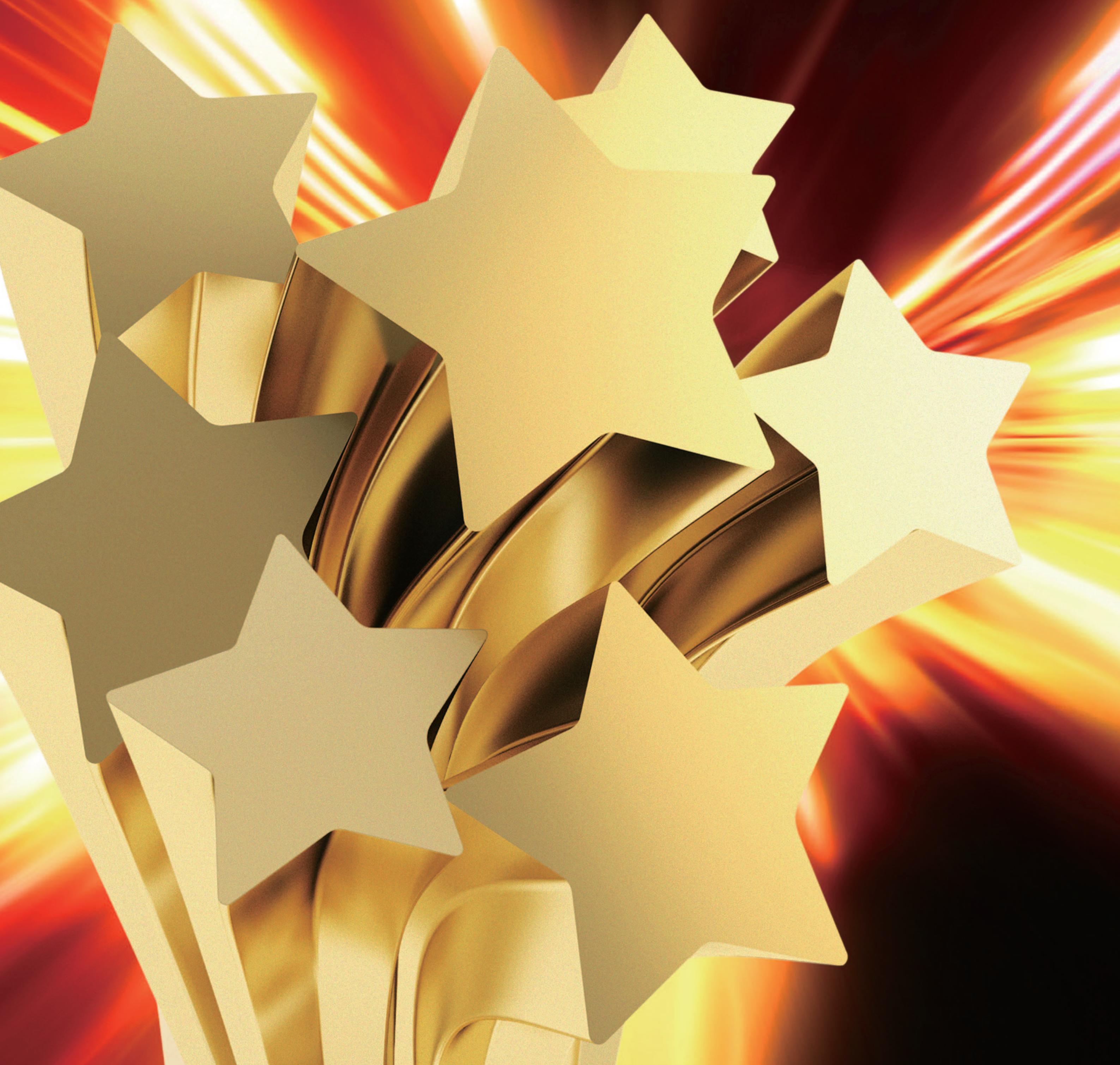
CHINA SEVEN STAR HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)
Stock Code : 245

Annual Report 2013



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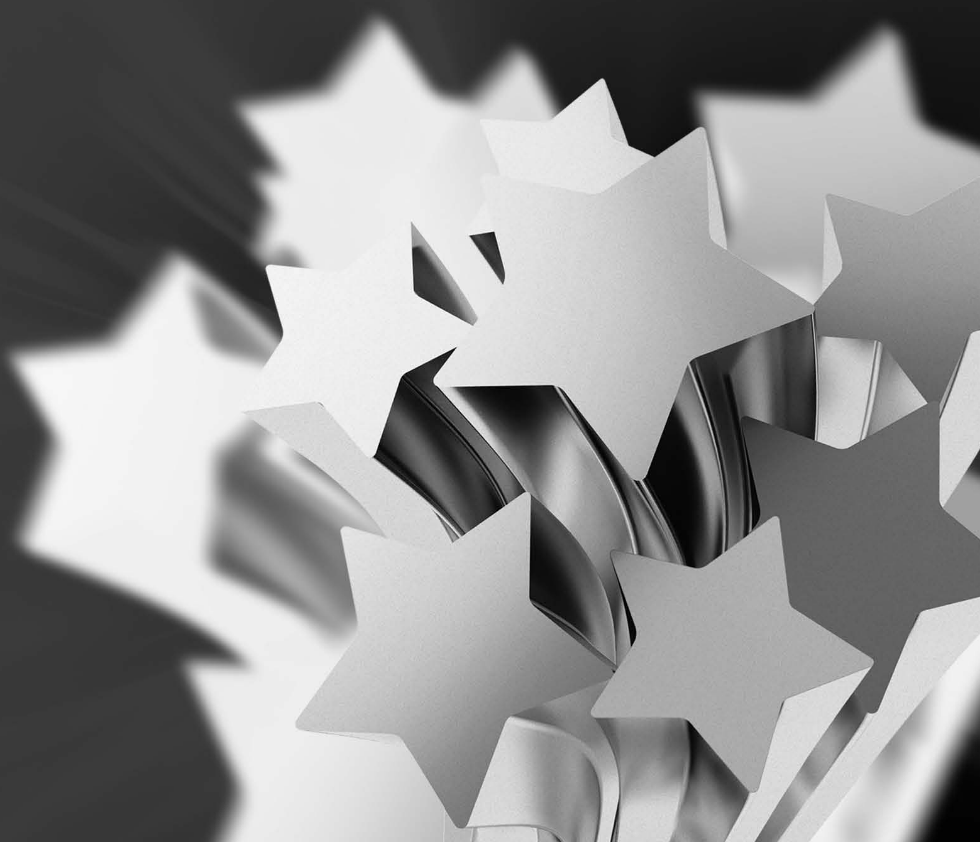

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ni Xinguang *(Chairman)*
Tu Baogui *(Chief Executive Officer)*
(Appointed on 9 July 2013)
Chen Xiaoyan
(Appointed on 16 January 2014)
Wang Zhiming *(Managing Director)*
(Resigned on 28 June 2013)

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

SOLICITORS

Hong Kong Law
Anthony Chiang & Partners
Michael Li & Co.

PRC Law
Trend Associates
Yulan & Partners

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
Level 22, Hopewell Centre
183 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

2013 was a year of transition of Chinese government leadership. The Chinese government maintained its efforts in accelerating economic structure adjustment and transforming its export-reliant practice into a new pattern focusing on domestic sales. It also took innovation on macroeconomic adjustment and control measure. All these enabled a steady growth of Chinese economy. According to the National Bureau of Statistics of the People's Republic of China, China's GDP was RMB56,884.5 billion in 2013, representing an increase of 7.7% over the previous year and a growth rate similar to that of 2012. Moreover, since the Chinese government has put great efforts to boost domestic sales, such enormous spending power occurred also promoted the steady growth of China's consumer goods market. In 2013, the total retail sales of social consumer goods were RMB23,438 billion, representing a year-on-year growth of 13.1%. Among which, the total retail sales of daily consumer goods accounted for RMB396.2 billion, representing a year-on-year growth of 14.1%. As encouraged by the new policy, there will be further growth of domestic sales, together with the strong consumers sentiment, the Chinese consumer market is expected to grow steadily in the coming year.

BUSINESS REVIEW

On 31 December 2009, the Group entered into an exclusive media management services agreement with the satellite television channel of Guangdong Television ("GSTV") for a term of three years. Such agreement has expired on 31 December 2012. After further in-depth discussion, the Group considered that the immense cost of exclusive advertising agency would affect the Group's financial results. Therefore, upon the expiry of the agreement on 31 December 2012, the Group has decided not to renew the exclusive media management services agreement and changed the operation model with GSTV to subcontracting model. If any of the Group's customers intends to purchase air time for advertising on GSTV, the Group will negotiate and enter into agreement with GSTV for the supply of air time by GSTV and the Group will then subcontract such air time for advertising to the Group's customers. The Group believes that this can lower the operating costs significantly, enabling more resources for the Group to develop new business and strengthen its profits and development. The turnover from advertising agency business in 2013 was approximately HK$44,646,000 (2012: approximately HK$553,070,000).

In 2013, the revenue from retail and wholesale kitchenware business on television shopping and online shopping platform was approximately HK$39,149,000 which accounted for 35% of the Group's total revenue. Moreover, the Group also engaged in insurance agency services which mainly cover a variety of life insurance and property insurance. This business has achieved a rapid development in recent years. In 2013, the revenue from insurance agency services was approximately HK$18,203,000 which accounted for 16% of the Group's total revenue. The Group presumes upon the insurance agency services will be further improved and developed in the coming years.

During the Year, the Group has added consultancy services, which mainly assists customers to identify and acquire domestic properties, and provides various services such as financing, property design and marketing for consultancy fee. In 2013, the revenue of consultancy services was approximately HK$10,222,000 which accounted for 9% of the Group's total revenue. Furthermore, on 26 November 2013, China Seven Star Wealth Management Limited, a wholly-owned subsidiary of the Group, has been granted a money lenders license to carry on money lending business in Hong Kong. The Board considers that the expansion to money lending business and consultancy services provides additional source of income to maximize the returns for shareholders of the Company, and is in the interests of the Company's shareholders as a whole.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales results and performance review

For the year ended 31 December 2013, the Group's consolidated turnover was approximately HK$112,220,000, representing a decrease of approximately 82% from 2012. The Group recorded a decreased gross profit and net loss during the year mainly due to increase in the allowance and written off for inventories and in the allowance for trade and other receivables in the PRC retail and distribution and television advertising business.

The allowance for inventories in the amount of approximately HK$10,573,000 was made based on the aging and estimated net realisable value of inventories. After the expiry of the exclusive media management services agreement on 31 December 2012 with GSTV, the Directors decided to place more of the Group's resources into the sales of kitchenware products in 2013. The main customers of such kitchenware products were operators of telemarketing channels. However, in the second half of 2013, sales of such kitchenware products to telemarketing operators decreased, which in turn affected the inventory turnover of such kitchenware products. Most of such inventories had an aging period of more than 180 days as at 31 December 2013 and was not sold prior to 31 March 2014.

The inventories written off in the amount of approximately HK$6,200,000 was made due to such inventories were damaged and unsaleable. Inventories of approximately HK$746,000 were kitchenware products damaged during a flood that took place in Shanghai in October 2013. Inventories of approximately HK$5,454,000 were kitchenware products damaged. In past, the Company delivered the damaged products to a manufacturer for repairing. However, in November 2013, this manufacturer filed petitions to the court for settlement of trade debts, and the Group failed to find other manufacturers to repair the damaged products. Therefore, the Directors considered making allowance for such damaged inventories.

The allowance for other receivables was approximately HK$12,278,000, in which approximately HK$10,088,000 was made regarding prepaid costs to a manufacturer for producing blankets. The Group has purchased two batches of blankets for trading with same customer twice previously. For the relevant transaction, the same customer of the Group ordered a batch of blankets from the Group. The Group then placed an order in the amount of approximately HK$26,796,000 to the supplier to manufacture such blankets, and paid deposits of approximately HK$17,024,000. Before the delivery of part of the blankets, the customer of the Group disputed on the specifications of the blankets and did not accept the blankets. As the supplier has already produced some of the blankets, only part of the deposit in the amount of approximately HK$6,936,000 was refunded to the Group. To minimise storage cost, the blankets are kept at the supplier until the Group could identify a customer to purchase such blankets. After considering the decline in demand of such blankets and the possibility of refund from the supplier, the Directors considered to make allowance for such receivables.

Trade receivables of approximately HK$784,000 and HK$3,201,000 were past due from customers of television advertising services and telemarketing operators respectively. Based on the past collection history of each of the customers, the Directors considered to make allowance for such receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

On financial position and cash flows, as at and for the year ended 31 December 2013, the Group's total assets were approximately HK$61,477,000 (2012: approximately HK$161,542,000), a decrease of 62% when compared with 2012. Net cash (outflows)/inflows from operating activities, investing activities and financing activities were approximately HK$(19,509,000), HK$(3,859,000) and HK$2,386,000 respectively (2012: approximately HK$(34,361,000), HK$(240,000) and HK$48,208,000). Capital expenditure for the year was approximately HK$360,000 (2012: approximately HK$3,465,000). Depreciation and amortization for tangible and intangible assets were approximately HK$2,035,000 (2012: approximately HK$529,047,000). The strengthening of Renminbi currency also posed a favorable currency effect and contributed approximately HK$6,155,000 (2012: approximately HK$1,677,000) to the reserves for the Year. As at 31 December 2013, the Group's total cash (including pledged bank deposits) was approximately HK$45,652,000 (2012: approximately HK$74,679,000).

Strategy and Outlook

Along with the further penetration of 3G networks and sustained development of smartphones and wireless networks, online shopping has took the dominant place to a certain extent. According to the 33rd "Statistical Report on Internet Development in China" published on January by China Internet Network Information Center ("CNNIC"), China's online shopping users has reached 302 million in 2013 with a usage rate of 48.9%, representing a 6.0% growth over 2012. Moreover, as the new Chinese leadership advocates domestic sales, it is expected that the online shopping and consumption will further develop for the coming year.

Furthermore, the Chinese government has resolved to adopt the decision of the amendments of the "Law of the People's Republic of China on the Protection of Consumer Rights and Interests"* on the 5th Meeting of the Standing Committee of the Twelfth National People's Congress. The amendments, which will be implemented from 15 March 2014, mainly improved the consumer rights protection system, such as strengthening, standardizing online shopping and other new consumption methods, as well as building consumer litigation system. It is the first major revision of the law which has been enacted for nearly two decades. The Group believes that the amendments will further strengthen consumer confidence and recognition in online shopping and attract more consumers to change their shopping mode to online shopping from traditional shopping. Meanwhile, the Group will actively comply with the amendments and intensify its obligations as an operator, so as to expand market share and new business opportunities.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2013, the Group's financial assets (excluding receivables) amounted to approximately HK$45,865,000 (2012: approximately HK$74,886,000), of which approximately HK$40,226,000 (2012: approximately HK$62,038,000) were liquid cash deposits.

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

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND RELATED HEDGING

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

* *Management translation*

MANAGEMENT DISCUSSION AND ANALYSIS

STAFF AND REMUNERATION POLICY

The Group had 50 employees (including Directors) as at 31 December 2013 (2012: 71). 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 2013, the Group had total assets of approximately HK$61,477,000 (2012: approximately HK$161,542,000) 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 Nil as at 31 December 2013 (at 31 December 2012: 3.9%).

CAPITAL STRUCTURE

There were no changes of the capital structure of the Company during the year ended 31 December 2013.

CHARGES ON GROUP'S ASSETS

Save for the details of pledged and frozen bank deposits as set out in note 25 to the financial statements, as at 31 December 2013, there were no charges on the Group's assets.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2013.

CAPITAL COMMITMENTS

The Group did not have any significant capital commitments as at 31 December 2013.

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 2013.

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 2013.

CHANGE OF COMPANY NAME

Pursuant to the resolution of the Board passed on 9 October 2013, the Company announced the proposed change of the Company's name from "China Seven Star Shopping Limited 中國七星購物有限公司" to "China Seven Star Holdings Limited 中國七星控股有限公司". The change of name has been approved by passing of a special resolution by the shareholders of the Company at the extraordinary general meeting of the Company held on 9 December 2013. The Certificate of Change of Name was issued by the Registrar of Companies of Hong Kong on 27 December 2013. Following the change of Company name becoming effective on 27 December 2013, the Shares have been traded on the Stock Exchange under the new stock short name of "中國七星控股" in Chinese, instead of "中國七星購物" in Chinese, with effect from 7 January 2014. The stock short name of "CHINA SEVENSTAR" in English remains the same and stock code of the Company remains as 245.

PRINCIPAL ACTIVITIES

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

The Group's turnover is 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 2013 are set out in note 20 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss on page 29 of this report.

The state of the Group's and the Company's affairs at 31 December 2013 is set out in the consolidated statement of financial position and statement of financial position on pages 31 and 32 of this report.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2013 (2012: HK$Nil).

ANNUAL GENERAL MEETING

The 2014 annual general meeting (the "2014 AGM") will be held on 5 June 2014. Shareholders should refer to details regarding the 2014 AGM in the circular of the Company of 30 April 2014 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 18 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital are set out in note 27 to the financial statements.

REPORT OF THE DIRECTORS

RESERVES

Details of the movements in reserves during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2013 amounted to HK$Nil (2012: HK$Nil).

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. Tu Baogui *(Chief Executive Officer)* (Appointed on 9 July 2013)
Ms. Chen Xiaoyan (Appointed on 16 January 2014)
Mr. Wang Zhiming *(Managing Director)* (Resigned on 28 June 2013)

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. Ni Xinguang and Mr. Ling Yu Zhang will retire by rotation at the 2014 AGM and, being eligible, offer themselves for re-election.

In accordance with articles 99 and 117 of the Articles, Mr. Tu Baogui and Ms. Chen Xiaoyan will retire at the 2014 AGM and, being eligible, offer themselves for re-election.

DIRECTORS' PROFILES

Directors' profiles are set out on pages 24 to 26 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.

REPORT OF THE DIRECTORS

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. Tu Baogui and Ms. Chen Xiaoyan, 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 2014 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 2013, 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 ("Mr. Ni")	46,068,000	566,004,000 *(Note (a))*	612,072,000	27.84%

Notes:

(a) 566,004,000 shares were owned by Group First Limited, a private company wholly owned by Mr. Ni, 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 2013.

Save as disclosed above, as at 31 December 2013, 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 2013, 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

The Company adopted a new share option scheme on 9 December 2013 (the "2013 Share Option Scheme") to replace the share option scheme adopted on 28 May 2004 (the "2004 Share Option Scheme"). Since then, no further option can be granted under the 2004 Share Option Scheme, but all options granted previously will remain exercisable in accordance with the terms of the 2004 Share Option Scheme and the relevant letters of offers to the respective grantees.

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 01/01/2013	Number of option shares granted during the year	Number of option shares exercised during the year	Number of option shares lapsed during the year	Number of option shares held as at 31/12/2013	Exercise price HK$	Exercise period
Consultants	30/04/2007	48,960	–	–	–	48,960	6.03	30/04/2008–29/04/2015
	30/04/2009	1,428,000	–	–	–	1,428,000	0.49	05/05/2010–04/05/2017
	10/09/2010	1,428,000	–	–	(1,428,000)	–	0.74	10/09/2010–09/09/2013
	11/11/2010	27,540,000	–	–	(27,540,000)	–	0.78	11/11/2010–10/11/2013
		30,444,960	–	–	(28,968,000)	1,476,960		

Further details of share options were stipulated in note 28 to the financial statements.

Apart from the aforesaid, at no time during the year ended 31 December 2013 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 32 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 32 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 14 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2013, 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%
Ye Zhu Ying ("Ms. Ye")	Interests controlled through corporations *(Note (b))*	231,497,650	10.53%
Best Idea International Limited *(Note (b))*	Beneficial owner	231,497,650	10.53%

Notes:

(a) Group First Limited is a private company wholly owned by Mr. Ni, who is an executive director of the Company. Accordingly, the 566,004,000 shares owned by Group First Limited is also deemed to be the corporate interests of Mr. Ni.

(b) Best Idea International Limited is a private company wholly owned by Ms. Ye. Accordingly, the 231,497,650 shares owned by Best Idea International Limited is also deemed to be the corporate interests of Ms. Ye.

(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 2013.

(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 2013, 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 2013, 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$1,250 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 statement of profit or loss during the year amounted to approximately HK$70,000 (2012: HK$72,000) and HK$1,031,000 (2012: HK$1,085,000) 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 28 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:

	2013	2012
The largest customer	36.1%	28.9%
Five largest customers in aggregate	66.4%	50.1%
The largest supplier	15.4%	34.3%
Five largest suppliers in aggregate	63.5%	75.1%

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 2013, 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 2013.

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 Holdings Limited
Ni Xinguang
Chairman

Hong Kong, 31 March 2014

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 Corporate Governance Code (the "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").

Throughout the year ended 31 December 2013, the Company has complied with most of the Code Provisions of the CG Code, save for the deviation of the Code Provisions A.4.1, E.1.2 and A.6.7 which are 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.

Under the Code Provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting and he should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In addition, under the Code Provision A.6.7 of the 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. During the year ended 31 December 2013, the annual general meeting held on 5 June 2013, the whole Board of Directors and auditor of the Company have attended the meeting to answer questions of the Shareholders except that Mr. Ni Xinguang (chairman of the Board) and Mr. Lu Wei (chairman of nomination committee) could not attend the annual general meeting due to other business engagement but they have appointed the other attended Directors as their representative at the meeting. In addition, due to other business engagement, two INEDs could not attend the extraordinary general meeting held on 9 December 2013. However they have appointed the other attended INED as their representative at the meeting to answer questions of the shareholders of the Company.

BOARD OF DIRECTORS

Functions and role

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

To the best knowledge of the Company, there is no financial, business, family relationship among the members of the Board as at 31 December 2013. All of them are free to exercise their individual judgment.

Composition

As at 31 December 2013, 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. Tu Baogui (appointed on 9 July 2013)	Chief Executive Officer
Wang Zhiming (resigned on 28 June 2013)	Managing Director
Independent Non-executive Directors	
Mr. Wong Chak Keung	
Mr. Lu Wei	
Mr. Ling Yu Zhang	

The Board held ten Board meetings (including four regular Board meetings) during the financial year ended 31 December 2013. 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 Meetings, Audit Committee Meetings, Nomination Committee Meetings, Remuneration Committee Meetings, Annual General Meeting and Extraordinary General Meeting in 2013".

Chairman and Chief Executive Officer

The positions and roles of Chairman of the Board and 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. During the year ended 31 December 2013, Mr. Wang Zhiming has resigned as the executive Director and the Managing Director on 28 June 2013 and Mr. Tu Baogui has been appointed as the executive Director and the Chief Executive Officer of the Company on 9 July 2013. Mr. Tu Baogui, the Chief Executive Officer 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 Chief Executive Officer. The Chief Executive Officer, 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 18 to 20 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 2013, 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 2013, 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	✓
Tu Baogui (appointed on 9 July 2013)	✓
Wang Zhiming (resigned on 28 June 2013)	–
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 27 and 28 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 2013.

AUDIT COMMITTEE

Composition

The Company established an Audit Committee in 1999. It has written terms of reference in compliance with the 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. The 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 2013:

(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 ended 31 December 2013, two Audit Committee meetings were held and the record of attendance of individual member is listed out on page 22 of this annual report.

NOMINATION COMMITTEE

Composition

The Nomination Committee has been established with a defined terms of reference in consistent with the 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. On 24 September 2013, the Board adopted a set of the revised terms of reference of the Nomination Committee in line with the newly Listing Rules requirement in relation to board diversity effective from 1 September 2013. The revised 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.

The Nomination Committee is 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 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 Board Diversity Policy, the Company's needs and other relevant statutory requirements and regulations. During the year ended 31 December 2013, Mr. Tu Baogui has been newly appointed as an executive Director and Chief Executive Officer of the Company. He was appointed by going through the selection process stated as above.

During the year ended 31 December 2013, three Nomination Committee meeting was held for, inter alia, adopting its revised terms of reference, considering the retirement and re-election of the Directors at the annual general meeting, the resignation of Mr. Wang Zhiming as an executive Director and the Managing Director and the appointment of Mr. Tu Baogui as an executive Director and Chief Executive Officer of the Company. 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 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. The 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 Remuneration Committee are responsible for reviewing the market conditions, time commitment, responsibilities, performance of individuals and any other relevant information and propose to the Board for consideration and approval. None of the executive Directors can determine his own remuneration.

During the year ended 31 December 2013, two Remuneration Committee meeting was held to review the existing remuneration policy and structure of Company, to review and recommend the remuneration of executive Directors and senior management for Board approval and to recommend the remuneration of Mr. Tu Baogui, the newly appointed Director for Board approval. 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.

BOARD DIVERSITY POLICY

During the year ended 31 December 2013, the Company has adopted a board diversity policy (the "Policy") setting out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

The Nomination Committee will review the Policy from time to time to ensure its continued effectiveness.

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 CG Code. During the year ended 31 December 2013, the Board has reviewed the policy of the corporate governance of the Company and the corporate governance report.

ATTENDANCE OF BOARD MEETINGS, AUDIT COMMITTEE MEETINGS, NOMINATION COMMITTEE MEETINGS, REMUNERATION COMMITTEE MEETINGS, ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING IN 2013

	Attendance/Number of Meetings Held					
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting held on 5 June 2013	Extraordinary General Meeting held on 9 December 2013
Directors						
Executive Directors:						
Ni Xinguang	10/10	N/A	N/A	N/A	0/1	0/1
Wang Zhiming *(Note)*	4/4	N/A	N/A	N/A	1/1	N/A
Tu Baogui *(Note)*	5/5	N/A	N/A	N/A	N/A	0/1
Independent Non-executive Directors:						
Lu Wei	10/10	2/2	3/3	2/2	0/1	0/1
Wong Chak Keung	10/10	2/2	3/3	2/2	1/1	1/1
Ling Yu Zhang	10/10	2/2	3/3	2/2	1/1	0/1

Note: Mr. Wang Zhiming has resigned as the Company's executive Director on 28 June 2013 and Mr. Tu Baogui was appointed as the Company's executive Director on 9 July 2013.

AUDITOR'S REMUNERATION

During the year ended 31 December 2013, 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$550,000 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.

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 annual general meeting held on 5 June 2013, 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 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.

Mr. Ni Xinguang, aged 45, 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$980,000 with discretionary bonus payment as determined by the Board 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 46,068,000 Shares in the Company and has 100% 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 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. Tu Baogui, aged 60, was appointed as an executive Director and chief executive officer of the Company on 9 July 2013. Mr. Tu graduated from the Department of Finance and Accounting of Open University of Fujian, the Graduate School of Professional and Continuing Education graduate courses in Department of Finance of Xiamen University and holds a Senior Accountant qualification. Mr. Tu has more than 20 years of experience in the banking and finance industry. Mr. Tu also has been appointed as the President of Shanghai Branch and the Supervisor of Supervisory Committee of Industrial Bank Co., Ltd..

Mr. Tu 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. Tu is entitled to an annual remuneration of HK$1,200,000 with discretionary bonus payment as determined by the Board based on Mr. Tu's and the Company's performance. The remuneration of Mr. Tu is not covered by any service contract. The remuneration package of Mr. Tu is determined by the Board with reference to his duties, responsibilities as well as the Company's remuneration policy and the market benchmark.

Save as disclosed above, Mr. Tu is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as disclosed above, Mr. Tu 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. Tu 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.

DIRECTORS' PROFILES

Ms. Chen Xiaoyan, aged 38, was appointed as an executive Director on 16 January 2014. Ms. Chen obtained a Master Degree in Business Administration from Guizhou University in the PRC. Ms. Chen is a sister-in-law of Mr. Ni Xinguang, an executive director and substantial Shareholder of the Company. Ms. Chen currently works as an enterprise supervisor for the accounting master program and auditing master program of Antai College of Economics and Management of Shanghai Jiao Tong University. Besides, Ms. Chen also holds a professional certificate (jade category) for heritage auction enterprises issued by State Administration of Cultural Heritage of the PRC. Ms. Chen worked in various PRC enterprises and PRC subsidiaries of the Company. She has over 15 years of experience in procurement, operation and finance management.

Ms. Chen 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. Ms. Chen is entitled to an annual remuneration of HK$180,000 with discretionary bonus payment as determined by the Board based on Ms. Chen's and the Company's performance. The remuneration of Ms. Chen is not covered by any service contract. The remuneration package of Ms. Chen is determined by reference to her duties, responsibilities as well as the Company's remuneration policy and the market benchmark.

Save as disclosed above, Ms. Chen is not connected with any directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as disclosed above, Ms. Chen 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, Ms. Chen 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. Wong Chak Keung, aged 47, 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. Other than having working experience in international accounting firms, Mr. Wong has also worked for listed and other companies engaged 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 the Board with 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 70, 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.

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 the Board with 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 50, 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., Shanghai Shibei Hi-Tech Co., Ltd. and China Yongda Automobiles Services Holdings Limited (stock code: 3669) all are companies listed on the Shanghai/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 the Board with 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
TO THE SHAREHOLDERS OF
CHINA SEVEN STAR HOLDINGS LIMITED
(FORMERLY KNOWN AS CHINA SEVEN STAR SHOPPING LIMITED)
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Seven Star Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 79, which comprise the consolidated and Company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other 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 2013, 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, 31 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Turnover	7	**112,220**	616,877
Cost of sales and services		**(108,461)**	(548,872)
Gross profit		**3,759**	68,005
Other income	8	**37,208**	59,669
Distribution costs		**(16,662)**	(65,074)
Administrative expenses		**(23,286)**	(26,714)
Other operating expenses		**(22,098)**	(6,822)
(Loss)/profit from operations		**(21,079)**	29,064
Finance costs	10	**(157)**	(11,779)
(Loss)/profit before tax		**(21,236)**	17,285
Income tax expense	11	**(25)**	(20)
(Loss)/profit for the year	12	**(21,261)**	17,265
Attributable to:			
Owners of the Company	15	**(1,757)**	3,308
Non-controlling interests		**(19,504)**	13,957
		(21,261)	17,265
(Loss)/earnings per share	17		
— Basic		**HK(0.08) cent**	HK0.19 cent
— Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
(Loss)/profit for the year	**(21,261)**	17,265
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(429)**	153
Other comprehensive income for the year, net of tax	**(429)**	153
Total comprehensive income for the year	**(21,690)**	17,418
Attributable to:		
Owners of the Company	**4,398**	4,985
Non-controlling interests	**(26,088)**	12,433
	(21,690)	17,418

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Fixed assets	18	**2,505**	5,759
Intangible assets	19	**71**	173
Available-for-sale financial assets	21	**213**	207
		2,789	6,139
Current assets			
Inventories	22	**8,982**	15,618
Trade and bills receivables	23	**1,594**	52,829
Other receivables, prepayments and deposits	24	**2,460**	12,277
Pledged bank deposits	25	**4,796**	12,641
Bank and cash balances	25	**40,856**	62,038
		58,688	155,403
Current liabilities			
Agency fee payables		**–**	20,311
Trade and bills payables	26	**26,708**	18,471
Other payables and accruals		**18,236**	74,665
Bank loans		**–**	9,944
Current tax liabilities		**2,376**	2,304
		47,320	125,695
Net current assets		**11,368**	29,708
NET ASSETS		**14,157**	35,847
Capital and reserves			
Share capital	27	**21,983**	21,983
Other reserves	29	**1,325,205**	1,327,081
Accumulated losses		**(1,089,217)**	(1,095,491)
Equity attributable to owners of the Company		**257,971**	253,573
Non-controlling interests		**(243,814)**	(217,726)
TOTAL EQUITY		**14,157**	35,847

Approved by the Board of Directors on 31 March 2014.

Ni Xinguang
Director

Tu Baogui
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Fixed assets	18	**72**	243
Interests in subsidiaries	20	**1,012**	–
		1,084	243
Current assets			
Prepayments and deposits	24	**142**	332
Pledged bank deposit	25	**–**	12,330
Bank and cash balances		**29,811**	48,114
		29,953	60,776
Current liabilities			
Other payables and accruals		**2,330**	2,279
Net current assets		**27,623**	58,497
NET ASSETS		**28,707**	58,740
Capital and reserves			
Share capital	27	**21,983**	21,983
Other reserves	29	**1,261,305**	1,269,336
Accumulated losses		**(1,254,581)**	(1,232,579)
TOTAL EQUITY		**28,707**	58,740

Approved by the Board of Directors on 31 March 2014.

Ni Xinguang
Director

Tu Baogui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	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 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 27(a)(ii)&(iii))	(718,122)	–	718,122	–	–	–
Issue of shares on open offer (Note 27(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
At 1 January 2013	21,983	1,327,081	(1,095,491)	253,573	(217,726)	35,847
Total comprehensive income for the year	–	6,155	(1,757)	4,398	(26,088)	(21,690)
Transfer	–	(8,031)	8,031	–	–	–
Change in equity for the year	–	(1,876)	6,274	4,398	(26,088)	(21,690)
At 31 December 2013	21,983	1,325,205	(1,089,217)	257,971	(243,814)	14,157

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Cash flows from operating activities		
(Loss)/profit before tax	**(21,236)**	17,285
Adjustments for:		
Finance costs	**157**	11,779
Interest income	**(665)**	(511)
Depreciation	**1,930**	1,837
Allowance/(reversal of allowance) for inventories	**10,573**	(3)
Allowance for other receivables	**12,278**	643
Allowance for trade receivables	**3,985**	4,491
Amortisation of intangible assets	**105**	527,210
Barter transactions for inventories and fixed assets	**(305)**	(2,379)
Fixed assets written off	**1,643**	334
Gain on disposals of fixed assets	**(99)**	(28)
Impairment loss on prepayments and deposits	**1,096**	912
Inventories written off	**6,200**	–
Reversal of allowance for other receivables	**(14)**	(4)
Reversal of allowance for trade receivables	**(680)**	(372)
Write back of agency fee payables	**(19,416)**	–
Write back of other payables and accruals	**(8,984)**	(495)
Write back of trade payables	**(3,344)**	(121)
Operating (loss)/profit before working capital changes	**(16,776)**	560,578
Increase in inventories	**(10,137)**	(3,715)
Decrease/(increase) in trade and bills receivables, and other receivables, prepayments and deposits	**44,387**	(20,627)
Decrease in agency fee payables	**(1,189)**	(586,573)
(Decrease)/increase in trade and bills payables, and other payables and accruals	**(35,617)**	16,642
Cash used in operations	**(19,332)**	(33,695)
Tax paid	**(20)**	(1)
Interest paid	**(157)**	(665)
Net cash used in operating activities	**(19,509)**	(34,361)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Cash flows from investing activities		
Increase in pledged bank deposits	(4,476)	–
Payment for acquisition of available-for-sale financial assets	–	(207)
Payment for purchase of fixed assets	(55)	(572)
Proceeds from disposals of fixed assets	7	28
Interest received	665	511
Net cash used in investing activities	(3,859)	(240)
Cash flows from financing activities		
Decrease in pledged bank deposit	12,330	12,342
Repayment of bank loans	(9,944)	–
Proceeds from issue of shares	–	35,866
Net cash generated from financing activities	2,386	48,208
Net (decrease)/increase in cash and cash equivalents	(20,982)	13,607
Effect of foreign exchange rate changes	(200)	7,742
Cash and cash equivalents at 1 January	62,038	40,689
Cash and cash equivalents at 31 December	40,856	62,038
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	40,856	62,038

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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 20 to the financial statements.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2013. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); 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 except as stated below.

a. Amendments to HKAS 1 "Presentation of Financial Statements"

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

b. HKFRS 12 "Disclosure of Interests in Other Entities"

HKFRS 12 "Disclosure of Interests in Other Entities" specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new disclosure requirements for unconsolidated structured entities.

The adoption of HKFRS 12 only affects the disclosures relating to the Group's subsidiaries in the consolidated financial statements. HKFRS 12 has been applied retrospectively.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has 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 area involving critical judgement and areas where assumptions and estimates are significant to these financial statements, are disclosed in Note 4 to the financial statements.

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

(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. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation *(Continued)*

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 statement of profit or loss and consolidated statement of profit or loss and other 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.

(b) 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)*

(b) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) 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%
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.

(d) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Intangible assets

Insurance agency licence

The insurance agency licence is stated at acquisition cost less accumulated amortisation and impairment losses. It is amortised on a straight line basis over its estimated useful life of 5 years.

(f) 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.

(g) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Investments

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

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.

Investments in equity investments that do not have a quoted market price in an 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, are measured at cost less any identified impairment losses.

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.

(i) 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 the 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) 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.

(k) Financial liabilities and equity instruments

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

(l) Borrowings

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

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

(m) Trade and other payables

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

(n) Equity instruments

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

(o) 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 consultancy services, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) 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 at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(q) 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 is recognised as expense.

(r) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Government subsidies

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.

(t) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Taxation *(Continued)*

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

(u) Related parties

A 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.

(B) An entity is related to the Group 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) 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 of disposals 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.

(w) 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.

(x) 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. CRITICAL JUDGEMENT AND KEY ESTIMATES

Critical judgement in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgement that has the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Consolidation of entity with no equity interest

Although the Group does not own any equity interest in Shanghai Seven Star International Shopping Co., Ltd.^ (上海七星國際購物有限公司, "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 relevant activities 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.

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.

^ For identification purposes only

4. CRITICAL JUDGEMENTS AND 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 severe 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 2013, if RMB had weakened 5 per cent against Hong Kong dollars with all other variables held constant, consolidated loss after tax for the year would have been HK$1,432,000 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 for the year would have been HK$1,432,000 lower, arising mainly as a result of the foreign exchange gain on bank deposits denominated in RMB.

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 for the year 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 for the year would have been HK$1,358,000 higher, 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 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.

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

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 on trade and other receivables is significantly reduced.

(c) Liquidity risk

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

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 2013				
Trade and bills payables	**26,708**	**–**	**–**	**–**
Other payables and accruals	**18,236**	**–**	**–**	**–**
At 31 December 2012				
Trade payables	18,471	–	–	–
Other payables and accruals	74,665	–	–	–
Bank loans	10,080	–	–	–
Agency fee payables	20,311	–	–	–

(d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits. Certain bank deposits bear interests at fixed interest rates and therefore are subject to fair value interest rate risk. Other bank deposits 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 2013

	2013 HK$'000	2012 HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	48,040	129,385
Available-for-sale financial assets	213	207
Financial liabilities:		
Financial liabilities at amortised cost	44,944	123,391

(f) Fair values

Except as disclosed in Note 21 to the financial statements, 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 revenue from the followings:

	2013 HK$'000	2012 HK$'000
PRC retail and distribution of consumer products	39,149	52,445
Television advertising service income	44,646	553,070
Consultancy service income	10,222	–
Insurance agency service income	18,203	11,362
	112,220	616,877

8. OTHER INCOME

	2013 HK$'000	2012 HK$'000
Interest income	665	511
Commission income from television advertising services	–	56,824
Exchange gains, net	892	–
Gain on disposals of fixed assets	99	28
Rental income	2,285	918
Reversal of allowance for other receivables	14	4
Reversal of allowance for trade receivables	680	372
PRC tax subsidy	293	321
Write back of agency fee payables (Note)	19,416	–
Write back of other payables and accruals	8,984	495
Write back of trade payables	3,344	121
Sundry income	536	75
	37,208	59,669

Note: After further negotiation between Guangdong Television and the Group during the current year, it was concluded that certain amount of agency fee payables was reduced and be written back accordingly. A supplementary agreement was entered for the aforesaid reduction.

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
Insurance agency	—	provision of insurance agency services in the PRC

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 consultancy service business, which earns consultancy 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 corporate income and corporate expenses.

In the current year, segment assets and liabilities of the Group are not reported to the Group's chief operating decision makers regularly. As a result, reportable segment assets and liabilities have not been presented in these consolidated financial statements.

9. SEGMENT INFORMATION *(Continued)*

Information about reportable segment profit or loss:

	PRC retail and distribution HK$'000	Television advertising HK$'000	Insurance agency HK$'000	Other HK$'000	Total HK$'000
Year ended 31 December 2013					
Revenue from external customers	39,149	44,646	18,203	10,222	112,220
Segment profit/(loss)	(23,307)	22,663	119	9,675	9,150
Interest revenue	63	6	8	–	77
Depreciation and amortisation	108	532	105	–	745
Bad debts/impairment charges	14,939	2,287	–	–	17,226
Fixed assets written off	132	1,197	–	–	1,329
Inventories written off	6,200	–	–	–	6,200
Reversal of bad debts/impairment charges	32	648	–	–	680
Write back of payables and accruals	4,515	27,229	–	–	31,744

9. SEGMENT INFORMATION *(Continued)*

Information about reportable segment profit or loss: *(Continued)*

	PRC retail and distribution HK$'000	Television advertising HK$'000	Insurance agency HK$'000	Total HK$'000
Year ended 31 December 2012				
Revenue from external customers	52,445	553,070	11,362	616,877
Segment profit/(loss)	(12,883)	41,560	(96)	28,581
Interest revenue	30	14	14	58
Interest expense	665	11,114	–	11,779
Depreciation and amortisation	1,427	527,394	106	528,927
Bad debts/impairment charges	1,471	4,575	–	6,046
Fixed assets written off	333	–	–	333
Reversal of bad debts/impairment charges	20	359	–	379
Write back of payables and accruals	583	–	–	583

9. SEGMENT INFORMATION *(Continued)*

Reconciliations of reportable segment revenue and profit or loss:

	2013 HK$'000	2012 HK$'000
Revenue		
Total revenue of reportable segments	**112,220**	616,877
Profit or loss		
Total profit or loss of reportable segments	**9,150**	28,581
Unallocated corporate income	**4,193**	548
Unallocated corporate expenses	**(34,579)**	(11,844)
Consolidated (loss)/profit before tax	**(21,236)**	17,285

Geographical information:

	Revenue		**Non-current assets**	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Hong Kong	**–**	–	**72**	243
PRC except Hong Kong	**112,220**	616,877	**2,717**	5,896
Consolidated total	**112,220**	616,877	**2,789**	6,139

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

Revenue from major customers:

	2013 HK$'000	2012 HK$'000
Television advertising segment		
Customer a	**40,466**	–
Customer b	**–**	178,152

10. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Notional non-cash interest accretion on pre-agreed periodic payments on exclusive advertising agency right	–	11,114
Interest on bank loans — wholly repayable within five years	157	665
	157	11,779

11. INCOME TAX EXPENSE

	2013 HK$'000	2012 HK$'000
PRC tax		
— current	24	20
— underprovision in prior years	1	–
	25	20

No provision for Hong Kong Profits Tax is required since the Group has no assessable profits in Hong Kong for the year (2012: 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.

11. INCOME TAX EXPENSE *(Continued)*

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

	2013 HK$'000	2012 HK$'000
(Loss)/profit before tax	**(21,236)**	17,285
Tax at Hong Kong Profits Tax rate of 16.5% (2012: 16.5%)	**(3,504)**	2,852
Tax effect of income that is not taxable	**(340)**	(343)
Tax effect of expenses that are not deductible	**11,240**	3,844
Tax effect of temporary differences not recognised	**(916)**	(55)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,181)**	2,435
Tax effect of tax losses not recognised	**3,352**	4,488
Tax effect of utilisation of tax losses not previously recognised	**(8,627)**	(13,201)
Underprovision in prior years	**1**	–
Income tax expense	**25**	20

At the end of the reporting period the Group and the Company has unused tax losses of approximately HK$217,216,000 (2012: HK$247,942,000) and HK$3,739,000 (2012: 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$4,736,000, HK$95,718,000, HK$67,191,000, HK$12,655,000 and HK$13,500,000 will expire on 31 December 2014, 2015, 2016, 2017 and 2018 respectively. Other tax losses may be carried forward indefinitely. Included in unused tax losses of the Group are losses of approximately HK$205,754,000 (2012: HK$236,480,000) that have not yet been agreed by respective tax authorities.

No provision for deferred taxation had been made for both years ended 31 December 2012 and 2013 as the tax effect of all temporary difference is not material.

12. (LOSS)/PROFIT FOR THE YEAR

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

	2013 HK$'000	2012 HK$'000
Allowance/(reversal of allowance) for inventories (included in cost of inventories sold)	10,573	(3)
Allowance for other receivables (included in other operating expenses)	12,278	643
Allowance for trade receivables (included in other operating expenses)	3,985	4,491
Amortisation of exclusive advertising agency right (included in cost of sales and services)	–	527,107
Amortisation of insurance agency licence (included in other operating expenses)	105	103
Auditor's remuneration	1,700	1,700
Cost of inventories sold	46,503	39,783
Depreciation	1,930	1,837
Exchange differences, net	(892)	237
Fixed assets written off	1,643	334
Inventories written off (included in cost of inventories sold)	6,200	–
Impairment loss on prepayments and deposits (included in other operating expenses)	1,096	912
Operating lease charges		
— Land and buildings	5,183	5,213
Staff costs (including directors' emoluments) (Note 13)	10,125	10,849

13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2013 HK$'000	2012 HK$'000
Salaries, bonuses and allowances	9,024	9,692
Retirement benefits scheme contributions	1,101	1,157
	10,125	10,849

14. 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	-	980	10	-	-	19	-	-	1,009
Mr. Tu Baogui (Note a)	-	574	-	-	-	-	-	-	574
Mr. Wang Zhiming (Note b)	-	403	-	-	-	153	-	-	556
Mr. Ling Yu Zhang	180	-	-	-	-	-	-	-	180
Mr. Lu Wei	180	-	-	-	-	-	-	-	180
Mr. Wong Chak Keung	180	-	-	-	-	-	-	-	180
Total for 2013	540	1,957	10	-	-	172	-	-	2,679

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

Notes:

(a) Appointed on 9 July 2013.

(b) Resigned on 28 June 2013.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2012 and 2013.

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

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included 3 (2012: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 2 (2012: 3) individuals are set out below:

	2013 HK$'000	2012 HK$'000
Salaries, bonuses and allowances	950	1,174
Retirement benefit scheme contributions	30	86
	980	1,260

The emoluments fell within the following bands:

	Number of individuals 2013	2012
HK$Nil to HK$1,000,000	2	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.

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

The (loss)/profit for the year attributable to owners of the Company included a loss of approximately HK$30,033,000 (2012: HK$23,768,000) which has been dealt with in the financial statements of the Company.

16. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2013 (2012: HK$Nil).

17. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

The calculation of basic loss (2012: earnings) per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$1,757,000 (2012: profit of HK$3,308,000) and the weighted average number of ordinary shares of 2,198,331,000 (2012: 1,750,496,000) in issue during the year.

Diluted (loss)/earnings per share

No diluted loss (2012: earnings) per share is presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 December 2012 and 2013.

18. 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 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 and 1 January 2013	8,704	15,021	4,375	10,362	38,462
Additions	–	55	–	305	360
Disposals/write-off	(1,022)	(9,416)	(4,439)	(3,815)	(18,692)
Exchange differences	228	297	64	250	839
At 31 December 2013	7,910	5,957	–	7,102	20,969
Accumulated depreciation and impairment					
At 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 and 1 January 2013	8,438	13,402	4,375	6,488	32,703
Charge for the year	173	434	–	1,323	1,930
Disposals/write-off	(1,022)	(9,229)	(4,439)	(2,204)	(16,894)
Exchange differences	227	260	64	174	725
At 31 December 2013	7,816	4,867	–	5,781	18,464
Carrying amount					
At 31 December 2013	94	1,090	–	1,321	2,505
At 31 December 2012	266	1,619	–	3,874	5,759

18. FIXED ASSETS *(Continued)*

	The Company		
	Leasehold improvements HK$'000	**Office equipment** HK$'000	**Total** HK$'000
Cost			
1 January 2012	408	266	674
Additions	326	11	337
Write-off	(408)	(140)	(548)
At 31 December 2012 and 1 January 2013	326	137	463
Disposals	–	(25)	(25)
At 31 December 2013	326	112	438
Accumulated depreciation			
1 January 2012	408	239	647
Charge for the year	109	11	120
Write-off	(408)	(139)	(547)
At 31 December 2012 and 1 January 2013	109	111	220
Charge for the year	163	8	171
Disposals	–	(25)	(25)
At 31 December 2013	272	94	366
Carrying amount			
At 31 December 2013	54	18	72
At 31 December 2012	217	26	243

19. 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 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 and 1 January 2013	1,201	520	–	1,721
Write-off	(1,218)	–	–	(1,218)
Exchange differences	17	15	–	32
At 31 December 2013	–	535	–	535
Accumulated amortisation and impairment				
At 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 and 1 January 2013	1,201	347	–	1,548
Amortisation for the year	–	105	–	105
Write-off	(1,218)	–	–	(1,218)
Exchange differences	17	12	–	29
At 31 December 2013	–	464	–	464
Carrying amount				
At 31 December 2013	–	71	–	71
At 31 December 2012	–	173	–	173

Insurance agency licence

The Group's insurance agency licence is for its provision of insurance agency services. The remaining amortisation period of the insurance agency licence is 0.67 year (2012: 1.67 years).

20. INTERESTS IN SUBSIDIARIES

	The Company 2013 HK$'000	2012 HK$'000
Unlisted investments, at cost	**277,066**	277,066
Loans to subsidiaries	**1,214,068**	1,189,865
	1,491,134	1,466,931
Less: impairment losses	**(1,490,122)**	(1,466,931)
	1,012	–

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

Particulars of the principal subsidiaries as at 31 December 2013 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 Direct	Indirect	Principal activities
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	The PRC, wholly-foreign owned enterprise with limited liability	HK$100,000,000	–	100%	Investment holding
Seven Star (Shanghai)	The PRC, limited liability company	RMB6,000,000	–	100% (Note)	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 and provision of consultancy services
Seven Star Shopping Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	–	100%	Investment holding
Shanghai Seven Star Advertising Co., Ltd. ("Seven Star Advertising")^ 上海七星廣告有限公司	The PRC, limited liability company	RMB1,000,000	–	60%	Provision of television advertising services

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries as at 31 December 2013 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 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 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
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 services
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

^ For identification purposes only

Directly held by Seven Star (Shanghai)

41.8% is directly held by Seven Star (Shanghai)

Note:

Although the Group does not own any equity interest in Seven Star (Shanghai), Seven Star (Shanghai) Group are treated as subsidiaries because the Group is able to control the relevant activities of Seven Star (Shanghai) Group as a result of the Structured Contracts (as defined in the announcement of the Company dated 7 September 2006) entered into by the Group.

None of the subsidiaries has issued any debt securities.

20. INTERESTS IN SUBSIDIARIES *(Continued)*

The following table shows information of subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	Seven Star (Shanghai) Group		Seven Star Advertising	
	2013	2012	**2013**	2012
Principal place of business/ country of registration	PRC/PRC		PRC/PRC	
% of ownership interests/ voting rights held by NCI	**100%/0%**	100%/0%	**40%/40%**	40%/40%
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 31 December:				
Non-current assets	**1,464**	1,609	**855**	2,679
Current assets	**93,657**	100,286	**11,169**	71,460
Non-current liabilities	**(7,162)**	(6,961)	**–**	–
Current liabilities	**(586,681)**	(553,019)	**(89,220)**	(171,596)
Net liabilities	**(498,722)**	(458,085)	**(77,196)**	(97,457)
Accumulated NCI	**(264,593)**	(230,895)	**22,616**	13,006
Year ended 31 December:				
Revenue	**18,209**	156,957	**44,646**	407,493
Profit/(loss)	**(26,630)**	79,982	**22,759**	32,007
Total comprehensive income	**(41,882)**	76,001	**20,261**	31,259
Profit/(loss) allocated to NCI	**(26,630)**	1,126	**9,103**	12,803
Dividends paid to NCI	**–**	–	**–**	–
Net cash generated from/(used in) operating activities	**6,194**	(10,883)	**(9,877)**	10,757
Net cash generated from/(used in) investing activities	**(14)**	(364)	**6**	(230)
Effect of foreign exchange rate changes	**(966)**	413	**219**	(92)
Net increase/(decrease) in cash and cash equivalents	**5,214**	(10,834)	**(9,652)**	10,435

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2013	2012
	HK$'000	HK$'000
Unlisted equity securities, at cost	**213**	207
Analysed as:		
Non-current assets	**213**	207

Unlisted equity securities with carrying amount of approximately HK$213,000 (2012: 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.

22. INVENTORIES

	The Group	
	2013	2012
	HK$'000	HK$'000
Finished goods	**8,982**	15,618

23. TRADE AND BILLS RECEIVABLES

	The Group	
	2013	2012
	HK$'000	HK$'000
Trade receivables (Note)	**1,594**	49,960
Bills receivables	**–**	2,869
	1,594	52,829

Note:

The Group's turnover represents television advertising service income, sales of consumer products, consultancy service income 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 90 to 180 days. The consultancy service income is paid in accordance with the terms of respective agreements. The payment terms of insurance agency services provided are normally at 30 days.

23. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	The Group	
	2013	2012
	HK$'000	HK$'000
0–90 days	**1,211**	49,066
91–180 days	**378**	517
181–365 days	**4**	272
Over 365 days	**1**	105
	1,594	49,960

At 31 December 2013, an allowance was made for estimated irrecoverable trade receivables of approximately HK$16,147,000 (2012: HK$53,196,000).

Reconciliation of allowance for trade receivables:

	The Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**53,196**	50,235
Allowance for the year	**3,985**	4,491
Amounts reversed for the year	**(680)**	(372)
Amounts written off	**(41,352)**	(1,612)
Exchange differences	**998**	454
At 31 December	**16,147**	53,196

23. TRADE AND BILLS RECEIVABLES *(Continued)*

At 31 December 2013, trade receivables of approximately HK$383,000 (2012: HK$865,000) 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	
	2013	2012
	HK$'000	HK$'000
Overdue by:		
Up to 6 months	**379**	760
Over 6 months	**4**	105
	383	865

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

24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other receivables	**794**	1,877	**–**	–
Prepayments and deposits	**1,666**	10,400	**142**	332
	2,460	12,277	**142**	332

25. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

At 31 December 2013, the Group's pledged bank deposits included a deposit pledged to a bank of approximately HK$320,000 (2012: HK$311,000) as security for a corporate card (2012: two corporate cards) granted to an executive director (2012: two executive directors) of the Group. The credit limit of the corporate cards is approximately HK$256,000 (2012: HK$249,000) in aggregate. The deposit is in RMB and bears fixed interest rate of 3.0% (2012: 3.0%) per annum and therefore is subject to fair value interest rate risk.

At 31 December 2013, the Group's pledged bank deposits included deposits pledged to a bank of approximately HK$4,476,000 to secure bills payables of approximately HK$4,476,000 as set out in Note 26 to the financial statements. The deposits are in RMB and bear fixed interest rates ranging from 0.4% to 2.8% per annum and therefore are 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 to secure bank loans of approximately HK$9,944,000. The deposit is in RMB and bears fixed interest rate of 1.3% per annum and therefore is subject to foreign currency risk and fair value interest rate risk.

At 31 December 2013, the bank and cash balances of the Group denominated in RMB and kept in the PRC amounted to approximately HK$9,941,000 (2012: HK$13,818,000). 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.

As set out in Note 30(b) to the financial statements, two creditors filed settlement petitions to the court against a subsidiary of the Company. At 31 December 2013, the bank and cash balances of the Group included bank balances of approximately HK$630,000 which has been frozen by banks based on the instructions of the court.

26. TRADE AND BILLS PAYABLES

	The Group 2013 HK$'000	2012 HK$'000
Trade payables (Note)	**22,232**	18,471
Bills payables	**4,476**	–
	26,708	18,471

Note:

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

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

	The Group 2013 HK$'000	2012 HK$'000
0–90 days	**8,105**	8,294
91–180 days	**5,839**	61
181–365 days	**649**	5
Over 365 days	**7,639**	10,111
	22,232	18,471

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

27. SHARE CAPITAL

	Note	Number of Shares '000	Amount HK$'000
Authorised:			
Ordinary shares			
At 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, 1 January 2013 and 31 December 2013 (HK$0.01 each)		3,200,000	32,000
Issued and fully paid:			
Ordinary shares			
At 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, 1 January 2013 and 31 December 2013 (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 approximately HK$732,777,000 to approximately HK$14,655,000.

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

(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.

27. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(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.

28. SHARE OPTIONS

Equity-settled share option scheme

On 9 December 2013, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 28 May 2004 (the "2004 Share Option Scheme") and the adoption of a new share option scheme (the "2013 Share Option Scheme"). The 2013 Share Option Scheme will expire on 8 December 2023.

2013 Share Option Scheme

Under the 2013 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.

No option was granted under the 2013 Share Option Scheme.

28. SHARE OPTIONS *(Continued)*

2004 Share Option Scheme

The 2004 Share Option Scheme was terminated on 9 December 2013 such that no further option can be granted under the 2004 Share Option Scheme, but all options granted previously will remain exercisable in accordance with the terms of the 2004 Share Option Scheme and the relevant letters of offers to the respective grantees.

At 31 December 2013, 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 (Note)	30 April 2007	6.03	48,960	30 April 2008 – 29 April 2015
	30 April 2009	0.49	1,428,000	5 May 2010 – 4 May 2017
			1,476,960	

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.

	2013		2012	
	Weighted average exercise price in HK$ per share	**Number of share options**	Weighted average exercise price in HK$ per share	Number of share options
At 1 January	**0.776**	**30,444,960**	1.103	34,524,960
Lapsed during the year	**0.782**	**(28,968,000)**	3.539	(4,080,000)
At 31 December	**0.674**	**1,476,960**	0.776	30,444,960

The options outstanding at the end of the year have a weighted average remaining contractual life of 3.28 years (2012: 1.02 years) and the exercise prices range from HK$0.49 to HK$6.03 (2012: HK$0.49 to HK$6.03).

29. 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 2012	505,398	16,752	726,699	50,206	5,862	1,304,917
Issue of shares on open offer (Note 27(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
At 1 January 2013	533,936	8,701	726,699	51,883	5,862	1,327,081
Transfer	–	(8,031)	–	–	–	(8,031)
Translation differences	–	–	–	6,155	–	6,155
At 31 December 2013	533,936	670	726,699	58,038	5,862	1,325,205

	The Company			
	Share premium HK$'000	Share-based payments reserve HK$'000	Special capital reserve HK$'000	Total HK$'000
At 1 January 2012	505,398	16,752	726,699	1,248,849
Issue of shares on open offer (Note 27(b))	28,538	–	–	28,538
Transfer	–	(8,051)	–	(8,051)
At 31 December 2012	533,936	8,701	726,699	1,269,336
At 1 January 2013	533,936	8,701	726,699	1,269,336
Transfer	–	(8,031)	–	(8,031)
At 31 December 2013	533,936	670	726,699	1,261,305

29. OTHER RESERVES *(Continued)*

Nature and purpose of reserves

(a) Share premium

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

(b) Share-based payments reserve

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

(e) Statutory surplus reserve

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. PENDING LITIGATION

At 31 December 2013, the Group has the following litigations:

(a) 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 this litigation. The directors believe that appropriate provisions have been made in the financial statements of the Group and the Group has valid claim/defence regarding this litigation and consider that there would not have material impact to the Group.

(b) On 27 November 2013 and 5 December 2013, two major creditors (the "Plaintiffs") filed petitions to Shanghai Jiading People's Court of the PRC (上海市嘉定區人民法院) against a subsidiary of the Company (the "Defendant") for settlement of trade debts of approximately HK$3,783,000 and HK$6,214,000 respectively. Hearings had been held on 26 December 2013 and 16 January 2014 and the verdicts were in favor of the Plaintiffs. The Defendant then appealed to Shanghai No. 2 Intermediate People's Court of the PRC (上海市第二中級人民法院). As at the reporting date, the appeals are still in progress and no hearing dates have yet been fixed.

As the claimed trade debts have been properly made in the consolidated financial statements, the directors believe that these litigations would not have material impact to the Group.

Apart from the aforesaid pending litigations, the Group did not have any significant contingent liabilities at 31 December 2013.

31. OPERATING LEASE COMMITMENTS

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**3,787**	4,355	**154**	752
In the second to fifth years inclusive	**15,013**	14,544	**–**	154
After five years	**32,847**	35,652	**–**	–
	51,647	54,551	**154**	906

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.

It is the Group's policy to sublease part of its office in the PRC to related companies. The lease terms are ranging from 6 months to 1 year. All leases are on a fixed rental basis and do not include contingent rental.

32. 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:

	2013	2012
	HK$'000	HK$'000
Allowance for amount due from a former director	**126**	–
Allowance for rental receivables from a related company (Note (i) and (ii))	**585**	–
Consultancy service income from a related company (Note (i))	**134**	–
Rental income from a related company (Note (i))	**2,285**	–
Rental income from related companies	**–**	918

Notes:

(i) Mr. Ni Xinguang ("Mr. Ni"), an executive director of the Company has beneficial interests in these related companies.

(ii) Mr. Wang Zhiming ("Mr. Wang"), an executive director of the Company resigned on 28 June 2013 has beneficial interests in this related company.

32. RELATED PARTY TRANSACTIONS *(Continued)*

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

	The Group	
	2013	2012
	HK$'000	HK$'000
Other receivables from a related company (Note (i) and (ii))	**277**	–
Other receivables from related companies	**–**	613
Trade payables to related companies	**–**	(71)
Fund advanced from a related company (included in other payables and accruals)	**–**	(3,108)
Fund advanced from Mr. Wang (included in other payables and accruals	**–**	(409)

Notes:

(i) Mr. Ni has beneficial interests in this related company.

(ii) The amount due is unsecured, interest-free and has no fixed term of repayment.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2014.

FIVE YEAR FINANCIAL SUMMARY

	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
Results					
Turnover	**112,220**	616,877	589,621	580,085	469,123
(Loss)/profit attributable to:					
— Owners of the Company	**(1,757)**	3,308	(18,992)	(42,367)	6,200
— Non-controlling interests	**(19,504)**	13,957	(87,174)	(207,129)	(1,171)
Assets and liabilities					
Total assets	**61,477**	161,542	700,937	1,254,296	380,119
Total liabilities	**(47,320)**	(125,695)	(718,374)	(1,164,625)	(53,300)
Total equity	**14,157**	35,847	(17,437)	89,671	326,819