (Note)	**214**	1,039	**–**	–
	19,540	23,449	**2,997**	2,878

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

32. Share Capital

	Note	**No. of shares '000**	HK$'000
Authorised:			
Ordinary shares of HK$0.1 (2007: HK$0.1) each			
At 31 December 2007 and 2008		**16,000,000**	1,600,000
Issued and fully paid:			
Ordinary shares of HK$0.1 (2007: HK$0.1) each			
At 1 January 2007		**5,063,242**	506,324
Issue of shares on placements	(a)	**575,000**	57,500
Issue of shares on share option scheme	(b)	**214,380**	21,438
Issue of shares for acquisition of Top Pro Group	(c)	**1,471,659**	147,166
		2,261,039	226,104
At 31 December 2007 and 2008		**7,324,281**	732,428

Notes:

(a) 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

32. Share Capital *(Continued)*
Notes: *(Continued)*

(b) 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	

(c) 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.

33. 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.

33. Share Options *(Continued)*

2004 Share Option Scheme (Continued)

At 31 December 2008, 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
Consultant	30 April 2007	1.230	240,000	30 April 2008 – 29 April 2015
	29 April 2008	0.143	3,490,000	29 April 2009 – 28 April 2016
			49,050,000	

	2008 Weighted average exercise price in HK$ per share	**2008** Number of share options	2007 Weighted average exercise price in HK$ per share	2007 Number of share options
At 1 January	**0.354**	**60,560,000**	0.156	254,630,000
Granted during the year	**0.143**	**3,490,000**	0.725	40,310,000
Exercised during the year	**–**	**–**	0.154	(214,380,000)
Lapsed during the year	**0.180**	**(15,000,000)**	0.722	(20,000,000)
At 31 December	**0.392**	**49,050,000**	0.354	60,560,000

There were no option cancelled in 2007 and 2008.

The weighted average share price at the date of exercise for share options exercised during the year 2007 was HK$0.80. The options outstanding at the end of the year have a weighted average remaining contractual life of 8.10 years (2007: 7.01 years) and the exercise prices range from HK$0.143 to HK$1.23 (2007: HK$0.157 to HK$1.23). In 2008, 3,490,000 share options were granted on 29 April 2008. The estimated fair value of the options on that date is approximately HK$318,000. 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 were approximately HK$16,121,000 and HK$114,000 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

33. Share Options *(Continued)*

2004 Share Option Scheme (Continued)

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

	Share options granted on		
	29 April 2008	8 March 2007	30 April 2007
Weighted average share price	**HK$0.14**	HK$0.72	HK$1.23
Weighted average exercise price	**HK$0.143**	HK$0.722	HK$1.230
Expected volatility	**86.56%**	76.78 – 98.48%	97.89%
Expected life	**4.5 years**	1 – 4 years	2 years
Risk free rate	**2.37%**	3.951 – 4.068%	3.941%
Expected dividend yield	**0%**	0%	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 234 weeks. 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.

34. 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 2007		140,853	8,545	726,699	775	2,589	879,461
Issue of shares	32	355,196	–	–	–	–	355,196
Share issue expenses	32	(345)	–	–	–	–	(345)
Recognition of share–based payments		–	8,460	–	–	–	8,460
Exercise of share options		9,226	(9,226)	–	–	–	–
Translation differences		–	–	–	14,745	–	14,745
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
At 1 January 2008		504,930	6,378	726,699	15,520	5,862	1,259,389
Recognition of share–based payments		–	3,334	–	–	–	3,334
Translation differences		–	–	–	15,787	–	15,787
Transfer to accumulated losses		–	(638)	–	–	–	(638)
At 31 December 2008		504,930	9,074	726,699	31,307	5,862	1,277,872

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

34. Other Reserves *(Continued)*

	Note	Share premium HK$'000	Share-based payments reserve HK$'000	Special capital reserve HK$'000	Total HK$'000
		The Company			
At 1 January 2007		140,853	8,545	726,699	876,097
Issue of shares	32	355,196	–	–	355,196
Share issue expenses	32	(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
At 1 January 2008		504,930	6,378	726,699	1,238,007
Recognition of share–based payments		–	3,334	–	3,334
Transfer to accumulated losses		–	(638)	–	(638)
At 31 December 2008		504,930	9,074	726,699	1,240,703

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(t) 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

34. Other Reserves *(Continued)*
Nature and purpose of reserves (Continued)

(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.

35. Notes to the Consolidated Cash Flow Statement
(a) Acquisition of subsidiaries

For the year ended 31 December 2008

(i) On 1 December 2008, the Group effectively controlled 59.71% of the share capital of Seven Star Internet, which is engaged in retail and distribution of consumer products through internet in the PRC.

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

	HK$'000
Net liabilities acquired:	
Fixed assets	2,552
Intangible asset	1,095
Inventories	280
Trade receivables, other receivables, deposits and prepayments	1,429
Bank and cash balances	1,521
Trade payables, other payables and accruals	(13,057)
	(6,180)
Goodwill (Note 19)	6,860
Purchase consideration	680
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	1,521

Purchase consideration of HK$206,000 has been settled by decrease in other receivables and the remaining balance is included in other payables and accruals as at 31 December 2008.

35. Notes to the Consolidated Cash Flow Statement *(Continued)*

(a) *Acquisition of subsidiaries (Continued)*

For the year ended 31 December 2008 (Continued)

(ii) In prior years, subject to lack of control, Shanghai Xishiduo was accounted as investment in a jointly controlled entity although the Group held more than 50% voting power of Shanghai Xishiduo.

On 1 August 2008, the Group is able to control over Shanghai Xishiduo since the Group is entitled to appoint two directors out of three directors of Shanghai Xishiduo. Shanghai Xishiduo was engaged in retail and wholesale of kitchen wares during the year.

The fair value of the identifiable assets and liabilities of Shanghai Xishiduo acquired as at its date of control, which has no significant difference from its carrying amount, is as follows:

	HK$'000
Net assets acquired:	
Fixed assets	282
Inventories	1,213
Trade receivables, other receivables, deposits and prepayments	5,562
Bank and cash balances	3,085
Trade payables, other payables and accruals	(3,262)
	6,880
Minority interests	(495)
	6,385
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	3,085

Seven Star Internet and Shanghai Xishiduo contributed approximately HK$10,872,000 to the Group's turnover and approximately HK$245,000 to the Group's loss before tax, for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total Group turnover for the year would have been HK$308,192,000, and loss for the year would have been HK$171,415,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is intended to be a projection of future results.

(b) *Major non-cash transaction*

During the year 2007, 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 32(c)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

36. Pending Litigation

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

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.

37. Capital Commitments

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

	2008 HK$'000	2007 HK$'000
Contracted but not provided for:		
Fixed assets	**226**	2,008
Capital contribution to a jointly controlled entity	**–**	7,830

38. Operating Lease Commitments

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		**The Company**	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Within one year	**4,379**	3,777	**876**	222
In the second to fifth years inclusive	**13,377**	11,026	**324**	–
After five years	**45,640**	46,708	**–**	–
	63,396	61,511	**1,200**	222

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

39. Operating Lease Arrangements

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Within one year	**914**	2,837	**-**	–
In the second to fifth years inclusive	**60**	7,431	**-**	–
	974	10,268	**-**	–

40. 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:

	2008 HK$'000	2007 HK$'000
Interests paid to Group First Limited ("Group First") (Note (i))	**-**	32
Other income received from a jointly controlled entity	**-**	10
Sales to 上海力星生化科技有限公司(「上海力星」) (Note (ii))	**-**	273
Purchases from:		
– a jointly controlled entity	**1,764**	2,581
– related companies (Note (iii))	**507**	78
Rental paid to a related company (Note (iv))	**-**	125

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 had 90% equity interest in 上海力星 until 31 January 2007.

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

(iv) Mr. Ni and Mr. Wang have respectively 60% and 40% equity interest in this related company.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

40. Related Party Transactions *(Continued)*

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

	2008 HK$'000	2007 HK$'000
Prepayments to:		
– a jointly controlled entity (Note (ii))	**–**	5,018
– related companies (Note (ii))	**–**	38
Trade payables to:		
– a jointly controlled entity (Note (i))	**–**	(2,067)
– related companies (Notes (i) and (iv))	**(534)**	(443)
Other payables to related companies (Notes (iii) and (iv))	**(1,828)**	(1,722)

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.

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

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

41. Events after the Balance Sheet Date

(a) Subsequent to the balance sheet date, the newly set up subsidiary with 59.71% effective equity interest has completed its company registration in Shanghai. The registered capital of the aforesaid subsidiary is RMB500,000 (equivalent to approximately HK$567,000). The deposit paid of approximately HK$567,000 as included in other receivables, prepayments and deposits as at 31 December 2008 was transferred to paid-up capital of the aforesaid subsidiary.

(b) Subsequent to the balance sheet date, the acquisition of a subsidiary with 89.56% effective equity interest has been completed and the change in ownership has been filed to the company registry in Shanghai. The total consideration of the aforesaid acquisition is approximately HK$11,028,000. The Group has paid deposit of approximately HK$2,177,000 as included in other receivables, prepayments and deposits as at 31 December 2008. The remaining balance of approximately HK$8,851,000 was fully settled.

(c) Subsequent to the balance sheet date, a subsidiary with 99.56% effective equity interest was set up with registered capital of RMB500,000 in the PRC and the capital was fully paid. up.

42. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 27 April 2009.

FIVE YEAR FINANCIAL SUMMARY

	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Results					
Turnover	**298,296**	680,228	92,430	23,090	30,977
Profit/(loss) attributable to:					
– Equity holders	**(165,508)**	(385,289)	29,556	(16,572)	132,974
– Minority interests	**(2,254)**	(9,250)	2,647	(753)	847
Assets and liabilities					
Total assets	**371,349**	524,290	309,384	67,289	35,685
Total liabilities	**(54,524)**	(59,442)	(56,001)	(65,528)	(22,527)
Total equity	**316,825**	464,848	253,383	1,761	13,158

GROUP PROPERTIES

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