七星购物

7-STAR

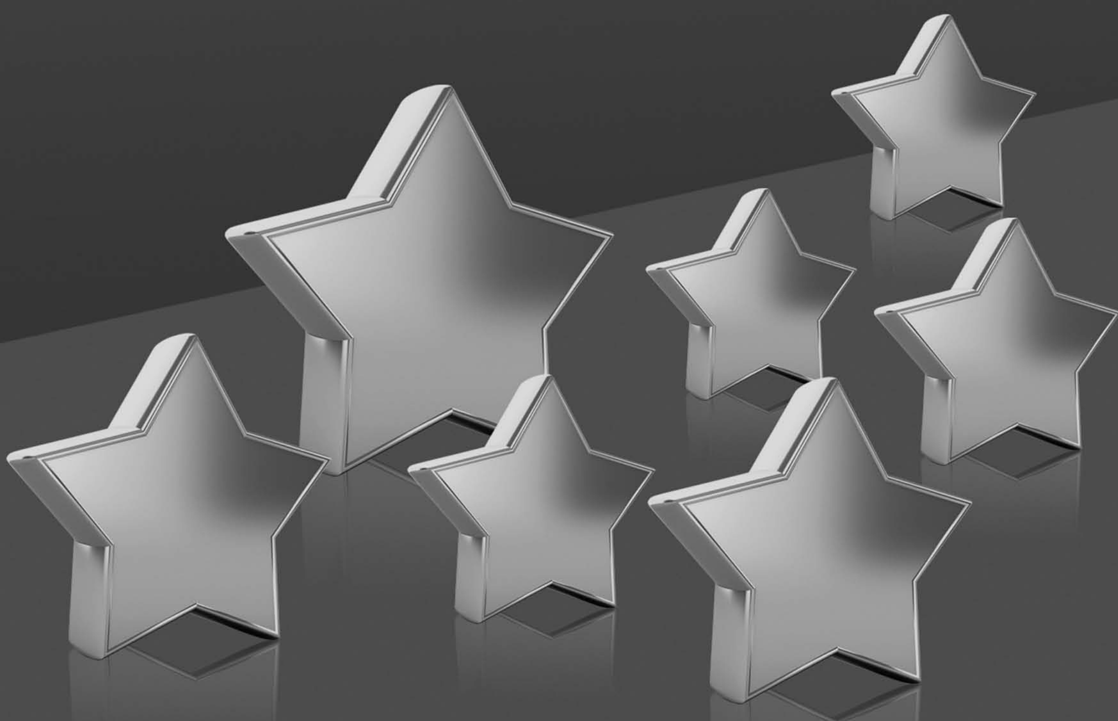
China Seven Star Shopping Limited

(Incorporated in Hong Kong with limited liability)

Stock Code: 245

Annual Report 2012

Contents



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Wong Chak Keung
Lu Wei
Ling Yu Zhang

AUDIT COMMITTEE

Wong Chak Keung *(Chairman)*
Lu Wei
Ling Yu Zhang

NOMINATION COMMITTEE

Lu Wei *(Chairman)*
Ling Yu Zhang
Wong Chak Keung

REMUNERATION COMMITTEE

Ling Yu Zhang *(Chairman)*
Wong Chak Keung
Lu Wei

COMPANY SECRETARY

Law Gerald Edwin

PRINCIPAL BANKERS

Agricultural Bank of China Limited
Bank of China Limited
Bank of Shanghai Co., Ltd
China Merchants Bank Co., Ltd
China Construction Bank Corporation
Industrial and Commercial Bank of China (Asia) Limited
Industrial Bank Co., Ltd
The Bank of East Asia, Limited

SOLICITORS

Hong Kong Law
Anthony Chiang & Partners
Boase Cohen & Collins
Michael Li & Co.

PRC Law
Trend Associates

INDEPENDENT AUDITOR

RSM Nelson Wheeler
Certified Public Accountants

REGISTERED OFFICE

Unit A02, 11/F
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN SHANGHAI

No.568 Hongxu Road
Minhang District
Shanghai
China

SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

245 HK

WEBSITE

www.sevenstar.hk

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Analysis of China's consumer goods market

In the year of 2012, China's consumer goods market was in a complex market environment due to the uncertainty and instability brought by various local and international impacts and challenges. From an international level, the sovereign debt crisis of Europe and the United States could hardly be eased in a short period of time. Together with the changing international political and military situation, this further slowed down the pace of recovery of the world's economy. Domestically, the PRC government took initiative to slow down the economic growth rate and transformed its mode of economic development, creating difficulty for China's consumer goods market to growth rapidly. Meanwhile, the rising price level, increasing public awareness towards the high inflation rate and insufficient commercial and welfare networks in the urban area gave further pressure to the consumption growth rate. However, the steady growth of China's economy, rapid development of industrialization and urbanization, reform of distribution system and structural adjustment of tax did not only promote and expand the demand for domestic consumption, but further increased the consumption power of citizen. According to the National Bureau of Statistics, the annual Gross Domestic Product ("GDP") in 2012 was RMB51,932.2 billion, with an increase of 7.8% over the previous year. Urban residents' per capita disposable income was RMB24,565, a growth of 12.6% over the previous year and an actual growth of 9.6% after excluding price factors. The total retail sales of consumer products in the country in 2012 amounted to RMB21,030.7 billion, an increase of 14.3% compared to last year and an actual growth of 12.1% after deducting the effect of inflation.

Analysis and prospects for China's advertising market

In 2012, China's advertising market had experienced a new turning point. In the first three quarters of 2012, a decline in macroeconomic indicators affected advertisers' confidence and their advertising proportion through traditional media. This further affected the joint advertising plans of advertisers and advertising media, thus holding back the steady growth of traditional media. According to the market research — "Review of the first three quarters of China's advertising market in 2012"* issued by the CTR China, the advertising expenses on traditional media in the first quarter of 2012 increased only 1% when compared to last year, 6% in the second quarter and 4% in the third quarter. Despite the negative impact of economic downturn on the advertising industry in the first three quarters, the industry started to improve by the fourth quarter. According to the CTR China, the year-on-year growth rate on advertising reached 11.9% in 2012, while the GDP grew at 7.8%. The growth rate of advertising industry was higher than the overall growth rate of the national economy. This implies a balanced, equilibrium and interactive development of the overall advertising market. Television media still takes a leading position in the China's advertising industry. It is estimated that the television advertising expenses will amount to RMB 221.19 billion in 2013, accounting for 50.4% of the overall advertising expenses.

In the "12th Five-Year Plan of Advertising Industry"* proposed by the State Administration for Industry and Commerce ("SAIC") in May 2012, it stated that China will vigorously develop the advertising industry and further enhance the intensiveness, professionalism and international standard of the industry for the period of Twelfth Five-Year. It emphasizes that more than fifteen national advertising industry parks will be completed in five years. This plan will boost the development of the advertising industry as a whole, allowing it to be stable and sustainable.

For the media shopping industry, due to a lack of industry standards and regulations, the Ministry of Commerce is now setting up a "Media Shopping Industry Standard"* to strictly regulate the fields of television shopping, broadcast media shopping, online shopping, print media shopping, catalog shopping and mobile shopping etc. This aims to bring a positive impact on the development of media shopping industry by increasing the confidence of consumers.

* Management translation

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group had entered into an advertising agency business in 2010, since signing the media management services agreement with the Guangdong Television on 31 December 2009. The media management services agreement granted the Group a three-year exclusive right of sale of all the advertising time of the satellite television channel ("GSTV") of Guangdong Television, which covers more than 20 programs for a total advertising air time of 114,000 minutes. After three years' continuous effort and active development of the Group, the Group has deepened its understanding towards to television advertising industry, established professional knowledge, improved management skill, accumulated experience through actual practices, introduced and trained professional talents to develop more strategic marketing plan. The turnover from advertising agency business in 2012 was approximately HK$553,070,000 (2011: approximately HK$500,870,000), accounting for over half of the Group's turnover and was the major source of the Group's revenue. Meanwhile, the Group also actively worked with a number of large and influential advertising companies in 2012. Apart from maintaining friendly and close relationship with existing business partners and clients, the Group also adopted active expansion strategy and actively seeked long-term business partners. Currently, the Group cooperates with various advertising companies, including Beijing Dentsu Advertising Co. Ltd., DDB Beijing Advertising Co. Ltd, GroupM (Shanghai) Advertising Co. Ltd, Leo Burnett Worldwide and Saatchi & Saatchi Great Wall. Cooperative arrangements involve a variety of sectors, including food, medicine, household products, health care products, medical, education institutes and vehicles etc. Meanwhile, the advertising customers of the Group include some world renowned brands such as Pepsi, Seven-Up, Mead Johnson, Ashly, China Mobile, Unicom and Shanghai Volkswagen.

GSTV is the number one television channel among all provincial satellite television stations in southern China, covering more than 70 major cities and over 8 hundred million people. The television programs of GSTV are diverse and filmed in a serious manner. They gained widespread recognition from the society and overwhelmingly positive response from the audience. However, due to the high advertising agency cost, which will affect the financial statement of the Group, the Group decided to change the cooperation model with Guangdong Television after the completion of the three years media management services agreement on 31 December 2012. The Group decided not to renew the media management services agreement and to continue the advertising agency business through subcontracting. The Group believes the change in cooperation model to subcontracting can further lower the operating cost and expand the Group's profit.

In addition, subject to the unfavorable factors in the media shopping industry, the Group decided to make appropriate adjustments on its business in the media shopping industry in order to provide a fast, high-quality, safe and reliable shopping services for customers. At the same time, the Group also strengthened the retail and wholesale business of kitchenware to TV shopping companies. In 2012, the revenue from retail and wholesale of kitchenware was approximately HK$52,445,000, accounting 8.5% of the Group's revenue. The Group will continue its investment in the retail and wholesale business of kitchenware and expect steady development in the future years.

Sales results and performance review

For the year ended 31 December 2012, the Group's consolidated turnover was approximately HK$616,877,000, represents a slight increase of approximately 6.7% from 2011. The Group records a gross profit during the year mainly due to the lower of the amortization of exclusive advertising agency rights charging to the income statement when compared to the actual payment for the related agency right according to an agreement dealing with media management services entered into between Shanghai Seven Star Advertising Co., Ltd, a subsidiary of the Company, and 廣東電視台 (transliterated as Guangdong Television) on 31 December 2009. Based on the legal interpretation of the terms as contained in the structural contracts the Group entered into for the purpose of consolidating the financial results of the television shopping and related business, and under the HKAS 27 (revised) "Consolidated and Separate Financial Statements" that became effective for the Company's financial statements from 2010 onwards, the non-controlling interests of the PRC business of the Group shared a portion of the profit before tax of approximately HK$13,957,000 (2011: loss: approximately HK$87,174,000), resulting in a profit attributable to the owners of the Company of approximately HK$3,308,000 (2011: loss: approximately HK$18,992,000).

On financial position and cash flows, for the year ended 31 December 2012, the Group's total assets were approximately HK$161,542,000 (2011: approximately HK$700,937,000), a decrease of 77% when compared with 2011. Net cash (outflows)/inflows from operating activities, investing activities and financing activities were at approximately HK$(34,361,000), HK$(240,000) and HK$48,208,000 respectively (2011: approximately HK$(63,931,000), HK$4,529,000 and HK$(14,808,000)). Capital expenditure for the year was approximately HK$3,465,000 (2011: approximately HK$1,920,000) with depreciation and amortization for tangible and intangible assets at approximately HK$529,047,000 (2011: approximately HK$526,670,000). Strength of the Chinese Yuan also contributed to a favorable currency effect of approximately HK$1,677,000 (2011: approximately HK$11,116,000) to the current year's reserves. As at 31 December 2012, the total cash position (included pledged bank deposits) of the Group was approximately HK$74,679,000 (2011: approximately HK$65,670,000).

Strategy and Outlook

During the period of Twelve Five-Year, China's advertising industry is facing a significant development opportunity. The steady growth of national economy, continuous improvement on income level and consumption power of citizens bring good economic foundations and market conditions for rapid development in advertising industry. Furthermore, according to the "World Economic Outlook Report" published by the International Monetary Fund, it forecasts that China's economy will experience an 8.5% growth rate, which is 4.6% higher than its forecasts for global economic growth of 3.9%. From an international economic level, the high and rapid growth rate of China's economy drives the development of the advertising market and creates a better market prospect. Besides, a series of economic and social development strategy launched by the PTC brings a stronger policy support and system guarantee for the advertising industry. The "12th Five-Year Plan of Advertising Industry"* proposed by SAIC in May 2012 does not only proves the significant attention of central government toward the advertising industry, but also improves, strengthens and promotes the development of the advertising market as a whole. The Group will make use of its own advantages, professionalism and experience to seize the booming advertising market and the emerging opportunities. Together with the subcontracting cooperation model with the GSTV, it can further improve the quality of service of the Group and thus assisting the Group in seeking expansion opportunities for long-term profitability and development.

Regarding to the media shopping industry, the Ministry of Commerce is actively regulating the mode of operation in the industry. It is expected that the "Media Shopping Industry Standards"* will be implemented very soon to improve the efficiency of media shopping industry. The Group will pay close attention to the development of media shopping industry and grasp business opportunities to develop steadily in the market.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2012, the Group had financial assets (excluding receivables) amounted to approximately HK$74,886,000 (2011: approximately HK$65,670,000) of which approximately HK$62,038,000 (2011: approximately HK$40,689,000) 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.

* Management translation

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND RELATED HEDGING

The Directors considered that the Group has certain exposure to foreign currency risk as some of its business transactions and assets are denominated in currencies other than the functional currency of respective Group entities such as Renminbi. 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.

STAFF AND REMUNERATION POLICY

The Group had 71 employees (including Directors) as at 31 December 2012 (2011: 111). 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 2012, the Group had total assets of approximately HK$161,542,000 (2011: approximately HK$700,937,000) and the gearing ratio (calculated on the basis of the Group's total bank and other borrowings, over the equity attributable to owners of the Company) was approximately 3.9% as at 31 December 2012 (at 31 December 2011: 3.4%).

CAPITAL REORGANISATION

On 20 January 2012, the shareholders of the Company approved a proposed capital reorganisation (the "Capital Reorganisation") which comprised:

(a) the nominal value of each of the issued Shares of HK$0.10 each be reduced to HK$0.002 each by cancelling the paid-up capital to the extent of HK$0.098 on each issued Share;

(b) the nominal value of each of the authorised but unissued Shares of HK$0.10 each be diminished to HK$0.002 each by a diminution of HK$0.098 on each authorised but unissued Share;

(c) the credit arising from the Reduction of Issued Share Capital in the sum of HK$718,121,542.222 be applied to eliminate part of the Company's accumulated losses, which amounted to approximately HK$1,898,407,000 as at 30 November 2011; and

(d) every five Reduced Shares of HK$0.002 each in the issued and unissued share capital of the Company be consolidated into one Consolidated Share of HK$0.01 each in the issued and unissued share capital of the Company.

Details of the Capital Reorganisation are set out in the circular dated 29 December 2011. The Capital Reorganisation were effective on 20 April 2012 when the authorised and issued capital consisted of 3,200,000,000 and 1,465,554,167 ordinary shares of HK$0.01 each, respectively. The Capital Reduction was approved by the Court on 2 April 2012 and the sealed copy of the Court order has been duly registered by the Registrar of Companies in Hong Kong on 16 April 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

OPEN OFFER

On 21 August 2012, the Company completed the open offer and raised net proceeds of approximately HK$34,796,000 by issuing 732,777,083 offer shares at HK$0.05 each to qualifying shareholders on the basis of one offer share for every two shares. Details of the open offer are set out in the prospectus dated 25 July 2012.

CAPITAL STRUCTURE

Details in the changes of the capital structure of the Company during the year ended 31 December 2012 are set out in Capital Reorganisation and Open Offer above.

CHARGES ON GROUP'S ASSETS

Save for the details of pledged bank deposits as set out in note 26 to the financial statements, as at 31 December 2012, there were no charges on the Group's assets.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2012.

CAPITAL COMMITMENTS

The Group did not have any significant capital commitments as at 31 December 2012.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group did not have any material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2012.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report and audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the retail and distribution of consumer products and provision of television advertising services and insurance agency services in the PRC.

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 2012 are set out in note 21 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 30 of this report.

The state of the Group's and the Company's affairs at 31 December 2012 is set out in the consolidated statement of financial position and statement of financial position on pages 32 and 33 of this report.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012 (2011: HK$Nil).

ANNUAL GENERAL MEETING

The 2013 annual general meeting (the "2013 AGM") will be held on 5 June 2013. Shareholders should refer to details regarding the 2013 AGM in the circular of the Company of 18 April 2013 and the notice of meeting and form of proxy accompanying thereto.

FIXED ASSETS

Details of movements in fixed assets of the Group during the year are set out in note 19 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital are set out in note 29 to the financial statements.

RESERVES

Details of the movements in reserves during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2012, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK$Nil (2011: HK$Nil).

REPORT OF THE DIRECTORS

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 80 of this report.

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. Lu Wei
Mr. Wong Chak Keung
Mr. Ling Yu Zhang

In accordance with article 116 of the articles of association of the Company (the "Articles"), Mr. Lu Wei and Mr. Wong Chak Keung will retire by rotation at the 2013 AGM and, being eligible, offer themselves for re-election.

DIRECTORS' PROFILES

Directors' profiles are set out on pages 25 to 27 of this report.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors, namely Mr. Ling Yu Zhang, Mr. Wong Chak Keung and Mr. Lu Wei, an annual confirmation of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company considers all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

For the executive Directors, Mr. Ni Xinguang entered into a service contract with the Company for a period of two years commencing 1 April 2008 which has expired on 31 March 2010. Mr. Ni has not entered into any new written service contract with the Company. Mr. Wang Zhiming, as an executive Director, and the other independent non-executive Directors have not entered into any written service contract with the Company and they are not appointed for specific term, but all Directors are subject to retirement by rotation in accordance with the Articles.

No Director proposed for re-election at the 2013 AGM 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 2012, 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 Part XV of the SFO or 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

Name of Director	Number of shares held Personal interests	 Corporate interests	Total	Percentage of the issued share capital *(Note (b))*
Ni Xinguang	28,734,000	566,004,000 *(Note (a))*	594,738,000	27.05%
Wang Zhiming	28,434,000	566,004,000 *(Note (a))*	594,438,000	27.04%

Notes:

(a) 566,004,000 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 25.75% of the issued share capital of the Company.

(b) The percentage was calculated based on the total number of 2,198,331,250 ordinary shares of the Company in issue as at 31 December 2012.

Save as disclosed above, as at 31 December 2012, 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 Part XV of the SFO or 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 2012, 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 Part XV of the SFO or 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	Number of option shares held as at 01/01/2012	Number of option shares granted during the year	Number of option shares exercised during the year	Number of option shares adjusted during the year *(Note)*	Number of option shares lapsed during the year	Number of option shares held as at 31/12/2012	Adjusted exercise price *(Note)* HK$	Exercise period
Employees	08/03/2007	5,000,000	–	–	(3,980,000)	(1,020,000)	–	3.54	08/03/2007–07/03/2015
	08/03/2007	5,000,000	–	–	(3,980,000)	(1,020,000)	–	3.54	08/03/2008–07/03/2015
	08/03/2007	5,000,000	–	–	(3,980,000)	(1,020,000)	–	3.54	08/03/2009–07/03/2015
	08/03/2007	5,000,000	–	–	(3,980,000)	(1,020,000)	–	3.54	08/03/2010–07/03/2015
Consultants	30/04/2007	240,000	–	–	(191,040)	–	48,960	6.03	30/04/2008–29/04/2015
	30/04/2009	7,000,000	–	–	(5,572,000)	–	1,428,000	0.49	05/05/2010–04/05/2017
	10/09/2010	7,000,000	–	–	(5,572,000)	–	1,428,000	0.74	10/09/2010–09/09/2013
	11/11/2010	135,000,000	–	–	(107,460,000)	–	27,540,000	0.78	11/11/2010–10/11/2013
		169,240,000	–	–	(134,715,040)	(4,080,000)	30,444,960		

Note: The number of share options and exercise prices have been adjusted to reflect share consolidation and open offer during the year.

Further details of share options were stipulated in note 30 to the financial statements.

Apart from the aforesaid, at no time during the year ended 31 December 2012 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 35 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.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the usual course of business are set out in note 35 to the financial statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the highest paid individuals of the Group are set out in note 15 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2012, 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))*	566,004,000	25.75%
Hou Chong Yu ("Ms. Hou")	Beneficial owner	6,459,000	0.29%
	Interests controlled through corporations *(Note (b))*	248,147,650	11.29%
Best Idea International Limited *(Note (b))*	Beneficial owner	231,497,650	10.53%

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. Accordingly, the 566,004,000 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	16,650,000
Best Idea International Limited	231,497,650
	248,147,650

(c) The percentage has been calculated based on the total number of 2,198,331,250 ordinary shares of the Company in issue as at 31 December 2012.

(d) 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 2012, 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2012, 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 (January to May 2012) or HK$1,250 (June to December 2012) 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$72,000 (2011: HK$64,000) and HK$1,085,000 (2011: HK$3,418,000) 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 30 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:

	2012	2011
The largest customer	**28.9%**	20.0%
Five largest customers in aggregate	**50.1%**	37.9%
The largest supplier	**34.3%**	16.8%
Five largest suppliers in aggregate	**75.1%**	42.5%

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.

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 2012, there was a sufficiency of public float the Company's securities as required under the Listing Rules.

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. Wong Chak Keung (Chairman), Mr. Ling Yu Zhang 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 2012.

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 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices (the "Former CG Code") which was subsequently revised as the Corporate Governance Code (the "Revised CG Code") contained 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") and came into full effect on 1 April 2012.

Throughout the year under review, the Company has complied with most of the Code Provisions of the Former CG Code for the period from 1 January 2012 to 31 March 2012 and of the Revised CG Code for the period from 1 April 2012 to 31 December 2012, save for the deviation of the Code Provision A.4.1 which is explained below.

Code Provision A.4.1 stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

None of the existing independent non-executive Directors (the "INEDs") is appointed for a specific term.

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 the Articles, such practice meets the same objective and is no less exacting than those prescribed under Code Provision A.4.1.

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 and of the conduct, business activities and development of the Company.

The INEDs are expressly identified in all corporate communications such as circular, announcement or relevant corporate communications in which the names of Directors 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 INEDs meet the independent guideline set out in Rule 3.13 of the Listing Rules and are independent.

CORPORATE GOVERNANCE REPORT

To the best knowledge of the Company, there is no financial, business, family relationship among the members of the Board as at 31 December 2012. 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. Wong Chak Keung	
Mr. Lu Wei	
Mr. Ling Yu Zhang	

The Board held 10 Board meetings (including 4 regular Board meetings) during the financial year ended 31 December 2012. 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, Nomination Committee, Remuneration Committee Meetings, Annual General Meeting and Extraordinary General Meeting in 2012".

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 the 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 overall management of the Company's business, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. 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. Ten Board meetings (including four regular 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.

The Board also reserves for its decisions on all major matters of the Company, including: the approval and monitoring of major policy matters, overall strategies and annual budgets and business plans, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information and other significant financial and operational matters.

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, Nomination Committee and Remuneration Committee. The details of the committees are stipulated on pages 20 to 22 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 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, Mr. Law Gerald Edwin, was appointed on 17 March 2011. He 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. During the year ended 31 December 2012, Mr. Law undertook not less than 15 hours of professional training to update his skills and knowledge.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors, including INEDs, should keep abreast of their collective responsibilities as Directors and of the business and activities of the Group. Each newly appointed Director would receive a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he is sufficiently aware of his responsibilities under the Listing Rules and other relevant regulatory requirements. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and update all Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and to enhance their awareness of good corporate governance practices.

During the year ended 31 December 2012, the Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

Name of Directors	Attended Seminars or Briefing/Read Materials
Executive Directors	
Ni Xinguang	✓
Wang Zhiming	✓
Independent Non-executive Directors	
Lu Wei	✓
Wong Chak Keung	✓
Ling Yu Zhang	✓

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. With the assistance of the Company Secretary 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 auditor 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 28 and 29 of this annual 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.

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 as its own code of conduct regarding Directors securities transactions. 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 2012.

AUDIT COMMITTEE

Composition

The Company established an Audit Committee in 1999. It has written terms of reference in compliance with the Former CG Code. The Audit Committee consists of three INEDs, namely Mr. Wong Chak Keung (Chairman), Mr. Ling Yu Zhang 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.

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 other matters within the scope of the terms of reference. On 30 March 2012, the Board adopted a set of the revised terms of reference of the Audit Committee, which has included changes in line with the Revised CG Code requirements effective from 1 April 2012. The revised terms of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

In discharging its responsibilities, the Audit Committee performed the following work during the year of 2012:

(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.

During the year under review, two Audit Committee meetings were held and the record of attendance of individual member is listed out on page 22 of this annual report.

REMUNERATION COMMITTEE

Composition

The Remuneration Committee had been established with written terms of reference in compliance with the Former CG Code. The Remuneration Committee members consists of three INEDs, namely Mr. Ling Yu Zhang (Chairman), Mr. Wong Chak Keung and Mr. Lu Wei. The Remuneration Committee meets at least once a year.

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. On 30 March 2012, the Board adopted a set of the revised terms of reference of the Remuneration Committee, which has included changes in line with the Revised CG Code requirements effective from 1 April 2012. The revised terms of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange. The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual executive Directors and senior management.

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 under review, one Remuneration Committee meeting was held to review the existing remuneration policy and structure of Company and to review and approve the remuneration of executive Directors and senior management. The record of attendance of individual member is listed out on page 22 of this annual report.

Emolument Policy

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

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement, for the Board approval.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees.

NOMINATION COMMITTEE

Composition

The Nomination Committee has been established with a defined terms of reference in consistent with the Revised CG Code on 30 March 2012. The Nomination Committee consists of three INEDs, namely Mr. Lu Wei (Chairman), Mr. Ling Yu Zhang and Mr. Wong Chak Keung. The Nomination Committee meets at least once a year.

Functions and Role

The primary duties of the Nomination Committee are, inter alias, reviewing the structure, size and composition of the Board, making recommendations to the Board on Board succession, identifying individuals suitably qualified to become Board members and assessing the independence of INEDs. The terms of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

Before the Nomination Committee was established, all Directors of the Company are responsible for making recommendations to the Board on nomination and appointment of Directors and Board succession, with a view to appoint to the Board individuals with suitable experience and capabilities to maintain and improve the competitiveness of the Company.

Where vacancies on the Board exist, the Nomination Committee (or the Board before the Nomination Committee was established) will carry out the selection process by making reference to the skills, past experience, qualifications, professional knowledge, personal integrity and time commitments of the proposed candidates, including the independence status in the case of an INED, the Company's needs and other relevant statutory requirements and regulations. During the year under review, there has no newly appointed Director.

During the year under review, one Nomination Committee meeting was held for adoption of its terms of reference and the record of attendance of individual member is listed out on page 22 of this annual report.

CORPORATE GOVERNANCE FUNCTION

All members of the Board are responsible for performing the corporate governance functions. The terms of reference of corporate governance functions was adopted by the Board at the Board meeting held on 30 March 2012 and is in compliance with paragraph D3.1 of the Revised CG Code. During the year ended 31 December 2012, the Board has reviewed the policy of the corporate governance of the Company.

ATTENDANCE OF BOARD MEETINGS, AUDIT COMMITTEE MEETINGS, NOMINATION COMMITTEE MEETING, REMUNERATION COMMITTEE MEETING, ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING IN 2012

	Attendance/Number of Meetings Held					
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting held on 8 June 2012	Extraordinary General Meeting held on 20 January 2012
Directors						
Executive Directors:						
Ni Xinguang	10/10	N/A	N/A	N/A	1/1	1/1
Wang Zhiming	10/10	N/A	N/A	N/A	0/1	0/1
Independent Non-executive Directors:						
Lu Wei	8/10	2/2	1/1	1/1	0/1	0/1
Wong Chak Keung	10/10	2/2	1/1	1/1	1/1	1/1
Ling Yu Zhang	9/10	2/2	1/1	1/1	1/1	0/1

AUDITOR'S REMUNERATION

During the year under review, the fees paid or payable to external auditor of the Company, RSM Nelson Wheeler were HK$1,700,000 for statutory audit services rendered and for non-audit services rendered were HK$853,000 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 Board has conducted a review of the effectiveness of the internal control system of the Group. 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 the Company's website. A Shareholder's Communication Policy was adopted by the Board on 30 March 2012 aiming at providing the shareholders and potential investors with ready and timely access to balanced and understandable information of the Company.

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.

During the year under review, the annual general meeting held on 8 June 2012, the whole Board of Directors and auditor of the Company have attended the meeting to answer questions of the Shareholders except that Mr. Wang Zhiming and Mr. Lu Wei could not attend the annual general meeting due to other business engagement but they have appointed the other attended Director as their representative at the meeting. Under the Code Provision A.6.7 of the Revised CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other business engagement, two INEDs could not attend the extraordinary general meeting held on 20 January 2012. However they have appointed the other attended INED as their representative at the meeting to answer questions of the Shareholders.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's registered office at Unit A02, 11/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

SHAREHOLDERS' RIGHT

Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to the Hong Kong Companies Ordinance and the Articles, an extraordinary general meeting can be convened by a written request signed by Shareholders holding not less than one-twentieth of the paid-up share capital of the Company, stating the objects of the meeting, and deposited at the Company's registered office at Unit A02, 11/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

Procedures for putting forward Proposals at a General Meeting

A shareholder shall make a written requisition to the Board or the Company Secretary at the Company's registered office at Unit A02, 11/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the Company Secretary at the Company's registered office at Unit A02, 11/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong or send email to ir@sevenstar.hk.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

At the EGM held on 20 January 2012, the Shareholders approved the amendments to the Articles of Association, the provisions of which principally reflected the recent changes to the Listing Rules and the Revised CG Code. A new set of amended and restated Articles of Association consolidating such amendments was adopted on the same date. The new set of amended and restated Articles of Association is available on the Stock Exchange's website and the Company's website or on request to the Company Secretary.

DIRECTORS' PROFILES

Mr. Ni Xinguang, aged 44, was appointed as chairman and executive Director on 12 March 2004 and a director of a subsidiary of the Company. 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 entered into a service contract with the Company for a period of two years commencing 1 April 2008 which has expired on 31 March 2010. Mr. Ni has not entered into any new written service contract with the Company but is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with articles of association of the Company (the "Articles"). Mr. Ni is entitled to an annual remuneration of HK$970,000 with discretionary bonus payment as determined by the remuneration committee of the Company based on Mr. Ni's and the 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 28,734,000 Shares in the Company and has 60% beneficial interest in Group First Limited, in which owned 566,004,000 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 of Hong Kong Limited (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 42, was appointed as an executive Director 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 as an executive Director again on 18 November 2006 and a Director of several subsidiaries of the Company. Mr. Wang was also appointed as a 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. Mr. Wang is entitled to an annual remuneration of HK$810,000 with discretionary bonus payment as determined by the remuneration committee of the Company based on Mr. Wang's and the 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 28,434,000 Shares in the Company and has 40% beneficial interest in Group First Limited, in which owned 566,004,000 Shares in the Company.

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. Wong Chak Keung, aged 46, was appointed as an independent non-executive Director on 31 January 2011. Mr. Wong is also the chairman and member of audit committee and members of remuneration committee and nomination committee of the Company. Mr. Wong holds a bachelor degree in business from The University of Southern Queensland in Australia. Mr. Wong is also a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia respectively. Mr. Wong has been in the accounting profession for over 15 years. Before joining the Company, Mr. Wong has the working experience in international accounting firms, listed and other companies involved in investment, accounting, educational business, manufacturing, corporate finance and mergers and acquisitions. Mr. Wong is an executive director of China Investment Development Limited (stock code: 204) which is listed on the Main Board of the Stock Exchange, and an independent non-executive director of Bingo Group Holdings Limited (stock code: 8220) which is listed on the Growth Enterprise Market of the Stock Exchange (the "GEM") respectively. Mr. Wong was an executive director of China Innovation Investment Limited (stock code: 1217) during the period from November 2007 to June 2011 and an executive director of China Trends Holdings Limited (stock code: 8171) during the period from February 2008 to June 2011 and the two companies are listed on the Main Board of the Stock Exchange and the GEM respectively.

Mr. Wong 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. Mr. Wong is entitled to an annual remuneration of HK$180,000 without any bonus payment. The remuneration of Mr. Wong is not covered by any service contract. The remuneration package of Mr. Wong 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. Wong is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as disclosed above, Mr. Wong 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. Wong 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. Ling Yu Zhang, aged 69, was appointed as an independent non-executive Director on 1 September 2011. Mr. Ling is also chairman and member of the remuneration committee and members of the audit committee and nomination committee of the Company. He graduated from the Department of Mechanical Engineering of Beijing Institute of Technology and is a Senior Economist. Mr. Ling has more than 40 years of experience in the automobile and mechanical industry. Mr. Ling has been appointed as Vice-director of Provincial Machinery and Industry Department in Fujian, Chairman of Fujian Motor Industry Group Company and member of the 9th committee of the Chinese People's Political Consultative Conference in Fujian.

DIRECTORS' PROFILES

Mr. Ling 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. Mr. Ling is entitled to an annual remuneration of HK$180,000 without any bonus payment. The remuneration of Mr. Ling is not covered by any service contract. The remuneration package of Mr. Ling 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. Ling is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as disclosed above, Mr. Ling 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. Ling 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 49, was appointed as an independent non-executive Director on 15 June 2005. Mr. Lu is also the chairman and member of nomination committee and 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 Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd., Shanghai Guangdian Electric Group Co., Ltd., Luolai Home Textile Co., Ltd. and China Yongda Automobiles Services Holdings Limited (stock code: 3669) all are companies listed on the Shanghai/Shenzhen/Hong Kong 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. Mr. Lu is entitled to an annual remuneration of HK$180,000 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

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") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 79, which comprise the consolidated and Company statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2012, 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 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Continuing operations			
Turnover	7	616,877	577,978
Cost of sales and services		(548,872)	(593,342)
Gross profit/(loss)		68,005	(15,364)
Other income	8	59,669	54,935
Distribution costs		(65,074)	(53,095)
Administrative expenses		(26,714)	(41,218)
Other operating expenses		(6,822)	(21,805)
Profit/(loss) from operations		29,064	(76,547)
Finance costs	10	(11,779)	(29,665)
Profit/(loss) before tax		17,285	(106,212)
Income tax expense	11	(20)	(109)
Profit/(loss) for the year from continuing operations		17,265	(106,321)
Discontinued operation			
Profit for the period from discontinued operation	12	–	155
Profit/(loss) for the year	13	17,265	(106,166)
Attributable to:			
Owners of the Company			
Profit/(loss) from continuing operations		3,308	(19,147)
Profit from discontinued operation		–	155
Profit/(loss) attributable to owners of the Company	16	3,308	(18,992)
Non-controlling interests			
Profit/(loss) from continuing operations		13,957	(87,174)
Profit from discontinued operation		–	–
Profit/(loss) attributable to non-controlling interests		13,957	(87,174)
		17,265	(106,166)
			(Restated)
Earnings/(loss) per share			
From continuing and discontinued operations			
— basic	18(a)	HK0.19 cent	HK(1.27) cents
— diluted	18(a)	N/A	N/A
From continuing operations			
— basic	18(b)	HK0.19 cent	HK(1.28) cents
— diluted	18(b)	N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Profit/(loss) for the year	17,265	(106,166)
Other comprehensive income		
Exchange differences on translating foreign operations	153	(942)
Other comprehensive income for the year, net of tax	153	(942)
Total comprehensive income for the year	17,418	(107,108)
Attributable to:		
Owners of the Company	4,985	(7,876)
Non-controlling interests	12,433	(99,232)
	17,418	(107,108)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Fixed assets	19	**5,759**	4,421
Intangible assets	20	**173**	530,846
Available-for-sale financial assets	22	**207**	–
		6,139	535,267
Current assets			
Inventories	23	**15,618**	11,599
Trade and bills receivables	24	**52,829**	34,323
Other receivables, prepayments and deposits	25	**12,277**	54,078
Pledged bank deposits	26	**12,641**	24,981
Bank and cash balances	26	**62,038**	40,689
		155,403	165,670
Current liabilities			
Agency fee payables		**20,311**	628,982
Trade payables	27	**18,471**	23,932
Other payables and accruals		**74,665**	53,328
Bank loans	28	**9,944**	9,864
Current tax liabilities		**2,304**	2,268
		125,695	718,374
Net current assets/(liabilities)		**29,708**	(552,704)
NET ASSETS/(LIABILITIES)		**35,847**	(17,437)
Capital and reserves			
Share capital	29	**21,983**	732,777
Other reserves	31	**1,327,081**	1,304,917
Accumulated losses		**(1,095,491)**	(1,747,742)
Equity attributable to owners of the Company		**253,573**	289,952
Non-controlling interests		**(217,726)**	(307,389)
TOTAL EQUITY		**35,847**	(17,437)

Approved by the Board of Directors on 27 March 2013.

Ni Xinguang
Director

Wang Zhiming
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Fixed assets	19	**243**	27
Interests in subsidiaries	21	**–**	297
		243	324
Current assets			
Prepayments and deposits	25	**332**	242
Pledged bank deposit	26	**12,330**	24,672
Bank and cash balances		**48,114**	24,382
		60,776	49,296
Current liabilities			
Other payables and accruals		**2,279**	2,978
Net current assets		**58,497**	46,318
NET ASSETS		**58,740**	46,642
Capital and reserves			
Share capital	29	**21,983**	732,777
Other reserves	31	**1,269,336**	1,248,849
Accumulated losses		**(1,232,579)**	(1,934,984)
TOTAL EQUITY		**58,740**	46,642

Approved by the Board of Directors on 27 March 2013.

Ni Xinguang
Director

Wang Zhiming
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company					
	Share capital HK$'000	**Other reserves** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
At 1 January 2011	732,777	1,295,679	(1,730,628)	297,828	(208,157)	89,671
Total comprehensive income for the year	–	11,116	(18,992)	(7,876)	(99,232)	(107,108)
Transfer	–	(1,878)	1,878	–	–	–
Change in equity for the year	–	9,238	(17,114)	(7,876)	(99,232)	(107,108)
At 31 December 2011	732,777	1,304,917	(1,747,742)	289,952	(307,389)	(17,437)
At 1 January 2012	732,777	1,304,917	(1,747,742)	289,952	(307,389)	(17,437)
Total comprehensive income for the year	–	1,677	3,308	4,985	12,433	17,418
Reduction in par value of share capital (Notes 29(a)(ii)&(iii))	(718,122)	–	718,122	–	–	–
Issue of shares on open offer (Note 29(b))	7,328	28,538	–	35,866	–	35,866
Purchase of equity interests from non-controlling interests	–	–	(77,230)	(77,230)	77,230	–
Transfer	–	(8,051)	8,051	–	–	–
Change in equity for the year	(710,794)	22,164	652,251	(36,379)	89,663	53,284
At 31 December 2012	21,983	1,327,081	(1,095,491)	253,573	(217,726)	35,847

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
Profit/(loss) before tax from continuing operations		17,285	(106,212)
Profit before tax from discontinued operation		–	155
		17,285	(106,057)
Adjustments for:			
Finance costs		11,779	29,665
Interest income		(511)	(457)
Depreciation		1,837	7,186
(Reversal of)/allowance for inventories		(3)	12,852
Allowance for other receivables		643	4,886
Allowance for trade receivables		4,491	5,505
Amortisation of intangible assets		527,210	519,484
Barter transactions for inventories and fixed assets	32(a)	(2,379)	(10,958)
Fixed assets written off		334	343
Gain on disposals of fixed assets		(28)	–
Impairment loss on fixed assets		–	4,522
Impairment loss on prepayments and deposits		912	4,922
Reversal of allowance for trade receivables		(372)	(1,233)
Reversal of allowance for other receivables		(4)	–
Write back of other payables and accruals		(495)	(1,091)
Write back of trade payables		(121)	(55)
Operating profit before working capital changes		560,578	469,514
Decrease in properties held for resale		–	11,000
(Increase)/decrease in inventories		(3,715)	2,711
Increase in trade and bills receivables, other receivables, prepayments and deposits		(20,627)	(19,369)
Decrease in agency fee payables	32(b)	(586,573)	(532,803)
Increase in trade and bills payables, other payables and accruals		16,642	5,533
Cash used in operations		(33,695)	(63,414)
Tax paid		(1)	(115)
Interest paid		(665)	(402)
Net cash used in operating activities		(34,361)	(63,931)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Cash flows from investing activities			
Decrease in pledged bank deposit		–	5,992
Payment for acquisition of available-for-sale financial assets		(207)	–
Payment for purchase of fixed assets	32(a)&(c)	(572)	(1,920)
Proceeds from disposals of fixed assets		28	–
Interest received		511	457
Net cash (used in)/generated from investing activities		(240)	4,529
Cash flows from financing activities			
Decrease/(increase) in pledged bank deposit		12,342	(24,672)
Bank loans raised		–	9,864
Proceeds from issue of shares		35,866	–
Net cash generated from/(used in) financing activities		48,208	(14,808)
Net increase/(decrease) in cash and cash equivalents		13,607	(74,210)
Effect of foreign exchange rate changes		7,742	2,775
Cash and cash equivalents at 1 January		40,689	112,124
Cash and cash equivalents at 31 December		62,038	40,689
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		62,038	40,689

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION

The Company was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance. The address of its registered and business office is Unit A02, 11/F, Bank of East Asia Harbour View Centre, 56 Gloucester 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 principal 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 2012. 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 significant changes to the Group's accounting policies, presentation of the Group's financial statements 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 an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise their judgements in the process of applying the accounting policies. The 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 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 that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits 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.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (x) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Foreign currency translation

(i) Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation *(Continued)*

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

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses 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 consolidated profit or loss as part of the gain 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Fixed assets

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss 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 and certain leasehold improvements revised to 2 years since 1 January 2010
Furniture, fixtures and office equipment	20%
Call centre system	20%
Motor vehicles	20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

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 profit or loss.

(e) Operating leases

(i) The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(f) Discontinued operation

A discontinued operation is a component of the Group, the operation and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Discontinued operation *(Continued)*

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises:

— The post-tax profit or loss of the discontinued operation; and

— The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(g) Intangible assets

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.

Insurance agency licence

The insurance agency licence 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.

Exclusive advertising agency right

Exclusive advertising agency right comprises the right to sell the advertising resources of television channel in the People's Republic of China (the "PRC") on a sole agency basis. The Group is contracted to make pre-agreed periodic payments during the sole agency period.

The cost of the exclusive advertising agency right representing net present value of those pre-agreed periodic payments constitutes a contractual obligation to deliver cash or other monetary assets and hence are considered to be a financial liability. The exclusive advertising agency right is amortised on a straight-line basis from the effective date of the right over the sole agency period and is stated at cost net of accumulated amortisation and impairment loss, if any. Interest accreted on the present value of pre-agreed periodic payments is charged to the consolidated income statement within finance costs.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis and comprises costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position 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 the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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 profit or loss.

(j) Investments

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

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 in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss 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.

For available-for-sale equity investments that do not have a quoted market price in a active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss 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.

(l) Cash and cash equivalents

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

(m) Financial liabilities and equity instruments

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

(n) Borrowings

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

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

(o) Trade and other payables

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

(p) Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Revenue recognition

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

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

Revenue from insurance agency services and television advertising services are 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.

(r) Employee benefits

(i) Employee leave entitlements

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

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 profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

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

(s) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the 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.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and recognised as expense.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(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 subsidies 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 in profit or loss in the period in which they become receivable.

(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 recognised in profit or loss 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 end of the reporting period.

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. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Taxation *(Continued)*

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

(w) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties *(Continued)*

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(x) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except 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 profit or loss, 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 profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) 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.

(z) Events after the reporting period

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

4. KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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, residual values and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives and residual values of fixed assets of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values 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 many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness, the past collection history of each debtor and on management's judgement. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. 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.

4. KEY ESTIMATES *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(d) Allowance for slow-moving inventories

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

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of 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 the end of each reporting period.

5. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as some of its business transactions and assets are denominated in currencies other than the functional currency of respective Group entities such as Renminbi ("RMB"). 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.

At 31 December 2012, if RMB had weakened 5 per cent against Hong Kong dollars with all other variables held constant, consolidated profit after tax would have been HK$1,358,000 lower, arising mainly as a result of the foreign exchange loss on bank deposits denominated in RMB. If RMB had strengthened 5 per cent against Hong Kong dollars with all other variables held constant, consolidated profit after tax would have been HK$1,358,000 higher, arising mainly as a result of the foreign exchange gain on bank deposits denominated in RMB.

At 31 December 2011, if RMB had weakened 5 per cent against Hong Kong dollars with all other variables held constant, consolidated loss after tax would have been HK$2,073,000 higher, arising mainly as a result of the foreign exchange loss on bank deposits denominated in RMB. If RMB had strengthened 5 per cent against Hong Kong dollars with all other variables held constant, consolidated loss after tax would have been HK$2,073,000 lower, arising mainly as a result of the foreign exchange gain on bank deposits denominated in RMB.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk

The carrying amount of the bank and cash balances, pledged bank deposits and trade and bills receivables and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentration of credit risk.

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 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 bank and cash balances and pledged bank deposits are limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) Liquidity risk

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

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK$'000	**Between 1 and 2 years** HK$'000	**Between 2 and 5 years** HK$'000	**Over 5 years** HK$'000
At 31 December 2012				
Trade payables	**18,471**	**–**	**–**	**–**
Other payables and accruals	**74,665**	**–**	**–**	**–**
Bank loans	**10,080**	**–**	**–**	**–**
Agency fee payables	**20,311**	**–**	**–**	**–**
At 31 December 2011				
Trade payables	23,932	–	–	–
Other payables and accruals	53,328	–	–	–
Bank loans	10,017	–	–	–
Agency fee payables	640,161	–	–	–

(d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits and bank loans. Certain bank deposits bear interests at fixed interest rates and therefore are subject to fair value interest rate risk. Other bank deposits and bank loans bear interests at variable interest rates varied with the then prevailing market condition.

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 rate.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Categories of financial instruments at 31 December 2012

	2012 HK$'000	2011 HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	129,385	107,180
Available-for-sale financial assets	207	–
Financial liabilities:		
Financial liabilities at amortised cost	123,391	716,106

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position 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 Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

7. TURNOVER

The Group's turnover which represents sales of consumer products to customers, television advertising service income, insurance agency service income, sales of properties and rental income from properties are as follows:

	2012 HK$'000	2011 HK$'000
PRC retail and distribution of consumer products	52,445	71,307
Television advertising service income	553,070	500,870
Insurance agency service income	11,362	5,801
Sales of properties	–	11,000
Rental income	–	643
	616,877	589,621
Representing:		
Continuing operations	616,877	577,978
Discontinued operation (Note 12)	–	11,643
	616,877	589,621

8. OTHER INCOME

	2012 HK$'000	2011 HK$'000
Interest income	511	457
Commission income from television advertising services	56,824	48,775
Exchange gains, net	–	1,529
Gain on disposals of fixed assets	28	–
Rental income	918	–
Reversal of allowance for trade receivables	372	1,233
Reversal of allowance for other receivables	4	–
PRC tax subsidy	321	188
Write back of other payables and accruals	495	1,091
Write back of trade payables	121	55
Sundry income	75	1,607
	59,669	54,935
Representing:		
Continuing operations	59,669	54,935

9. SEGMENT INFORMATION

The Group has three reportable segments as follows:

PRC retail and distribution	—	retail and distribution of consumer products in the PRC
Television advertising	—	provision of television advertising services in the PRC
Property investment	—	property holding and investment in Hong Kong (Discontinued operation)

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different marketing strategies.

The Group's other operating segment includes the insurance agency service business, which earns insurance agency service income. This segment does not meet any of the quantitative thresholds for determining reportable segments. The information of this operating segment is included in the 'other' column.

The accounting policies of the operating segments are the same as those described in Note 3 to the financial statements. Segment profits or losses do not include interest income, corporate income and corporate expenses. Segment assets do not include corporate assets. Segment liabilities do not include corporate liabilities.

The Group accounts for intersegment sales and transfers as if the sales or tranfers were to third parties, i.e. at current market prices.

9. SEGMENT INFORMATION *(Continued)*

Information about reportable segment profit or loss, assets and liabilities:

	PRC retail and distribution HK$'000	Television advertising HK$'000	Other HK$'000	Total HK$'000
Year ended 31 December 2012				
Revenue from external customers	52,445	553,070	11,362	616,877
Intersegment revenue	–	–	–	–
Segment profit/(loss)	(12,883)	41,560	(96)	28,581
Interest revenue	30	14	14	58
Interest expense	665	11,114	–	11,779
Income tax expense	–	–	20	20
Depreciation and amortisation	1,427	527,394	106	528,927
Reversal of bad debts/impairment charges	20	359	–	379
Bad debts/impairment charges	1,471	4,575	–	6,046
Write back of trade and other payables and accruals	583	–	–	583
Fixed assets written off	333	–	–	333
Gain on disposals of fixed assets	28	–	–	28
Additions to segment non-current assets	526	2,806	3	3,335
At 31 December 2012				
Segment assets	120,846	74,138	22,606	217,590
Segment liabilities	68,068	171,596	819	240,483

9. SEGMENT INFORMATION *(Continued)*

Information about reportable segment profit or loss, assets and liabilities: *(Continued)*

	PRC retail and distribution HK$'000	Television advertising HK$'000	(Discontinued operation) Property investment HK$'000	Other HK$'000	Total HK$'000
Year ended 31 December 2011					
Revenue from external customers	71,307	500,870	11,643	5,801	589,621
Intersegment revenue	–	–	–	–	–
Segment profit/(loss)	(67,603)	(29,430)	155	(198)	(97,076)
Interest revenue	137	23	–	33	193
Interest expense	402	29,263	–	–	29,665
Income tax expense	106	–	–	3	109
Depreciation and amortisation	7,117	519,416	–	110	526,643
Reversal of bad debts/impairment charges	1,233	–	–	–	1,233
Bad debts/impairment charges	17,513	15,174	–	–	32,687
Write back of trade and other payables and accruals	107	223	–	–	330
Fixed assets written off	343	–	–	–	343
Additions to segment non-current assets	1,900	14	–	–	1,914
At 31 December 2011					
Segment assets	111,950	614,170	129	22,208	748,457
Segment liabilities	59,219	752,695	–	494	812,408

9. SEGMENT INFORMATION *(Continued)*

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2012 HK$'000	2011 HK$'000
Revenue		
Total revenue of reportable segments	616,877	589,621
Elimination of discontinued operation	–	(11,643)
Consolidated revenue from continuing operations	616,877	577,978
Profit or loss		
Total profit or loss of reportable segments	28,581	(97,076)
Interest revenue	511	457
Unallocated corporate income	37	2,345
Unallocated corporate expenses	(11,844)	(11,783)
Elimination of discontinued operation	–	(155)
Consolidated profit/(loss) before tax from continuing operations	17,285	(106,212)
Assets		
Total assets of reportable segments	217,590	748,457
Corporate assets	61,019	49,492
Elimination of intersegment assets	(117,067)	(97,012)
Consolidated total assets	161,542	700,937
Liabilities		
Total liabilities of reportable segments	240,483	812,408
Corporate liabilities	2,279	2,978
Elimination of intersegment liabilities	(117,067)	(97,012)
Consolidated total liabilities	125,695	718,374

9. SEGMENT INFORMATION *(Continued)*

Geographical information:

	Revenue		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**–**	11,643	**243**	27
PRC except Hong Kong	**616,877**	577,978	**5,896**	535,240
Discontinued operation	**–**	(11,643)	**–**	–
Consolidated total	**616,877**	577,978	**6,139**	535,267

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customer:

	2012	2011
	HK$'000	HK$'000
Television advertising segment		
Customer a	**178,152**	118,139

10. FINANCE COSTS

	2012	2011
	HK$'000	HK$'000
Notional non-cash interest accretion on pre-agreed periodic payments on exclusive advertising agency right	**11,114**	29,263
Interest on bank loans	**665**	402
	11,779	29,665
Representing:		
Continuing operations	**11,779**	29,665

11. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000
PRC tax		
— current	20	2
— underprovision in prior years	–	107
	20	109
Representing:		
Continuing operations	20	109

No provision for Hong Kong Profits Tax is required since the Group has no assessable profits in Hong Kong for the year (2011: HK$Nil).

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

	2012 HK$'000	2011 HK$'000
Profit/(loss) before tax from continuing operations	17,285	(106,212)
Profit before tax from discontinued operation	–	155
	17,285	(106,057)
Tax at Hong Kong Profits Tax rate of 16.5% (2011: 16.5%)	2,852	(17,499)
Tax effect of income that is not taxable	(343)	(2,770)
Tax effect of expenses that are not deductible	3,844	13,288
Tax effect of temporary differences not recognised	(55)	7,083
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	2,435	(8,118)
Tax effect of tax losses not recognised	4,488	12,738
Tax effect of utilisation of tax losses not previously recognised	(13,201)	(4,720)
Underprovision in prior years	–	107
Income tax expense	20	109

11. INCOME TAX EXPENSE *(Continued)*

At the end of the reporting period the Group and the Company has unused tax losses of approximately HK$247,942,000 (2011: HK$297,002,000) and HK$3,739,000 (2011: 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$15,541,000, HK$5,428,000, HK$125,867,000, HK$65,341,000 and HK$12,349,000 will expire on 31 December 2013, 2014, 2015, 2016 and 2017 respectively. Other tax losses may be carried forward indefinitely. Included in unused tax losses of the Group are losses of approximately HK$236,480,000 (2011: HK$285,540,000) that have not yet been agreed by respective tax authorities.

No provision for deferred taxation had been made for both years ended 31 December 2011 and 2012 as the tax effect of all temporary difference is not material.

12. DISCONTINUED OPERATION

Pursuant to an agreement dated 16 September 2011 entered into between a subsidiary of the Company, Marson Development Limited ("Marson") and an independent third party (the "Purchaser"), Marson disposed of its properties held for resale to the Purchaser at a consideration of HK$11,000,000.

The disposal was completed in October 2011 and the Group discontinued its property investment business.

The results of the discontinued operation for the period, which have been included in consolidated profit or loss, are as follows:

	From 1 January 2011 to 31 October 2011 HK$'000
Turnover (Note 7)	11,643
Cost of sales	(11,431)
Gross profit	212
Administrative expenses	(57)
Profit before tax	155
Income tax expense	–
Profit for the period	155

During the period, the discontinued operation received approximately HK$10,833,000 in respect of operating activities.

13. PROFIT/(LOSS) FOR THE YEAR

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

	2012 HK$'000	2011 HK$'000
(Reversal of)/allowance for inventories (included in cost of inventories sold)	**(3)**	12,852
Allowance for other receivables (included in other operating expenses)	**643**	4,886
Allowance for trade receivables (included in other operating expenses)	**4,491**	5,505
Amortisation of exclusive advertising agency right (included in cost of sales and services)	**527,107**	519,383
Amortisation of insurance agency licence (included in other operating expenses)	**103**	101
Auditor's remuneration	**1,700**	1,700
Cost of inventories sold	**39,783**	66,890
Depreciation	**1,837**	7,186
Exchange differences, net	**237**	(1,529)
Fixed assets written off	**334**	343
Impairment loss on fixed assets (included in other operating expenses)	**–**	4,522
Impairment loss on prepayments and deposits (included in other operating expenses)	**912**	4,922
Operating lease charges		
— Hire of plant and equipment	**–**	1,317
— Land and buildings	**5,213**	7,196
Staff costs (including directors' emoluments) (Note 14)	**10,849**	27,760

14. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2012 HK$'000	2011 HK$'000
Salaries, bonuses and allowances	**9,692**	24,278
Retirement benefits scheme contributions	**1,157**	3,482
	10,849	27,760

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments of each director were as follows:

Name of director	Fees HK$'000	Salaries HK$'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	–	962	10	–	–	14	–	–	986
Mr. Wang Zhiming	–	804	10	–	–	14	–	–	828
Mr. Ling Yu Zhang	180	–	–	–	–	–	–	–	180
Mr. Lu Wei	180	–	–	–	–	–	–	–	180
Mr. Wong Chak Keung	180	–	–	–	–	–	–	–	180
Total for 2012	540	1,766	20	–	–	28	–	–	2,354

Name of director	Fees HK$'000	Salaries HK$'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	15	–	–	12	–	–	987
Mr. Wang Zhiming	–	780	27	–	–	12	–	–	819
Mr. Chan Wai Sum (Note d)	121	–	–	–	–	–	–	–	121
Mr. Ho Wai Ip (Note c)	15	–	–	–	–	–	–	–	15
Mr. Ling Yu Zhang (Note b)	60	–	–	–	–	–	–	–	60
Mr. Lu Wei	180	–	–	–	–	–	–	–	180
Mr. Wong Chak Keung (Note a)	165	–	–	–	–	–	–	–	165
Total for 2011	541	1,740	42	–	–	24	–	–	2,347

Notes:

(a) Appointed on 31 January 2011.

(b) Appointed on 1 September 2011.

(c) Resigned on 31 January 2011.

(d) Resigned on 1 September 2011.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2011 and 2012.

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included 2 (2011: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2011: 3) individuals are set out below:

	2012 HK$'000	2011 HK$'000
Salaries, bonuses and allowances	1,174	1,165
Retirement benefit scheme contributions	86	22
	1,260	1,187

The emoluments fell within the following bands:

	Number of individuals 2012	 2011
HK$Nil to HK$1,000,000	3	3

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.

16. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit/(loss) for the year attributable to owners of the Company included a loss of approximately HK$23,768,000 (2011: approximately HK$45,273,000) which has been dealt with in the financial statements of the Company.

17. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2012 (2011: HK$Nil).

18. EARNINGS/(LOSS) PER SHARE

(a) From continuing and discontinued operations

Basic earnings/(loss) per share

The calculation of basic earnings (2011: loss) per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$3,308,000 (2011: loss of approximately HK$18,992,000) and the weighted average number of ordinary shares of 1,750,496,000 (2011: 1,494,865,000 as adjusted to reflect the share consolidation in April 2012 and open offer in August 2012) in issue during the year.

Diluted earnings/(loss) per share

No diluted earnings (2011: loss) per share is presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 December 2011 and 2012.

(b) From continuing operations

Basic earnings/(loss) per share

The calculation of basic earnings (2011: loss) per share from continuing operations attributable to owners of the Company is based on the profit for the year from continuing operations attributable to owners of the Company of approximately HK$3,308,000 (2011: loss of approximately HK$19,147,000) and the denominator used is the same as that detailed in (a) above.

Diluted earnings/(loss) per share

No diluted earnings (2011: loss) per share from continuing operations is presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 December 2011 and 2012.

(c) From discontinued operation

Basic earnings per share

Basic earnings per share from the discontinued operation for 2011 is HK0.01 cent (as restated) per share, based on the profit for the year from discontinued operation attributable to the owners of the Company of approximately HK$155,000 and the denominator used is the same as that detailed in (a) above.

Diluted earnings per share

No diluted earnings per share from the discontinued operation is presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2011.

19. FIXED ASSETS

	The Group				
	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Call centre system HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 January 2011	8,962	13,126	4,136	7,810	34,034
Additions	595	1,325	–	–	1,920
Write-off	(804)	(19)	–	–	(823)
Exchange differences	418	664	204	385	1,671
At 31 December 2011 and 1 January 2012	9,171	15,096	4,340	8,195	36,802
Additions	376	1,008	–	2,081	3,465
Disposals/write-off	(909)	(1,203)	–	–	(2,112)
Exchange differences	66	120	35	86	307
At 31 December 2012	8,704	15,021	4,375	10,362	38,462
Accumulated depreciation and impairment					
At 1 January 2011	5,486	8,077	2,939	3,548	20,050
Charge for the year	3,033	2,404	439	1,310	7,186
Write-off	(461)	(19)	–	–	(480)
Impairment loss	447	3,267	808	–	4,522
Exchange differences	306	439	154	204	1,103
At 31 December 2011 and 1 January 2012	8,811	14,168	4,340	5,062	32,381
Charge for the year	137	331	–	1,369	1,837
Disposals/write-off	(576)	(1,202)	–	–	(1,778)
Exchange differences	66	105	35	57	263
At 31 December 2012	8,438	13,402	4,375	6,488	32,703
Carrying amount					
At 31 December 2012	266	1,619	–	3,874	5,759
At 31 December 2011	360	928	–	3,133	4,421

19. FIXED ASSETS *(Continued)*

	The Company		
	Leasehold improvements HK$'000	**Office equipment** HK$'000	**Total** HK$'000
Cost			
1 January 2011	408	260	668
Additions	–	6	6
At 31 December 2011 and 1 January 2012	408	266	674
Additions	326	11	337
Write-off	(408)	(140)	(548)
At 31 December 2012	326	137	463
Accumulated depreciation			
1 January 2011	408	212	620
Charge for the year	–	27	27
At 31 December 2011 and 1 January 2012	408	239	647
Charge for the year	109	11	120
Write-off	(408)	(139)	(547)
At 31 December 2012	109	111	220
Carrying amount			
At 31 December 2012	217	26	243
At 31 December 2011	–	27	27

20. INTANGIBLE ASSETS

	The Group			
	Internet platform HK$'000	**Insurance agency licence** HK$'000	**Exclusive advertising agency right** HK$'000	**Total** HK$'000
Cost				
At 1 January 2011	1,135	491	1,474,705	1,476,331
Exchange differences	56	25	72,794	72,875
At 31 December 2011 and 1 January 2012	1,191	516	1,547,499	1,549,206
Write-off	–	–	(1,560,049)	(1,560,049)
Exchange differences	10	4	12,550	12,564
At 31 December 2012	1,201	520	–	1,721
Accumulated amortisation and impairment				
At 1 January 2011	1,135	131	463,479	464,745
Amortisation for the year	–	101	519,383	519,484
Exchange differences	56	9	34,066	34,131
At 31 December 2011 and 1 January 2012	1,191	241	1,016,928	1,018,360
Amortisation for the year	–	103	527,107	527,210
Write-off	–	–	(1,560,049)	(1,560,049)
Exchange differences	10	3	16,014	16,027
At 31 December 2012	1,201	347	–	1,548
Carrying amount				
At 31 December 2012	–	173	–	173
At 31 December 2011	–	275	530,571	530,846

Internet platform and insurance agency licence

The Group's internet platform is used for its distribution of consumer products. The Group's insurance agency licence is for its provision of insurance agency services. The average remaining amortisation period of the abovementioned intangible assets is 1.67 years (2011: 2.67 years).

20. INTANGIBLE ASSETS *(Continued)*

Exclusive advertising agency right

The Group considered the exclusive advertising agency right to be an intangible asset representing the right to sell advertising resources. The present value of pre-agreed periodic payments to be made in subsequent years were capitalised and accounted for as intangible assets in the consolidated statement of financial position, and those pre-agreed periodic payments constitute a contractual obligation to deliver cash and hence were considered to be a financial liability. The exclusive advertising agency right is amortised on a straight-line basis from the effective date of the right over the remaining licence period and is stated net of accumulated amortisation. Interest accreted on the present value of pre-agreed periodic payments is charged to the consolidated income statement within finance costs.

The exclusive advertising agency right has been expired and written off on 31 December 2012.

21. INTERESTS IN SUBSIDIARIES

	The Company	
	2012	2011
	HK$'000	HK$'000
Unlisted investments, at cost	**277,066**	277,066
Loans to subsidiaries	**1,189,865**	1,177,124
	1,466,931	1,454,190
Less: impairment losses	**(1,466,931)**	(1,453,893)
	–	297

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

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries as at 31 December 2012 are as follows:

Name	Place of incorporation/ registration, 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	6,100 ordinary shares of HK$1 each	100%	–	Investment holding
Top Pro Limited	The British Virgin Islands, limited liability company	1 ordinary share of US$1	100%	–	Investment holding
Fuzhou Landun Science of Life Co., Ltd ("Fuzhou Landun")	The PRC, wholly-foreign owned enterprise with limited liability	HK$100,000,000*	–	100%	Investment holding
Seven Star Shopping (China) Co., Ltd.^ 七星購物（中國）有限公司	The PRC, wholly-foreign owned enterprise with limited liability	RMB360,000,000	–	100%	Investment holding
Seven Star Shopping Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	–	100%	Investment holding
Shanghai Seven Star Electronic Commerce Co., Ltd.^,# 上海七星電子商務有限公司	The PRC, limited liability company	RMB30,000,000	–	96%	Investment holding
Shanghai Seven Star International Shopping Co., Ltd.^ 上海七星國際購物有限公司 ("Seven Star (Shanghai)")	The PRC, limited liability company	RMB6,000,000	–	100% (Note)	Investment holding
Shanghai Seven Star Advertising Co., Ltd.^ 上海七星廣告有限公司	The PRC, limited liability company	RMB1,000,000	–	60%	Provision of television advertising service
Shanghai Shenmin Bio-technology Co., Ltd.^ 上海盛民生物科技有限公司	The PRC, limited liability company	RMB1,000,000	–	100%	Investment holding

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries as at 31 December 2012 are as follows: *(Continued)*

Name	Place of incorporation/ registration, operation and kind of legal entity	Issued share capital/ registered capital	Percentage of ownership interest/ voting power/ profit sharing Direct	Indirect	Principal activities
Shanghai Xishiduo Hanying Kitchen Ware Ltd.^,## 上海喜世多漢英廚具有限公司	The PRC, Sino-foreign joint venture with limited liability company	RMB20,000,000	–	92.8%	Retail and wholesale of kitchen wares
Shanghai Xiangsheng Insurance Agency Co., Ltd.^ 上海祥生保險代理有限公司	The PRC, limited liability company	RMB20,000,000	–	96%	Provision of insurance agency service

^ For identification purposes only

Directly held by Seven Star (Shanghai)

41.8% is directly held by Seven Star (Shanghai)

* The registered capital of Fuzhou Landun is HK$100,000,000 and HK$77,300,000 has been paid up as at 31 December 2012.

Note:

Although the Group does not own 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. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group 2012 HK$'000	2011 HK$'000
Unlisted equity securities, at cost	207	–
Analysed as:		
Non-current assets	207	–

Unlisted equity securities with carrying amount of HK$207,000 was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

23. INVENTORIES

	The Group	
	2012	2011
	HK$'000	HK$'000
Finished goods	**15,618**	11,599

24. TRADE AND BILLS RECEIVABLES

	The Group	
	2012	2011
	HK$'000	HK$'000
Trade receivables (Note)	**49,960**	34,323
Bills receivables	**2,869**	–
	52,829	34,323

Note:

The Group's turnover represents television advertising service income, sales of consumer products and insurance agency service income. For television advertising business, the Group generally requires customers to pay in advance, but grants a credit period of 30 to 120 days to some customers. The payment terms of the sales of consumer products are normally from 30 to 180 days. The payment terms of insurance agency services provided are normally at 30 days.

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

	The Group	
	2012	2011
	HK$'000	HK$'000
0–90 days	**49,066**	32,235
91–180 days	**517**	1,782
181–365 days	**272**	10
Over 365 days	**105**	296
	49,960	34,323

24. TRADE AND BILLS RECEIVABLES *(Continued)*

At 31 December 2012, an allowance was made for estimated irrecoverable trade receivables of approximately HK$53,196,000 (2011: HK$50,235,000).

Reconciliation of the allowance for trade receivables:

	The Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**50,235**	43,714
Allowance for the year	**4,491**	5,505
Amounts reversed	**(372)**	(1,233)
Amounts written off	**(1,612)**	–
Exchange differences	**454**	2,249
At 31 December	**53,196**	50,235

At 31 December 2012, trade receivables of approximately HK$865,000 (2011: HK$2,086,000) 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	
	2012	2011
	HK$'000	HK$'000
Up to 6 months	**760**	1,782
Over 6 months	**105**	304
	865	2,086

Subsequent to 31 December 2012, the Group received cash settlement amount of about HK$71,000 for these overdue balances. For the remaining balances overdue, these relate to a number of independent customers that have good track record with the Group. Based 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 balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The carrying amounts of the Group's trade receivables are wholly denominated in RMB.

25. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other receivables	**1,877**	7,187	**–**	–
Prepayments and deposits	**10,400**	46,891	**332**	242
	12,277	54,078	**332**	242

26. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

At 31 December 2012, the Group's pledged bank deposits included a deposit pledged to a bank of approximately HK$311,000 (2011: approximately HK$309,000) as securities for two corporate cards granted to two executive directors of the Group. The credit limit of both corporate cards is approximately HK$249,000 (2011: approximately HK$247,000) in aggregate. The deposit is in RMB and bears fixed interest rate of 3.0% (2011: 3.5%) per annum and therefore is subject to fair value interest rate risk.

At 31 December 2012, the Group's and the Company's pledged bank deposits included a deposit pledged to a bank of approximately HK$12,330,000 (2011: approximately HK$24,672,000) to secure bank loans of approximately HK$9,944,000 (2011: approximately HK$9,864,000) as set out in Note 28 to the financial statements. The deposit is in RMB and bears fixed interest rate of 1.3% (2011: 0.6%) per annum and therefore is subject to foreign currency risk and fair value interest rate risk.

At 31 December 2012, the bank and cash balances of the Group denominated in RMB and kept in the PRC amounted to approximately HK$13,818,000 (approximately RMB11,117,000) (2011: approximately HK$15,104,000 (approximately RMB12,250,000)). 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.

27. TRADE PAYABLES

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

	The Group	
	2012	2011
	HK$'000	HK$'000
0–90 days	**8,294**	15,867
91–180 days	**61**	1,878
181–365 days	**5**	813
Over 365 days	**10,111**	5,374
	18,471	23,932

The carrying amounts of the Group's trade payables are wholly denominated in RMB.

28. BANK LOANS

The bank loans are repayable within one year and are denominated in RMB.

The bank loans are arranged at floating rates and thus exposing the Group to cash flow interest rate risk. At 31 December 2012, the interest rates of the bank loans are 6.30% (2011: 6.89%) per annum.

The bank loans are secured by a pledged bank deposit of HK$12,330,000 (2011: HK$24,672,000) (Note 26).

29. SHARE CAPITAL

	Note	Number of Shares '000	Amount HK$'000
Authorised:			
Ordinary shares			
At 1 January 2011, 31 December 2011 and 1 January 2012 (HK$0.1 each)		16,000,000	1,600,000
Reduction in par value	(a)(i)	–	(1,568,000)
Share consolidation	(a)(iv)	(12,800,000)	–
At 31 December 2012 (HK$0.01 each)		3,200,000	32,000
Issued and fully paid:			
Ordinary shares			
At 1 January 2011, 31 December 2011 and 1 January 2012 (HK$0.1 each)		7,327,771	732,777
Reduction in par value	(a)(ii)	–	(718,122)
Share consolidation	(a)(iv)	(5,862,217)	–
Issue of shares on open offer (HK$0.01 each)	(b)	732,777	7,328
At 31 December 2012 (HK$0.01 each)		2,198,331	21,983

Notes:

(a) On 20 January 2012, a special resolution was passed at an extraordinary general meeting to:

(i) reduce the nominal value of the authorised share capital of the Company from HK$0.1 to HK$0.002 per share such that the authorised share capital is reduced from HK$1,600,000,000 to HK$32,000,000.

(ii) reduce the nominal value of each of the issued share from HK$0.1 to HK$0.002 by cancelling the paid-up capital to the extent of HK$0.098 on each issued share. The issued share capital of the Company is then reduced from HK$732,777,000 to HK$14,655,000.

(iii) apply the credit of HK$718,122,000 arising from the capital reduction as mentioned in Note (a)(ii) to eliminate part of the Company's accumulated losses.

29. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(iv) consolidate every five reduced shares of HK$0.002 each in the authorised and issued share capital of the Company into one consolidated share of HK$0.01 each following the capital reduction as mentioned in Notes (a)(i) and (a)(ii) above.

The authorised and issued share capital of the Company was consolidated into 3,200,000,000 shares and 1,465,554,000 shares of HK$0.01 each respectively.

The aforesaid capital reduction (Notes (a)(i) and (a)(ii)) was approved by the High Court of Hong Kong SAR on 2 April 2012 and duly registered by the Registrar of Companies in Hong Kong on 16 April 2012. The share consolidation (Note (a)(iv)) also became effective on 20 April 2012.

(b) On 21 August 2012, 732,777,000 ordinary shares of HK$0.01 each were issued at HK$0.05 per share by way of open offer on the basis of one offer share for every two existing shares. The premium on the issue of shares, amounting to approximately HK$28,538,000, net of share issue expenses, was credited to the Company's share premium account.

30. SHARE OPTIONS

Equity-settled share option scheme

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

2004 Share Option Scheme

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

At 31 December 2012, 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
Consultants	30 April 2007	6.03	48,960	30 April 2008 – 29 April 2015
(Note)	30 April 2009	0.49	1,428,000	5 May 2010 – 4 May 2017
	10 September 2010	0.74	1,428,000	10 September 2010 – 9 September 2013
	11 November 2010	0.78	27,540,000	11 November 2010 – 10 November 2013
			30,444,960	

Note: Options granted to consultants were incentives for them to assist the Group in the expansion of its business network, identifying and acquiring new business projects and opportunities. The fair value of such benefit could not be estimated reliably and as a result, the fair value is measured by reference to the fair value of share option granted.

30. SHARE OPTIONS *(Continued)*

2004 Share Option Scheme *(Continued)*

	2012 Weighted average exercise price in HK$ per share	**2012** Number of share options	2011 Weighted average exercise price in HK$ per share	2011 Number of share options
At 1 January	**1.103***	**34,524,960***	0.217	194,560,000
Lapsed during the year	**3.539**	**(4,080,000)**	0.157	(25,320,000)
At 31 December	**0.776**	**30,444,960**	0.225	169,240,000

The options outstanding at the end of the year have a weighted average remaining contractual life of 1.02 years (2011: 2.16 years) and the exercise prices range from HK$0.49* to HK$6.03* (2011: HK$0.10 to HK$1.23).

* The number of share options and exercise prices have been adjusted to reflect share consolidation and open offer during the year.

31. OTHER RESERVES

	The Group					
	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 2011	505,398	18,630	726,699	39,090	5,862	1,295,679
Transfer	–	(1,878)	–	–	–	(1,878)
Translation differences	–	–	–	11,116	–	11,116
At 31 December 2011	505,398	16,752	726,699	50,206	5,862	1,304,917
At 1 January 2012	505,398	16,752	726,699	50,206	5,862	1,304,917
Issue of shares on open offer (Note 29(b))	28,538	–	–	–	–	28,538
Transfer	–	(8,051)	–	–	–	(8,051)
Translation differences	–	–	–	1,677	–	1,677
At 31 December 2012	533,936	8,701	726,699	51,883	5,862	1,327,081

31. OTHER RESERVES *(Continued)*

	The Company			
	Share premium	Share-based payments reserve	Special capital reserve	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	505,398	18,630	726,699	1,250,727
Transfer	–	(1,878)	–	(1,878)
At 31 December 2011	505,398	16,752	726,699	1,248,849
At 1 January 2012	505,398	16,752	726,699	1,248,849
Issue of shares on open offer (Note 29(b))	28,538	–	–	28,538
Transfer	–	(8,051)	–	(8,051)
At 31 December 2012	533,936	8,701	726,699	1,269,336

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 directors, employees and consultants of the Company recognised in accordance with the accounting policy adopted for share-based payments in Note 3(s) to the financial statements.

(c) Special capital reserve

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

(d) Foreign currency translation reserve

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

31. OTHER RESERVES *(Continued)*

Nature and purpose of reserves *(Continued)*

(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.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

(a) During 2012, the Group entered into barter transaction of certain television advertising service income for inventories and fixed assets of approximately HK$298,000 and approximately HK$2,081,000 respectively.

During 2011, the Group entered into barter transaction of certain television advertising service income for inventories of approximately HK$10,958,000.

(b) During 2012, certain agency fee payables was settled by deposits made in previously years of approximately HK$37,290,000.

(c) During 2012, certain additions to fixed assets of approximately HK$812,000 were settled by netting off with trade receivables.

33. PENDING LITIGATION

The Group is pursuing a legal proceeding against a 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 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.

Apart from the aforesaid pending litigation, the Group did not have any significant contingent liabilities at 31 December 2012 (2011: HK$Nil).

34. OPERATING LEASE COMMITMENTS

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**4,355**	3,958	**752**	274
In the second to fifth years inclusive	**14,544**	14,049	**154**	–
After five years	**35,652**	39,010	**–**	–
	54,551	57,017	**906**	274

At 31 December 2012, the total future minimum sublease payments expected to be received under non-cancellable subleases amounted to HK$4,084,000 (2011: HK$Nil).

Operating lease payments represent rentals payable by the Group for certain of its offices 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.

35. 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:

	2012	2011
	HK$'000	HK$'000
Rental income from related companies (Note (i) and (ii))	**918**	–

Notes :

(i) Mr. Ni Xinguang ("Mr. Ni") and Mr. Wang Zhiming ("Mr. Wang"), the executive directors of the Company have beneficial interests in these related companies.

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

35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) At the end of the reporting period, the Group had the following balances with its related parties:

	The Group 2012 HK$'000	2011 HK$'000
Other receivables from related companies (Notes (i) and (iii))	**613**	–
Trade payables to related companies (Notes (ii) and (iii))	**(71)**	(71)
Fund advanced from a related company (included in other payables and accruals) (Notes (i) and (iii))	**(3,108)**	–
Fund advanced from a director (included in other payables and accruals (Note (i))	**(409)**	–

Notes:

(i) The amounts due are unsecured, interest-free and have no fixed term of repayment.

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

(iii) Mr. Ni and Mr. Wang have beneficial interests in these related companies.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2013.

FIVE YEAR FINANCIAL SUMMARY

	2012 **HK$'000**	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Results					
Turnover					
— Continuing operations	**616,877**	577,978	579,145	468,208	297,382
— Discontinued operation	**–**	11,643	940	915	914
	616,877	589,621	580,085	469,123	298,296
Profit/(loss) attributable to:					
— Owners of the Company	**3,308**	(18,992)	(42,367)	6,200	(165,508)
— Non-controlling interests	**13,957**	(87,174)	(207,129)	(1,171)	(2,254)
Assets and liabilities					
Total assets	**161,542**	700,937	1,254,296	380,119	371,349
Total liabilities	**(125,695)**	(718,374)	(1,164,625)	(53,300)	(54,524)
Total equity	**35,847**	(17,437)	89,671	326,819	316,825