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## 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)

### ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

The Board of Directors (the “Board”) of China Seven Star Shopping Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (hereinafter together referred as “the Group”) for the year ended 31 December 2009 together with the comparative figures of the corresponding year in 2008, as follows:

#### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Note	2009 HK\$'000	2008 HK\$'000
<b>Turnover</b>	4	<b>469,123</b>	298,296
Cost of sales and services		<u>(267,899)</u>	<u>(179,728)</u>
<b>Gross profit</b>		<b>201,224</b>	118,568
Other income	5	<b>10,673</b>	14,124
Reversal of write down/(write down) of properties held for resale		<b>600</b>	(1,600)
Impairment loss on goodwill		–	(6,860)
Income from excess of fair value over cost of acquisition of a subsidiary		<b>581</b>	–
Distribution costs		<b>(172,591)</b>	(195,154)
Administrative expenses		<b>(44,994)</b>	(56,897)
Other operating expenses		<b>(5,283)</b>	(30,414)
<b>Loss from operations</b>		<b>(9,790)</b>	(158,233)
Share of loss of a jointly controlled entity		–	(4,019)
<b>Loss before tax</b>		<b>(9,790)</b>	(162,252)
Income tax credit/(expense)	7	<b>14,819</b>	(5,510)
<b>Profit/(loss) for the year</b>	8	<b><u>5,029</u></b>	<b><u>(167,762)</u></b>
<b>Attributable to:</b>			
Owners of the Company		<b>6,200</b>	(165,508)
Minority interests		<b>(1,171)</b>	(2,254)
		<b><u>5,029</u></b>	<b><u>(167,762)</u></b>
<b>Earnings/(loss) per share</b>	9		
Basic		<b><u>0.08 cents</u></b>	<b><u>(2.26) cents</u></b>
Diluted		<b><u>0.08 cents</u></b>	<b><u>N/A</u></b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2009*

	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
<b>Profit/(loss) for the year</b>	<b>5,029</b>	(167,762)
<b>Other comprehensive income:</b>		
Exchange differences on translating foreign operations	<b>305</b>	15,910
<b>Other comprehensive income for the year, net of tax</b>	<b>305</b>	15,910
<b>Total comprehensive income for the year</b>	<b><u>5,334</u></b>	<b><u>(151,852)</u></b>
<b>Attributable to:</b>		
Owners of the Company	<b>6,505</b>	(149,721)
Minority interests	<b>(1,171)</b>	(2,131)
	<b><u>5,334</u></b>	<b><u>(151,852)</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	<i>Note</i>	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
<b>Non-current assets</b>			
Fixed assets		<b>19,792</b>	19,268
Goodwill		–	–
Intangible assets		<b>1,321</b>	1,095
Available-for-sale financial assets		–	–
		<u><b>21,113</b></u>	<u>20,363</u>
<b>Current assets</b>			
Properties held for resale		<b>9,300</b>	8,700
Inventories		<b>40,475</b>	13,350
Trade receivables	10	<b>45,002</b>	40,012
Other receivables, prepayments and deposits		<b>88,252</b>	38,740
Financial assets at fair value through profit or loss		<b>12,296</b>	23,772
Pledged bank deposits		<b>284</b>	9,299
Bank and cash balances		<b>163,397</b>	217,113
		<u><b>359,006</b></u>	<u>350,986</u>
<b>Current liabilities</b>			
Trade and bills payables	11	<b>25,928</b>	17,869
Other payables and accruals		<b>25,225</b>	19,540
Current tax liabilities		<b>2,147</b>	17,115
		<u><b>53,300</b></u>	<u>54,524</u>
<b>Net current assets</b>		<u><b>305,706</b></u>	<u>296,462</u>
<b>NET ASSETS</b>		<u><b>326,819</b></u>	<u>316,825</u>
<b>Capital and reserves</b>			
Share capital		<b>732,428</b>	732,428
Other reserves		<b>1,279,675</b>	1,277,872
Accumulated losses		<b>(1,687,998)</b>	(1,694,198)
Equity attributable to owners of the Company		<b>324,105</b>	316,102
Minority interests		<b>2,714</b>	723
<b>TOTAL EQUITY</b>		<u><b>326,819</b></u>	<u>316,825</u>

*Notes:*

## **1. GENERAL INFORMATION**

The Company was incorporated in Hong Kong as a company with limited liability under the Hong Kong Companies Ordinance. The address of its registered and business office is Suite 1206, 12/F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its major subsidiaries are retail and distribution of consumer products in The People's Republic of China (the "PRC") and property holding and investment in Hong Kong.

## **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 2009. 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 substantial 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) Presentation of financial statements**

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement and statement of comprehensive income, and the total carried to the statement of changes in equity. HKAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the year. HKAS 1 (Revised) has been applied retrospectively.

### **(b) Operating segments**

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. The primary segments reported under HKAS 14 are the same as the segments reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in Note 6 below.

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. BASIS OF PREPARATION

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

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies.

### 4. TURNOVER

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

	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Retail and distribution of consumer products	<b>433,713</b>	297,382
Media management service fees	<b>25,297</b>	–
Insurance agency service income	<b>9,198</b>	–
Rental income	<b>915</b>	914
	<b>469,123</b>	298,296

### 5. OTHER INCOME

	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interest income	<b>2,541</b>	4,352
Reversal of allowance for trade receivables	<b>2,038</b>	–
Tax subsidy	<b>3,522</b>	3,528
Write back of other payables and accruals	<b>745</b>	10
Sundry income	<b>1,827</b>	6,234
	<b>10,673</b>	14,124

## 6. SEGMENT INFORMATION

The Group has two reportable segments as follows:

- PRC retail and distribution – retail and distribution of consumer products as well as the provision of media management services in the PRC
- Property investment – property holding and investment in Hong Kong

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 segments include the insurance agency service business, which earns insurance agency service income. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the 'others' column.

Segment profits or losses do not include interest income, fair value gains or losses on financial assets at fair value through profit or loss, income from excess of fair value over cost of acquisition of a subsidiary, loss on deemed disposal of a subsidiary, corporate income and corporate expenses. Segment assets do not include financial assets at fair value through profit or loss and corporate assets. Segment liabilities do not include corporate liabilities.

There were no intersegment sales during the year (2008: HK\$Nil).

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

	<b>PRC retail and distribution</b>	<b>Property investment</b>	<b>Others</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Year ended 31 December 2009</b>				
Revenue from external customers	<b>459,010</b>	<b>915</b>	<b>9,198</b>	<b>469,123</b>
Segment profit/(loss)	<b>(947)</b>	<b>1,067</b>	<b>357</b>	<b>477</b>
Interest revenue	<b>760</b>	–	<b>25</b>	<b>785</b>
Interest expense	–	–	–	–
Income tax credit/(expense)	<b>14,871</b>	–	<b>(52)</b>	<b>14,819</b>
Depreciation and amortisation	<b>4,802</b>	–	<b>49</b>	<b>4,851</b>
Reversal of bad debts/impairment charges	<b>8,647</b>	–	–	<b>8,647</b>
Bad debts/impairment charges	<b>3,123</b>	–	–	<b>3,123</b>
Write back of other payables and accruals	<b>705</b>	–	–	<b>705</b>
Reversal of write down of properties held for resale	–	<b>600</b>	–	<b>600</b>
Loss on disposals of fixed assets	<b>16</b>	–	–	<b>16</b>
Fixed assets written off	<b>18</b>	–	–	<b>18</b>
Capital expenditure	<b>5,294</b>	–	<b>7</b>	<b>5,301</b>
<b>At 31 December 2009</b>				
Segment assets	<b>266,596</b>	<b>9,433</b>	<b>21,847</b>	<b>297,876</b>
Segment liabilities	<b>55,571</b>	<b>309</b>	<b>1,608</b>	<b>57,488</b>

	PRC retail and distribution <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2008			
Revenue from external customers	297,382	914	298,296
Segment loss	(149,458)	(1,109)	(150,567)
Interest revenue	897	–	897
Interest expense	–	–	–
Income tax expense	5,510	–	5,510
Depreciation and amortisation	3,797	–	3,797
Fixed assets written off	265	–	265
Impairment loss on goodwill	6,860	–	6,860
Inventories written off	159	–	159
Bad debts/impairment charges	28,247	–	28,247
Write down of properties held for resale	–	1,600	1,600
Share of loss of a jointly controlled entity	4,019	–	4,019
Capital expenditure	5,565	–	5,565
At 31 December 2008			
Segment assets	191,227	8,833	200,060
Segment liabilities	42,638	309	42,947



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

	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	<b>469,123</b>	298,296
<b>Profit or loss</b>		
Total profit or loss of reportable segments	477	(150,567)
Fair value loss on financial assets at fair value through profit or loss	(255)	(838)
Interest revenue	2,541	4,352
Income from excess of fair value over cost of acquisition of a subsidiary	581	–
Loss on deemed disposal of a subsidiary	(1,023)	–
Unallocated corporate income	42	10
Unallocated corporate expenses	(12,153)	(15,209)
Loss before tax	<b>(9,790)</b>	(162,252)
<b>Assets</b>		
Total assets of reportable segments	297,876	200,060
Financial assets at fair value through profit or loss	12,296	23,772
Corporate assets	70,297	147,517
Elimination of intersegment assets	(350)	–
Consolidated total assets	<b>380,119</b>	371,349
<b>Liabilities</b>		
Total liabilities of reportable segments	57,488	42,947
Corporate liabilities	4,927	20,342
Elimination of intersegment liabilities	(9,115)	(8,765)
Consolidated total liabilities	<b>53,300</b>	54,524

Geographical information:

	<b>Revenue</b>		<b>Non-current assets</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	915	914	59	73
The PRC except Hong Kong	468,208	297,382	21,054	20,290
Consolidated total	<b>469,123</b>	298,296	<b>21,113</b>	20,363

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

## 7. INCOME TAX (CREDIT)/EXPENSE

	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
PRC tax		
– current	<b>458</b>	5,443
– (over)/underprovision in prior years	<b>(15,277)</b>	67
	<b>(14,819)</b>	5,510

No provision for Hong Kong Profits Tax is required since the Group did not generate any assessable profits arising in Hong Kong for the year (2008: 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.

## 8. PROFIT/(LOSS) FOR THE YEAR

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

	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Advertising costs	<b>100,949</b>	138,701
Allowance for trade receivables (included in other operating expenses)	<b>2,503</b>	13,770
(Reversal of allowance)/allowance for inventories (included in cost of inventories sold)	<b>(6,609)</b>	3,607
Allowance for other receivables (included in other operating expenses)	<b>288</b>	1,074
Amortisation of intangible assets (included in other operating expenses)	<b>251</b>	–
Auditor's remuneration	<b>1,450</b>	1,380
Cost of inventories sold	<b>253,256</b>	175,540
Depreciation	<b>4,635</b>	3,921
Direct operating expenses that generate rental income	<b>422</b>	422
Exchange differences, net	<b>179</b>	2,182
Fair value loss on financial assets at fair value through profit or loss	<b>255</b>	838
Fixed assets written off	<b>18</b>	265
Impairment loss on fixed assets (included in other operating expenses)	<b>203</b>	3,386
Impairment loss on available-for-sale financial assets (included in other operating expenses)	–	169
Impairment loss on goodwill for investment in a jointly controlled entity (included in other operating expenses)	–	884
Impairment loss on prepayments and deposits (included in other operating expenses)	<b>129</b>	5,357
Inventories written off (included in cost of inventories sold)	–	159
Loss on deemed disposal of a subsidiary (included in other operating expenses)	<b>1,023</b>	–
Loss on disposals of fixed assets	<b>16</b>	–
Operating lease on land and buildings	<b>6,568</b>	9,034
Staff costs (including directors' emoluments)	<b>38,351</b>	46,116

## 9. EARNINGS/(LOSS) PER SHARE

### Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK\$6,200,000 (2008: loss of approximately HK\$165,508,000) and the weighted average number of ordinary shares of 7,324,281,000 (2008: 7,324,281,000) in issue during the year.

### Diluted earnings/(loss) per share

For the year ended 31 December 2009, the calculation of diluted earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK\$6,200,000 and the weighted average number of ordinary shares of 7,324,630,000, being the weighted average number of ordinary shares of 7,324,281,000 in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 349,000 assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the end of the reporting period.

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

## 10. TRADE RECEIVABLES

The Group's turnover included the invoiced amounts of products sold or services rendered and rental income. The payment terms of the sales to retail customers in the PRC retail and distribution segment are on cash-on-delivery basis to the logistic providers who received on the Group's behalf upon delivery of goods and reimburse the fund so collected within 15 to 60 days. The payment terms of the sales to distributors in the PRC retail and distribution segment are normally from 30 to 180 days. The payment terms of media management services 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, based on the invoice date, and net of allowance, is as follows:

	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	<b>41,179</b>	28,969
91 – 180 days	<b>2,830</b>	11,043
181 – 365 days	<b>912</b>	–
Over 365 days	<b>81</b>	–
	<hr/>	<hr/>
	<b>45,002</b>	40,012
	<hr/> <hr/>	<hr/> <hr/>

## 11. TRADE PAYABLES

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0 – 90 days	15,632	5,552
91 – 180 days	959	265
181 – 365 days	3,039	773
Over 365 days	6,298	4,815
	<u>25,928</u>	<u>11,405</u>

## 12. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2009 (2008: HK\$Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

#### *PRC Consumer goods market analysis*

The stimulus package implemented by the Chinese government in 2009 took effect gradually, enabling the economy to develop stably with the growth of GDP in China reaching 8.7%, and the annual per capita disposable income of urban residents rose by 9.8%. The strong government supportive policies have boosted consumption demand and spending in the country, translating into a greater scope for development of the retail market. Data from the National Bureau of Statistics of China showed that the annual total retail sales of consumer products in the country increased by 15.5% to RMB 12,534.3 billion in 2009. With the consumption and actual spending power continue to increase, as well as the government's initiatives to launch policies to drive domestic consumption; a prosperous retail sector in 2010 is foreseeable.

#### *Media shopping market analysis and prospects*

With the laws governing the television shopping industry lagging behind previously, industry development has been hindered, thereby creating a market where consumer power was often usurped by high selling prices for poor quality products and misleading product descriptions, led to the integrity crisis of the industry which started a few years back. In response to the industry's request to assert control over unregulated operators, the State Administration of Radio Film and Television promulgated a "Notification about Management of Television Shopping Advertisement and Home Shopping Programmes\*" (《關於加強電視購物短片廣告和居家購物節目管理的通知》) and "Measures on Regulation of Television Advertisement Broadcasting\*" (《廣播電視廣告播出管理辦法》) in September 2009, as well as "Notification about Further Examination and Regulation of Television Advertising\*" (《關於進一步加強廣播電視廣告審查和監管

工作的通知》) in February 2010. This will effectively safeguard consumer rights and revive consumers' confidence. Starting from 2010, all television shopping advertisement will be placed under the same regulatory framework as other advertisements, in addition to being subject to the provisions of "The PRC Television Shopping Industry Standard\*" (《中國電視購物行業標準》) which was launched in 2009. A series of policies that were introduced to standardize industry practices and the lifted entry barrier strengthened the management of television advertisement resources, in turn sparking industry consolidation and eliminating weaker operators. Better regulation in this highly competitive market will yield a system that will safeguard consumer rights and revive consumers' confidence. Advertising operators for their part could advance through a new platform where sustainable and healthy industry growth could be achieved through standardized industry regulations.

Standardization and integration of the industry has formed a firm foundation for the new round of evolution of television shopping industry. The television shopping industry will start to expand rapidly in second, third and fourth tier cities and will accelerate in the future with the market value of the PRC television shopping industry expected to reach RMB300 billion by the end of the "Eleventh Five-Year Plan" period. Presently swelling by more than 20% a year, the PRC television shopping industry only accounted for 0.1% of the entire retail sector when compared with 5% and 7.7% in Korea and the US respectively, underscoring its huge upside potential.

With the rapid spread of the Internet and the optimization of electronic business, traditional enterprises gradually adjusted their B2C business model and has hastened the rapid migration to online shopping. The integration of television shopping and online shopping is set to become a major future trend. According to data from China Internet Network Information Center, the number of online shoppers in the PRC reached 108 million in 2009, up by 45.9% year-on-year. The penetration of online shopping also increased to 28.1% while its market size is expected to reach RMB250 billion, accounting for approximately 2% of the overall retail sales of consumer goods in the PRC. The Ministry of Commerce is striving to increase the portion to 5% by the end of the "Twelfth Five-Year Plan" period.

The rapid growth of the media shopping industry as well as standardized industry regulations will be favorable to the Group's retail sales business, laying a sound foundation for the Group's development in the long run.

## **Business review and key data**

During the year, the Group stepped up its efforts in transforming its business model and strengthened its various media platforms resources including television and print, as well as online and retail media. With customer needs as its first priority, the Group has provided an abundant product choice and convenient shopping to consumers. The Group has also consolidated the resources of various shopping platforms, actively developing other online shopping media with the objective of realizing the perfect integration between traditional retail business and modern electronic commerce. These efforts have allowed the Group to maximize a return from its resources and substantially enhanced the “China Seven Star” brand.

Financially, for the year ended 31 December 2009, the Group’s turnover amounted to HK\$469.123 million, up by 57% against the same period in 2008. Gross margin was reported at 43% (2008: 40%). The Group’s new business model has become more mature and has started to have an impact on the results, cutting back from a loss situation during the year, profit attributable to owners of the Company was at HK\$6.2 million, compared with a loss of HK\$165.508 million in 2008.

On financial position and cash flows, for the year ended 31 December 2009, the Group’s total assets were HK\$380.119 million (2008: HK\$371.349 million), an increase of 2% when compared with 2008 and there was no net debt (2008:nil). Net cash inflows/(outflows) from operating activities, investing activities and financing activities were at HK\$(76.624) million, HK\$20.491 million and HK\$2.009 million respectively (2008: HK\$(42.833) million, HK\$(30.646) million, and HK\$Nil). Capital expenditure for the year was HK\$5.322 million (2008: HK\$5.57 million) with depreciation and amortization for tangible and intangible assets at HK\$4.886 million (2008: HK\$3.921 million). Strength of the Chinese Yuan also contributed to a favorable currency effect of HK\$0.305 million (2008:HK\$15.787 million) to the current year’s reserves. As at 31 December 2009, the total cash position of the Group was HK\$163.681 million (2008: HK\$226.412 million).

## **Sales results and performance review**

After scaling down operations in 2008 due to the global downturn, we have reinvented ourselves in equipping to better serve the retail consumers, adapting quickly to the rapidly changing retail shopping landscape including both e-business and the traditional sales mode. Against the backdrop of a recovering domestic economy and thanks to the results of the new business model, the Group registered a 46% growth in retail revenue to HK\$433.713 million (2008: HK\$ 297.382 million) and a gross margin for merchandise sales of 40% (2008: 41%) in 2009. Increase in gross margin was mainly because of the enhancement of turnover mix, satisfactory performance of the distribution business and the insurance agency business that was reintroduced during the year. There is still room for improvement in view of its current sales strategy.

The management has deployed a consistent expansion strategy to bring the Group to a new frontier, amidst the rapidly changing and challenging but rewarding mass consumer market. During the year, capitalizing on the resources of its own brand, merchandise products, programmes and logistics, the Group has reinvented its online shopping platform (www.cntvs.com). This solution manages an entire supply chain encompassing product development, sales and delivery, and thus enhances the operating efficiency and marketing reach of its business. Riding on the rapidly rising popularity of the Internet, the new online shopping platform was able to penetrate into the booming second and third tier cities which enlarged its market coverage across the country. In addition, the Group's industry-leading interactive online shopping guide has realized the "distance shopping" mode that enhances customers' trust as well as their purchase rate. Leveraging on its brand advantage and supplier resources base built up over years, the Group has optimized its product mix and is currently offering five major categories namely handsets, digital home appliances, watches, accessories and collectables. Riding on the online platform, by integrating terrestrial television, interactive online channels, print media and retail channels, the Group has prolonged the products' life spans and improved the Group's profitability. Furthermore, the Group has continued to enhance all the complementary supporting activities, including its 24-hour call center, online shopping guide, nationwide delivery service and multiple payment methods, with the aims of creating a more convenient, speedy and secure shopping environment for customers, stepping up its efforts in providing a customer-friendly service platform and building up its image as a quality shopping service enterprise.

We will strive to be innovative, and continue to employ the prudent stance we have adopted in our business to steer the Group from planning to implementation of our new ideas. We will bear in mind the continued tough operating environment, and occasionally chaotic challenges from smaller players that have disrupted the proper evolution of media retail business in the PRC, which is still in a stage of early development, despite its vast potential size.

### **Outlook and strategy**

To sustain the robust growth of the PRC economy, the central government has introduced a series of stimulus policies in 2009 to boost domestic consumption. We expect the measures to continue to drive domestic consumption in 2010 which would continue to spur the development of the retail market. In addition, the advance of urbanization and industrialization will also boost economic development of the PRC. The Group will remain responsive to the changing market environment by implementing necessary innovations and modifications to match with the variegated customers' landscape. We will continue to extend our market presence by focusing on enhancing the value for our customers. We will collaborate with our business partners and invest in building longer-term relationships through making the most of each other's expertise for mutually beneficial solutions. We will continue to seek suitable partners including television stations to further expand the Group's business footprint and enhance its profitability. We will also aim at developing a new B2B2C business model to connect manufacturers and consumers on our platform featuring a variety of value-added services including



customer relations management, information feedback, database management and decision support. These features would integrate production, distribution and retail resources more efficiently.

The Group aims to bring to our customers a shopping platform that is limitless and boundary-less, that could meet the needs of the technology savvy as well as traditional shoppers. Our intention goes beyond just aspirations; we have put ideas into action. Through our commitment to put our Seven Star concepts into practice in daily interactions with customers we hope to create a distinctive experience for our clients and their customers as well as our own employees. With an average age of approximately 40 we believe our seasoned management team has both the energy and creativity to continue to drive the Group forward to achieve our goal of becoming a leading service oriented shopping platform. Prudent management has allowed the Group to conserve our financial resources during the economic crisis. We believe we are following the right course to cater to the needs of the PRC consumers and plan to emerge in the long run as a dynamic player and form a pillar for the industry.

As the central government has only launched more specific and far-reaching industry policies at the end of 2009, which effect will be seen in 2010, the Group will hasten development of its online shopping business, optimizes its various shopping platforms, enriches product offerings and works to enhance cost effectiveness to seize opportunities arising within the developing PRC economy and a better regulated media shopping industry.

In late December 2009, a subsidiary of the Group and Guangdong Television signed a media management service agreement in which Guangdong Television agreed to authorize our subsidiary as the exclusive agent for the commercial breaks of its satellite television channels. We believe that our strong track record in media management has provided a boost for the Group in winning this sole agency contract. This transaction not only will provide an additional income source to the Group through commissions, but also will offset the rising advertising costs of other media shopping as a result of the PRC's robust economic growth. With the PRC advertising industry and consumer products advertising booming, we hope that media management service will become the Group's new business highlight.

### **Financial Resources and Liquidity**

As at 31 December 2009, the Group had financial assets (excluding receivables) amounted to approximately HK\$175.977 million (2008: HK\$250.184 million) of which approximately HK\$163.397 million (2008: HK\$217.113 million) are liquid cash deposits.

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



### **Exposure to Exchange Rate Fluctuation and Related Hedging**

The Directors considered that the Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars or Renminbi which is the functional currency of the Group entities. The Group does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

### **Staff and Remuneration Policy**

The Group had 665 employees (including Directors) as at 31 December 2009 (2008: 580). 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 2009, the Group had total assets of approximately HK\$380.119 million (2008: HK\$371.349 million) and no borrowings (2008: HK\$Nil).

### **Capital Structure**

As at 31 December 2009, the Company's issued ordinary share capital was HK\$732,428,084 divided into 7,324,280,839 shares of HK\$0.10 each (at 31 December 2008: HK\$732,428,084 divided into 7,324,280,839 shares of HK\$0.10 each).

### **Charges on Group's Assets**

Apart from the deposits of approximately HK\$284,000 pledged to a bank as securities for two corporate cards with credit limit of HK\$227,000 in aggregate granted to two executive directors of the Group, as at 31 December 2009, there were no charges on the Group's assets.

### **Contingent Liabilities**

The Group did not have any significant contingent liabilities as at 31 December 2009.

### **Capital Commitments**

The Group did not have any significant capital commitments as at 31 December 2009.

### **Material Acquisitions and Disposals of Subsidiaries and Associates**

Apart from the acquisition of 96% equity interests in Shanghai Xiangsheng Insurance Agency Co., Ltd., with purchase consideration of approximately HK\$2,548,000, the Group did not have any material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2009.

## **CORPORATE GOVERNANCE**

The Board has applied the principles and complied with all the applicable Code provisions and where applicable, the recommended practices of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2009 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 (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.

## **DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules for securities transactions by Directors of the Company in 2009. 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 2009.

## **AUDIT COMMITTEE AND FINANCIAL INFORMATION**

The Company established an audit committee (the “Audit Committee”) with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process and internal controls of the Group. The Audit Committee currently comprises Mr. Ho Wai Ip (Chairman) , Mr. Chan Wai Sum and Mr. Lu Wei. The Audit Committee has reviewed and discussed with the management and the external auditors financial reporting matters including the annual results for the year ended 31 December 2009.

The figures in respect of the Group’s consolidated statement of financial position, consolidated income statement and related notes thereto for the year ended 31 December 2009 as set out in the preliminary announcement have been agreed by the Group’s auditor, RSM Nelson Wheeler, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by RSM Nelson Wheeler in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Nelson Wheeler on the preliminary announcement.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

This results announcement is published on the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) as well as the website of the Company ([www.sevenstar.hk](http://www.sevenstar.hk)).

The 2009 annual report containing all the information required by the Listing Rules will be dispatched to shareholders and will be published on the aforementioned websites in due course.

On behalf of the Board  
**China Seven Star Shopping Limited**  
**Ni Xinguang**  
*Chairman*

Hong Kong, 26 April 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.*

\* *Management translation*