CHINA SEVEN STAR SHOPPING LIMITED

中 國 七 星 購 物 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 245)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

INTERIM RESULTS

The Board of Directors (the "Board") of China Seven Star Shopping Limited (the "Company") announces the unaudited interim financial results of the Company and its subsidiaries (hereinafter together referred as the "Group") for the six months ended 30 June 2010 together with the comparative figures of the corresponding period in 2009, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		Six months ended	
		30/6/2010	30/6/2009
		(unaudited)	(unaudited)
	Note	***HK$'000***	*HK$'000*
Turnover	3	**304,471**	206,687
Cost of sales and services		**(311,872)**	(122,349)
Gross (loss)/profit		**(7,401)**	84,338
Other income		**2,337**	5,148
Distribution costs		**(91,310)**	(69,067)
Administrative expenses		**(25,151)**	(23,597)
Other operating expenses		**(1,073)**	(4,758)
Loss from operations		**(122,598)**	(7,936)
Finance costs	4	**(18,683)**	–
Loss before tax		**(141,281)**	(7,936)
Income tax (expense)/credit	5	**(42)**	9,290
(Loss)/profit for the period	6	**(141,323)**	1,354
Attributable to:			
Owners of the Company		**(19,560)**	1,472
Non-controlling interests		**(121,763)**	(118)
		(141,323)	1,354
(Loss)/earnings per share	7		
Basic		**(0.27) cents**	0.02 cents
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended	
	30/6/2010	30/6/2009
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
(Loss)/profit for the period	**(141,323)**	1,354
Other comprehensive income:		
Exchange differences on translating foreign operations	**1,403**	35
Other comprehensive income for the period, net of tax	**1,403**	35
Total comprehensive income for the period	**(139,920)**	1,389
Attributable to:		
Owners of the Company	**(17,546)**	1,507
Non-controlling interests	**(122,374)**	(118)
	(139,920)	1,389

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	Note	**30/6/2010 (unaudited) *HK$'000***	31/12/2009 (audited) *HK$'000*
Non-current assets			
Fixed assets	9	**17,647**	19,792
Intangible assets	10	**1,234,009**	1,321
		1,251,656	21,113
Current assets			
Properties held for resale		**9,300**	9,300
Inventories		**32,042**	40,475
Trade receivables	11	**32,157**	45,002
Other receivables, prepayments and deposits		**98,788**	88,252
Financial assets at fair value through profit or loss		**30**	12,296
Pledged bank deposits		**7,792**	284
Bank and cash balances		**112,068**	163,397
		292,177	359,006
Current liabilities			
Agency fee payables – current portion	10	**491,198**	–
Trade and bills payables	12	**27,251**	25,928
Other payables and accruals		**44,562**	25,225
Current tax liabilities		**2,114**	2,147
		565,125	53,300
Net current (liabilities)/assets		**(272,948)**	305,706
Total assets less current liabilities		**978,708**	326,819
Non-current liabilities			
Agency fee payables – non-current portion	10	**790,404**	–
NET ASSETS		**188,304**	326,819
Capital and reserves			
Share capital		**732,777**	732,428
Other reserves		**1,282,184**	1,279,675
Accumulated losses		**(1,707,821)**	(1,687,998)
Equity attributable to owners of the Company		**307,140**	324,105
Non-controlling interests		**(118,836)**	2,714
TOTAL EQUITY		**188,304**	326,819

Notes:

1. **Basis of preparation**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the 2009 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2009 except as stated below.

2. **Adoption of new and revised Hong Kong financial reporting standards**

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2010. HKFRSs comprise Hong Kong Financial Reporting Standards; 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 period and prior years except as stated below.

Consolidation

HKAS 27 (Revised) "Consolidated and Separate Financial Statements" contains the following requirements:

– Total comprehensive income is 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. The previous HKAS 27 requires excess losses to be allocated to the owners of the Company, except to the extent that the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

– 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). Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the Company. The previous HKAS 27 does not have specific requirements for such transactions.

– When the disposal of a subsidiary results in a loss of control, the consideration of the sale and any investment retained in that subsidiary are required to be measured at their fair values. The previous HKAS 27 does not have specific requirements for such fair value measurements.

The above requirements of HKAS 27 (Revised) has been applied prospectively from 1 January 2010 and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	2010	2009
	HK$'000	*HK$'000*
Decrease in other operating expenses	**263**	–
Decrease in loss for the period attributable to owners of the Company	**120,514**	–
Increase in loss for the period attributable to non-controlling interests	**120,251**	–
Decrease in loss per share (HK cents)	**1.64**	–

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Segment information

	PRC retail and distribution	**Television advertising**	**Property investment**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Six months ended 30 June 2010					
Revenue from external customers	124,135	170,223	460	9,653	304,471
Intersegment revenue	251	24,018	–	–	24,269
Segment profit/(loss)	(66,292)	(69,752)	210	(23)	(135,857)
As at 30 June 2010					
Segment assets	222,590	1,306,814	9,433	21,458	1,560,295
Six months ended 30 June 2009					
Revenue from external customers	206,253	–	434	–	206,687
Segment profit/(loss)	(1,718)	–	207	–	(1,511)
	(audited)	(audited)	(audited)	(audited)	(audited)
As at 31 December 2009					
Segment assets	266,596	–	9,433	21,847	297,876

	Six months ended	
	30/6/2010	30/6/2009
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Reconciliation of segment profit or loss:		
Total profit or loss of reportable segments	**(135,857)**	(1,511)
Fair value gain/(loss) on financial assets at fair value through profit or loss	**674**	(725)
Interest income	**399**	1,332
Unallocated corporate income	**154**	–
Unallocated corporate expenses	**(6,651)**	(7,032)
Loss before tax	**(141,281)**	(7,936)

4. Finance costs

	Six months ended	
	30/6/2010	30/6/2009
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Notional non-cash interest accretion on pre-agreed periodic payments on exclusive advertising agency right	**18,683**	–

5. Income tax expense/(credit)

	Six months ended	
	30/6/2010	30/6/2009
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
PRC tax		
– current	**42**	2,373
– overprovision in prior years	**–**	(11,663)
	42	(9,290)

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit in Hong Kong during the period (six months ended 30 June 2009: 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.

No provision for deferred taxation has been made for both periods ended 30 June 2009 and 2010 as the effect of all temporary difference is not material.

6. (Loss)/profit for the period

(Loss)/profit for the period is arrived at after charging/(crediting):

	Six months ended	
	30/6/2010	30/6/2009
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest income	**(399)**	(1,332)
Advertising expenses	**50,159**	40,872
Allowance/(reversal of allowance) for inventories	**3,428**	(4,063)
Allowance for other receivables	**186**	40
Allowance for trade receivables	**703**	3,750
Cost of inventories sold	**85,417**	123,142
Depreciation and amortisation	**207,065**	2,331
Directors' emoluments	**1,157**	1,030
Fair value (gain)/loss on financial assets at fair value through profit or loss	**(674)**	725
Fixed assets written off	**13**	–
Impairment loss on prepayments and deposits	**–**	11
Loss on disposals of fixed assets	**–**	17
Reversal of allowance for trade receivables	**(98)**	–

7. (Loss)/earnings per share

Basic (loss)/earnings per share

The calculation of basic loss (2009: earnings) per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK$19,560,000 (2009: profit attributable to owners of the Company of approximately HK$1,472,000) and the weighted average number of ordinary shares of 7,325,245,000 (2009: 7,324,281,000) in issue during the period.

Diluted (loss)/earnings per share

No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary sharing during the period ended 30 June 2009.

The effects of all potential ordinary shares are anti-dilutive for the period ended 30 June 2010.

8. Dividend

The Directors have resolved not to declare any interim dividend in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: HK$Nil).

9. Capital expenditure

During the period, the Group incurred HK$219,000 (six months ended 30 June 2009: HK$3,830,000) on additions to fixed assets.

10. Intangible assets

During the period, the Group incurred HK$1,428,016,000 (six months ended 30 June 2009: HK$Nil) on additions to intangible assets. The additions represented the exclusive advertising agency right.

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

In the event of termination of the exclusive advertising agency contract by either party to contract, the cancelling or default party will be responsible for a compensation amounted to 10% of the unfulfilled contract sum for the year of default as well as an amount equals to the deposit on account for the contract. As at 30 June 2010, a deposit of approximately HK$34 million relating to the exclusive advertising agency contract has been included in other receivables, prepayments and deposits, and the maximum compensation computed for each of the financial years of 2010, 2011 and 2012 were approximately HK$25 million, HK$51 million and HK$59 million respectively. The management believes that the Group would have sufficient resources to meet its obligation in the event of default on its part.

11. Trade receivables

The Group's turnover included the invoiced amounts of television advertising, products sold or services rendered and rental income. For television advertising business, the Group generally requires customers to pay in advance, but grants a credit period of 30 to 90 days to some customers. The payment terms of the sales to retail customers in the PRC retail and distribution segment are on cash-on-delivery basis to the logistic providers who received on the Group's behalf upon delivery of goods and reimburse the fund so collected within 15 to 60 days. The payment terms of the sales to distributors in the PRC retail and distribution segment are normally from 30 to 180 days. The payment terms of media management services and insurance agency services provided are normally at 30 days. The rental income is paid in accordance with the terms of the respective agreements, which is normally due on the first day of the month.

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

	30/6/2010 (unaudited) *HK$'000*	31/12/2009 (audited) *HK$'000*
0 – 90 days	**21,831**	41,179
91 – 180 days	**7,445**	2,830
181 – 365 days	**2,125**	912
Over 365 days	**756**	81
	32,157	45,002

12. **Trade and bills payables**

At 30 June 2010, included in trade and bills payables are trade payables of approximately HK$19,802,000 (2009: HK$25,928,000) and bills payables of approximately HK$7,449,000 (2009: HK$Nil).

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

The aging analysis of trade payables as at the statement of financial position date, based on date of receipt of goods, is as follows:

	30/6/2010	31/12/2009
	(unaudited)	(audited)
	HK$'000	*HK$'000*
0 – 90 days	**9,675**	15,632
91 – 180 days	**3,488**	959
181 – 365 days	**3,105**	3,039
Over 365 days	**3,534**	6,298
	19,802	25,928

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

PRC consumer goods market analysis

In the first half of 2010, the global economy has shown signs of strong recovery, and the stimulus package implemented by the Chinese Government has contributed to the rapid growth of 11.1% in the PRC GDP during the same period. Initiatives under the Government's policies to drive domestic consumption and maintain growth of the country have also effectively boosted the consumption and actual spending power of Mainland consumers, translating into a greater scope for development of the retail market. Data from the National Bureau of Statistics of China showed that the total retail sales of consumer products in the country increased by 18.2% year-on-year to RMB7,266.9 billion in the first half of the year. With continued growth in the Chinese economy, it is expected that the PRC consumer goods market will also continue to expand steadily in the second half.

Media shopping market analysis and prospects

Facing the integrity crisis of the television shopping industry, the State Administration of Radio Film and Television promulgated a series of policies in the second half of 2009 to regulate and consolidate the industry. However, the relevant regulations did not achieve the expected results, some enterprises still operate in a way which consumer rights were usurped. Through the questionable operations by these enterprises, the overall image and operating environment of the television shopping industry saw no major improvements. In addition, although the launch of relevant policies have ousted some of the smaller companies in the industry, the relevant advertising costs were not reduced accordingly due to the reduction in overall advertising airtime available for television shopping.

Compare that with the US, Japan, and Korea, the PRC market demonstrates huge potential as the size of the PRC television shopping industry by the end of 2009 was at less than RMB30 billion. With the gradual standardization of the television shopping industry and the rapid growth of the industry in the second, third and fourth tier cities, television shopping in the PRC should continue to boom and become one of the important retail channels in the domestic consumption market in the PRC.

On the other hand, the popularity of the Internet has also facilitated popular acceptance of electronic shopping. According to the data from China Internet Network Information Center, by the end of June 2010 the number of Internet users in the PRC has grown to 420 million; Internet penetration rose to 31.8%; utilization rate of online shopping at 33.8%, with number of online shoppers reached 142 million and growth rate of users over the half-year period at 31.4%. The Ministry of Commerce issued "Guidelines on Promoting the Healthy Development of Online Shopping*" (《關於促進網絡購物健康發展的指導意見》) in June 2010 to support the development of online shopping via policies and regulations. It also targets to enlarge the proportion of transacted amount of online shopping within the overall retail sales of consumer goods in the PRC to over 5% by the end of the "Twelfth Five-Year Plan" in 2015. The country's great emphasis on electronic commerce has created new opportunities for the online shopping market.

Business Review

During the period under review, the Group continued to consolidate its media platform resources, including television, print, online and retail media. Based on a rich understanding of consumption trends, the Group actively optimized its online shopping platform (www.cntvs.com) to realize an integration of traditional retail business and modern electronic commerce. In addition, the Group has stepped up efforts in building its brand and integrity to enhance the "China Seven Star" brand and boost market penetration. However, owing to the unethical acts by certain operators, and the apparent saturation of lower priced consumer communications products on the television shopping platform, the Group's sales performance, measured in the form of sales to advertising cost has been severely hampered, despite the Group's effort in upholding its perception as an ethical operator.

Currently it appears difficult for the Group's core business to achieve major breakthrough in the short run amidst negative industry factors. However, in order to capture the business opportunity presented by the favorable macro environment, the Group leveraged its extensive experience in media and advertisement management and a subsidiary of the Group, Shanghai Seven Star Advertising Co., Ltd. (formerly Shanghai Seven Star Yixi Advertising Co., Ltd.), has entered into a media management service agreement with Guangdong Television Station ("GDTV") on 31 December 2009, under which the company was granted an exclusive agency rights to the advertising air time of a satellite television channel of GDTV for three years. The Group aims to achieve a mutually beneficial cooperation with GDTV.

* *Management translation*

During the period, the Group also actively explored other distribution channels as elaborated below, to diversify away from concentrating on satellite television, provincial and local television channels, with a hope to mitigate the negative impact of the integrity crisis caused by the unethical operators.

The Group has been authorized to offer 24-hour home shopping on digital television and the operation has begun in Shanghai, Fujian and Guangxi Provinces. This home shopping business is still in its initial stage and only took up about 10% of the Group merchandise sales during the period, which is yet to generate substantial returns to the Group. However, we remain optimistic that it will gradually increase its contribution to the Group. During the period, the Group also extended its business to mobile platforms to develop the mobile shopping market by cooperating with China Mobile to provide consumers a comprehensive shopping platform that is without time or geographic limits. According to the data of the Ministry of Industry and Information Technology of the PRC, there were 805 million mobile phone users in the PRC as at end of June 2010, hence, the Group will strive to capture the enormous opportunities presented in the mobile shopping market. By cooperating with business partners from different industries, the Group aims to further expand its business coverage for broader revenue base and enhanced profitability.

With its own brand, merchandise products, sales programs and logistics resources, the Group continued to perfect the entire supply chain encompassing product development, sales and delivery with the aim to enhance operating efficiency and market reach of its business. The Group also continued to improve its product mix based on customers' demand, offered abundant product choices and convenient shopping to consumers, through bolstered complementary supporting services, such as a 24-hour call center, online shopping guides, nationwide delivery service and multiple payment methods. The Group aims to create a more convenient, speedy and secure shopping environment for customers to satisfy their increasing demand and to build up the Group's image as a shopping service enterprise.

Outlook and strategy

As the living standard in the PRC rises, the Group continues to enhance its product range by adding more trendy items to satisfy the consumers' ever-changing tastes and regain consumers' confidence, with hope to lower the return rate of purchased products.

With the ongoing national policy to drive domestic consumption, we expect the domestic economy to remain strong. The huge and rapidly expanding consumer goods market should also benefit the media shopping industry. In addition, the three-network convergence* (三網融合) has officially started during the period, the Central Government has announced pilot cities for the three-network convergence in July and this technology direction will help boost the investment and consumption in related industries.

* *Management translation*

According to China Internet Network Information Center, further implementation of the three-network convergence policy in the PRC will elevate online (network) video to become an important channel for television shopping and lead to great growth opportunities. In addition, we expect that various terminals including mobile, Internet and Internet Protocol TV (IPTV) will be effectively converged to create a cross network interactive shopping platform to facilitate the long-term development of the industry. As a leading shopping media enterprise, the Group has been closely monitoring the market trend, assessment of the opportunities brought about by the three-network convergence are well underway and the Group has proactively equipped itself to build an extensive and comprehensive shopping platform with the aim to offer a complete shopping experience to consumers.

The Group is aware that the specific negative industry factors have continuously undermined the performance of trustworthy operators and the Board of Directors will maintain their open stance in investigating possibilities of adding other businesses, hoping to enhance shareholders' returns.

Financial Review

For the six months ended 30 June 2010, the Group's unaudited consolidated turnover was approximately HK$304,471,000, represents an increase of approximately 47% from the same period of last year, mainly attributable to the newly added exclusive television advertising agency contract. Excluding this new contract's contribution of approximately HK$152,930,000 to the turnover, the Group recorded a retail revenue of HK$124,135,000 (first half of 2009: HK$206,253,000), a decrease of 40% year-on-year. The reason for the decline stemmed from the questionable practices of some television shopping industry players triggering an integrity crisis which led to a decrease in the ratio of television sales to advertising costs, the higher return rate of goods sold as well as the conscious decision to business segment diversification by the Group.

The breakdown of the Group's total revenue recognized in the unaudited consolidated income statement was as follows:

For the six months ended 30 June, in HK$'000

	2010	2009	Change
Retail and distribution of consumer products	**124,135**	206,253	–40%
Television Advertising	**170,223**	–	n/a
Insurance agency service	**9,653**	–	n/a
Rental income	**460**	434	+6%
Interest income	**399**	1,332	–70%
Other income	**1,938**	3,816	–49%
Total revenue	**306,808**	211,835	+45%

The Group recorded a loss on the gross profit line during the period, mainly because the Group's commission entitlement from the exclusive television advertising agency contract aforesaid is back-end loaded, whilst the amortization cost of the related agency rights was included in the cost of goods sold during the period. Shanghai Seven Star Advertising Co., Ltd. (formerly Shanghai Seven Star Yixi Advertising Co., Ltd.), a subsidiary of the Group, signed an agreement with GDTV for media management service last year, and was granted an exclusive agency rights to the advertising air time of a satellite television channel of GDTV. According to the Hong Kong Accounting Standard (HKAS) 38 "Intangible Assets" and HKAS 39 "Financial Instruments: Recognition and Measurement", this right is considered as an intangible asset and its fair value, amortization and deemed finance cost shall be computed accordingly. For the six months ended 30 June 2010, the related amortization and deemed finance cost recognized by the Group amounted to approximately HK$204,000,000 and HK$19,000,000 respectively, and further amortization and deemed finance cost of approximately HK$245,000,000 and HK$19,000,000 will be booked in the second half of 2010. The time-based value of the exclusive agency rights was determined by referring to the combined nominal value of a three-year contract with a discount rate at 3.29%. According to management's estimates, the present value calculation resulted in an acceleration of the charging of the amortization and deemed finance cost to the income statements for years 2010 and 2011 of approximately HK$80,031,000 and HK$6,886,000 respectively, where such will be reversed in 2012 in the form of lower charges to the income statement, when compared with the outgoing cash flows if they were to be recorded on the contract's face value within the year of occurrence under the common accrual concept.

Excluding the impact of both the turnover and cost of goods sold relating to the exclusive television advertising agency contract, the gross profit and gross margin related to other business segments for the period was approximately HK$43,813,000 and 29% respectively. During the period, lower priced consumer communications products, particularly mobile products, remained the most popular product of the television shopping media due to their homogeneity. However, the market of the related product is nearly saturated, leading to the decline in gross margin of the business segment. This, together with lower gross margin of home shopping retail channels, has resulted in the drop of gross profit margin of the Group's merchandise sales from 41% to 31%.

The Group recorded a loss before tax of approximately HK$141,281,000 (first half of 2009: loss of HK$7,936,000). Based on the legal interpretation of the terms as contained in the structural contracts the Group entered into for the purpose of consolidating the financial results of the television shopping and related businesses, and under the HKAS 27 (revised) "Consolidated and Separate Financial Statements" that became effective for the Company's financial statements from 2010 onwards, the non-controlling interests of the PRC business of the Group shared a portion of the loss before tax of approximately HK$121,763,000 (first half of 2009: loss of HK$118,000), resulting in an unaudited loss attributable to the owners of the Company of approximately HK$19,560,000 (first half of 2009: profit attributable to the owners of the Company of approximately HK$1,472,000). The Board did not recommend payment of an interim dividend for the six months ended 30 June 2010 (first half of 2009: HK$Nil).

Employee relations

As of 30 June 2010, the Group has 656 employees (as at 30 June 2009: 619 employees). Total remuneration cost for the period under review was approximately HK$22.6 million (six months ended 30 June 2009: HK$19.0 million). No share options were granted during the period under review and the share option cost that was charged to the income statement was approximately HK$345,000 (six months ended 30 June 2009: HK$802,000). Based on the existing outstanding number of share options as of 30 June 2010 and assume that no further share options are to be granted in the six months to 31 December 2010, no further share option cost will be charged to the income statement.

The employees are remunerated based on their work performance, professional experience and prevailing industry practices. The remuneration policy and package of the Group's employees are periodically reviewed by the Group's management. 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.

Liquidity and financial resources

As at 30 June 2010, the Group's cash and bank deposits amounted to approximately HK$120 million (31 December 2009: approximately HK$164 million) and financial assets at fair value through profit or loss of approximately HK$30,000 (31 December 2009: HK$12 million) with no borrowings (31 December 2009: HK$Nil). The gearing ratio as at 30 June 2010 (total interest bearing borrowings to total assets) was zero (31 December 2009: zero), indicated that the Group's overall financial position remained strong.

Segment Information

The details of segment information are set out in note 3 above.

Capital structure

On 12 May 2010, 3,490,000 shares of the Company were issued upon exercise of share options on 11 May 2010 at an exercise price of HK$0.143 per share. As a result, the number of issued shares of the Company was 7,327,770,839 shares as at 30 June 2010.

Material acquisitions and disposals of subsidiaries and associates

The Group did not have any material acquisitions or disposals of subsidiaries or associates during the six months ended 30 June 2010.

Charges on Group assets

Apart from the deposits of approximately HK$7,506,000 pledged to a bank to secure bills payables of approximately HK$7,449,000 as set out in note 12 above and the deposits of approximately HK$286,000 pledged to a bank as securities for two corporate cards with credit limit of HK$229,000 in aggregate granted to two executive directors of the Group, as at 30 June 2010, there were no charges on the Group's assets.

Foreign currency risk

The Group did not have any significant exposure to foreign currency risk as most of the Group's operations are in the PRC and transactions are denominated in Renminbi.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2010 (31 December 2009: HK$Nil).

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices of the Listing Rules

The Board of Directors of the Company has applied the principles and complied with all the applicable provisions and where applicable, the recommended practices of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange for the six months ended 30 June 2010 except for deviation from Code provision A.4.1 of the Code.

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 ("INEDs") of the Company is appointed for a specific term and this constitutes deviation.

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 of associations of the Company (the "Articles"), such practice meets the same objective and is no less exacting than those prescribed under Code provision A.4.1.

Review of Accounts

Disclosure of financial information in this announcement complies with Appendix 16 of the Listing Rules.

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and in the course has discussed with the management, the internal controls and financial reporting matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2010.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2010 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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.

The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30 June 2010, and they all confirmed that they have fully complied with the required standard set out in the Model Code and its code of conduct regarding director's securities transactions.

EVENTS AFTER THE REPORTING PERIOD

There are no significant events occurring after the reporting period.

OTHER INFORMATION

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The results announcement is published on the website of Hong Kong Exchanges and Clearing Limited ("HKEX") at www.hkexnews.hk under "Latest Listed Company Information" and on the website of the Company at www.sevenstar.hk respectively.

The interim report of the Company for the six months ended 30 June 2010 will be despatched to the shareholders and published on the websites of the HKEX and the Company in due course.

On behalf of the Board
Ni Xinguang
Chairman

Hong Kong, 30 August 2010

As at the date of this announcement, the Board comprises Mr. Ni Xinguang and Mr. Wang Zhiming as executive directors, and Mr. Chan Wai Sum, Mr. Ho Wai Ip and Mr. Lu Wei as independent non-executive directors.