



# 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 2007

### INTERIM RESULTS

The Board of Directors (the “Board”) of China Seven Star Shopping Limited is pleased to announce the unaudited interim financial results of the Company and its subsidiaries (hereinafter together referred as “the Group”) for the six months ended 30 June 2007 together with the comparative figures of the corresponding year in 2006, as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		<b>Six months ended</b>	
		<b>30/6/2007</b>	<b>30/6/2006</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>	2	<b>414,013</b>	18,027
Cost of sales		<b>(197,202)</b>	(4,069)
<b>Gross profit</b>		<b>216,811</b>	13,958
Other income	3	<b>7,233</b>	65
Gain on disposal of a subsidiary		–	6,200
Distribution costs		<b>(117,423)</b>	(2,537)
Administrative expenses		<b>(23,998)</b>	(4,820)
Other operating expenses		<b>(7,935)</b>	(85)
<b>Profit from operations</b>		<b>74,688</b>	12,781
Finance costs		<b>(164)</b>	(396)
Share of loss of a joint venture		<b>(89)</b>	–
<b>Profit before tax</b>		<b>74,435</b>	12,385
Income tax expense	4	<b>(29,516)</b>	(2,385)
<b>Profit for the period</b>	5	<b><u>44,919</u></b>	<b><u>10,000</u></b>
<b>Attributable to:</b>			
Equity holders of the Company		<b>43,291</b>	10,020
Minority interests		<b>1,628</b>	(20)
		<b><u>44,919</u></b>	<b><u>10,000</u></b>
<b>Earnings per share</b>	6		
Basic		<b><u>0.79 cents</u></b>	<b><u>0.26 cents</u></b>
Diluted		<b><u>0.61 cents</u></b>	<b><u>0.25 cents</u></b>
<b>Dividend</b>	7	<b><u>Nil</u></b>	<b><u>Nil</u></b>

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	<i>Note</i>	<b>30/6/2007</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/2006 (audited) HK\$'000
<b>Non-current assets</b>			
Fixed assets		<b>14,427</b>	2,792
Goodwill		<b>247,663</b>	28,422
Investment in a joint venture		<b>3,209</b>	–
Available-for-sale financial assets		<b>154</b>	150
		<u><b>265,453</b></u>	<u>31,364</u>
<b>Current assets</b>			
Properties held for resale		<b>9,800</b>	9,800
Inventories		<b>26,606</b>	2,199
Trade and bills receivables	8	<b>236,617</b>	66,673
Other receivables, prepayments and deposits	9	<b>173,485</b>	57,941
Pledged bank deposits		<b>150,000</b>	–
Bank and cash balances		<b>294,155</b>	141,407
		<u><b>890,663</b></u>	<u>278,020</u>
<b>Current liabilities</b>			
Trade and bills payables	10	<b>140,040</b>	13,716
Other payables and accruals		<b>254,978</b>	15,295
Borrowings		<b>10,260</b>	10,229
Current tax liabilities		<b>42,126</b>	16,761
		<u><b>447,404</b></u>	<u>56,001</u>
<b>Net current assets</b>		<u><b>443,259</b></u>	<u>222,019</u>
<b>NET ASSETS</b>		<u><b>708,712</b></u>	<u>253,383</u>
<b>Capital and reserves</b>			
Share capital		<b>574,063</b>	506,324
Other reserves		<b>1,222,893</b>	879,461
Accumulated losses		<b>(1,100,727)</b>	(1,142,167)
Equity attributable to equity holders of the Company		<u><b>696,229</b></u>	<u>243,618</u>
Minority interests		<b>12,483</b>	9,765
<b>TOTAL EQUITY</b>		<u><b>708,712</b></u>	<u>253,383</u>

Notes:

**1. Basis of preparation and accounting policies**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in preparation of these condensed consolidated financial statements are consistent with those used in the 2006 Financial Statements.

**2. Segment information**

Business segment is the Group’s primary basis of segment reporting with classification as follows:

- PRC retail and distribution – manufacture, retail and distribution of consumer products as well as the provision of media management services in the People’s Republic of China (the “PRC”)
- Property investment – property holding and investment

**Primary reporting format – business segments**

	<b>PRC retail and distribution</b> <i>HK\$’000</i>	<b>Property investment</b> <i>HK\$’000</i>	<b>Consolidated</b> <i>HK\$’000</i>
<b>Six months ended 30 June 2007</b>			
Turnover	<u>413,579</u>	<u>434</u>	<u>414,013</u>
Segment results	<u>81,922</u>	<u>219</u>	<u>82,141</u>
<b>Six months ended 30 June 2006</b>			
Turnover	<u>17,570</u>	<u>457</u>	<u>18,027</u>
Segment results	<u>10,543</u>	<u>52</u>	<u>10,595</u>

### 3. Other income

	Six months ended	
	30/6/2007 (unaudited) HK\$'000	30/6/2006 (unaudited) HK\$'000
Interest income	4,541	65
Reversal of allowance for bad and doubtful debts	1,217	–
Sundry income	1,475	–
	<u>7,233</u>	<u>65</u>

### 4. Income tax expense

	Six months ended	
	30/6/2007 (unaudited) HK\$'000	30/6/2006 (unaudited) HK\$'000
PRC tax		
– current	38,435	2,385
– overprovision for prior year	(8,919)	–
	<u>29,516</u>	<u>2,385</u>

No provision for Hong Kong profits tax is required for both periods ended 30 June 2007 and 30 June 2006 since each individual Hong Kong company sustained losses for taxation purposes in each respective period.

Taxes on profits assessable in the PRC have been provided at the applicable rates of tax in the PRC in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

The subsidiary, Fuzhou Landun Science of Life Co., Ltd. (“Fuzhou Landun”) operating in the PRC, is subject to enterprise income tax rate at 33% in accordance with Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法). Fuzhou Landun is located in Fuzhou Economic and Technological Development District (福州經濟技術開發區) and is therefore entitled to a reduced tax rate of 15%. However, pursuant to a notice issued by Fuzhou Economic and Technological Development District State Tax Bureau (福州經濟技術開發區國家稅務局), Fuzhou Landun is exempted from enterprise income tax for two years starting from the first year of profitable operation in 2004, followed by a 50% reduction for the next three years.

The subsidiary, Shanghai Pei Lian Trading Company Limited operating in the PRC, is currently subject to enterprise income tax calculated at the rate determined by the local tax authority at effective tax rate of 3.3% on the turnover in 2007. Such locally determined tax rate may in certain area inconsistent with the national tax law and may subject to a subsequent review when new interpretation of tax law or guidance note is being released or executed. On prudent measure, the taxable profit of such subsidiary upon consolidation is provided at the standard enterprise income tax rate of 33% in accordance with Provisional Regulations of the People’s Republic of

China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例). The current tax liabilities as at 30 June 2007 in the amount of HK\$23,502,000 would be reassessed at each balance sheet date and would be written back if consider excessive in future.

During the current period, two newly incorporated subsidiaries operating in the PRC, are subject to enterprise income tax rate of 33% in accordance with Provisional Regulations of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例). However, pursuant to notices issued by Beijing Haidian District State Tax Bureau (北京海淀區國家稅務局) and Beijing Daxing District State Tax Bureau (北京大興區國家稅務局) on 26 March 2007 and 2 July 2007 respectively, these subsidiaries are entitled to full exemption from enterprise income tax for the year 2007.

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law will be effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements will depend on the detailed implementation rules and regulations that have not been issued as of the date of the approval of these consolidated financial statements. Therefore, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

No provision for deferred taxation has been made for both periods ended 30 June 2007 and 30 June 2006 as the effect of all temporary difference is not material.

## 5. Profit for the period

Profit for the period is stated after charging/(crediting) the following:

	<b>Six months ended</b>	
	<b>30/6/2007</b> <b>(unaudited)</b> <b>HK\$'000</b>	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>
Allowance for bad and doubtful debts	<b>7,800</b>	–
Allowance for inventories	<b>134</b>	–
Bad debt written off	–	2
Depreciation of fixed assets	<b>619</b>	391
Directors' emoluments	<b>919</b>	851
Fixed assets written off	–	130
Loss on disposal of fixed assets	–	28
Reversal of allowance for bad and doubtful debts	<b>(1,217)</b>	–

## 6. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	Six months ended	
	30/6/2007 (unaudited) HK\$'000	30/6/2006 (unaudited) HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<u>43,291</u>	<u>10,020</u>
	<b>30/6/2007</b> <b>Number of</b> <b>ordinary</b> <b>shares</b> <b>'000</b>	<b>30/6/2006</b> <b>Number of</b> <b>ordinary</b> <b>shares</b> <b>'000</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>5,490,622</u>	<u>3,901,546</u>
Effect of dilutive potential ordinary shares:		
Share options	<u>192,263</u>	<u>12,740</u>
Consideration shares issuable for the acquisition of Top Pro Group	<u>1,471,659</u>	<u>74,260</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>7,154,544</u>	<u>3,988,546</u>

## 7. Dividend

The Directors have resolved not to declare any interim dividend in respect of the six months ended 30 June 2007 (six months ended 30 June 2006: HK\$Nil).

## 8. Trade and bills receivables

At 30 June 2007, included in trade and bills receivables are trade receivables of approximately HK\$235,491,000 (2006: HK\$66,673,000) and bills receivables of approximately HK\$1,126,000 (2006: HK\$Nil).

The ageing analysis of the trade receivables was as follows:

	30/6/2007 (unaudited) HK\$'000	31/12/2006 (audited) HK\$'000
0 – 90 days	<u>175,597</u>	<u>64,990</u>
91 – 180 days	<u>38,636</u>	<u>1,374</u>
181 – 365 days	<u>21,236</u>	<u>287</u>
Over 365 days	<u>22</u>	<u>22</u>
	<u>235,491</u>	<u>66,673</u>

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 provided are normally at 180 days. The rental income is paid in accordance with the terms of the respective agreements, which is normally due on the first day of the month.

## 9. Other receivables, prepayments and deposits

At 30 June 2007, included in other receivables, prepayments and deposits is an amount due from a related company of approximately HK\$3,310,000 (2006: HK\$6,595,000). The amount due from a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name	Name of directors having beneficial interest	Balance at 30 June 2007 <i>HK\$'000</i>	Balance at 31 December 2006 <i>HK\$'000</i>	Maximum amount outstanding during the period ended <i>HK\$'000</i>
Win Town Holdings Limited	Mr. Ni Xinguang and Mr. Wang Zhiming	3,310	6,595	6,595

The amount due is unsecured, interest free and has no fixed repayment terms. Subsequent to the balance sheet date, the amount due from a related company was fully settled.

## 10. Trade and bills payables

At 30 June 2007, included in trade and bills payables are trade payables of approximately HK\$29,142,000 (2006: HK\$13,716,000) and bills payables of approximately HK\$110,898,000 (2006: HK\$Nil).

The ageing analysis of the trade payables was as follows:

	30/6/2007 (unaudited) <i>HK\$'000</i>	31/12/2006 (audited) <i>HK\$'000</i>
0 – 90 days	21,735	13,178
91 – 180 days	6,810	–
181 – 365 days	54	439
Over 365 days	543	99
	<u>29,142</u>	<u>13,716</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

China Seven Star Shopping Limited (“China Seven Star” or the “Company”) together with its subsidiaries (collectively the “Group”) is pleased to present its interim results for the six months ended 30 June 2007.

### Results

For the six months ended 30 June 2007, the Group’s unaudited consolidated turnover was HK\$414,013,000, an increase of 2,197% from the same period of last year. Unaudited net profit attributable to equity holders was HK\$43,291,000, an increase of 332% from the same period of last year. Basic earnings per share and diluted earnings per share were 0.79 HK cents and 0.61 HK cents, representing an increase of 204% and 144% respectively. The board of directors does not recommend payment of interim dividend for the six months ended 30 June 2007 (2006: HK\$Nil).

### Review of results and operations

#### *Financial review*

After the introduction of the television shopping platform into the Group in 4Q06, and boosted by China strong domestic consumption momentum which based on the country’s strong economic development, the Group’s turnover reached HK\$414,013,000, representing an increase of 2,197% year-on-yearly over the last corresponding period. Sales of goods grew to 94.7% of total turnover owing to the contribution from television shopping sales.

As of 30 June 2007, the Group’s gross profit was HK\$216,811,000, an increase of 1,453% compared to last corresponding period, with gross margin at 52%, the decrease in gross margin compared with the gross margin registered for 2006 due to the change in revenue mix to having a higher proportion in television shopping sales.

Pre-tax profit during the period was HK\$74,435,000, an increase of 501% year-on-yearly and net profit attributable to equity holders was 332% to HK\$43,291,000.

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

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

	2007	2006	Change
Manufacture, retail and distribution of consumer products	391,937	9,570	+40 times
Media management service fees	21,642	8,000	+1.7 times
Rental income	434	457	-5%
Interest income	4,541	65	+69 times
Other income	2,692	–	Nm
Total revenue	421,246	18,092	+22 times



The strong increase in revenue from sales of consumer products and media management service fees was mainly due to the addition of the television sales platform in late 2006. Media management service fees refer to the commission income the Group received from vendors on the sales from distribution channel other than the television sales platform. The increase in the media management service fees for the period was mainly due to handsets sales.

#### *Business review*

Boasting a diverse product mix, support of a nationwide sales network, a broad customer base and innovative service technology, the Group was able to consolidate and continuously expand its business base, and gain a strong foothold in the PRC television shopping sector. Today, the Group is one of the biggest television shopping enterprises in the PRC. Our determination and efforts to develop consumer retail and television shopping business in the PRC and the value of the “Seven Star” brand are well-recognized and supported by consumers, as reflected in our being named among the “Top Ten Most Influential Brand in TV Shopping” in January 2007. During the period, management has been making strenuous effort in identifying new consumer products and merger & acquisition opportunities with encouraging results, which shall benefit the Group’s development in future.

Guided by its market positioning of “healthy, trendy, convenient and good value-for-money”, the Group continued to optimize its product mix and actively seeking for cooperation with strategic investors to further develop the high value-added consumer product businesses. In 1Q, the management introduced mobile handsets to television shopping and the product proved itself to be a very popular product category among the Chinese consumers; in 2Q, the Group partnered with a local insurance company and offered intangible products on the television distribution platform. Although the Group witnessed heightened interest and demand for investment products, cannibalization from the strong performance of the PRC equity market has caused lower-than-expected run rate on the investment-linked products. Switching approach to tap the vast business potential the China insurance market offers, management planned to launch two new insurance products in 4Q, including both single premium and regular premium in nature.

During the first half of the year, the Group expanded its call center capacity (in utilisation) to 420 seats, located in three call centers in Fuzhou, Shanghai and Beijing with capacity of 180, 180 and 60 respectively. The scalable infrastructure of our call centers allows the Group to increase its seats capacity to over a thousand should business needs arise. A total of about 140,000 minutes of advertising airtime has been shown over 25 provincial satellite television channels with total advertising expenses at HK\$100 million.

## **Prospects**

As the Chinese economy continues to prosper, people's earnings increase and urbanization gains speed, the retail market in the PRC will continue to flourish. According to the forecast by The State Information Centre of the PRC, between 2005 and 2010, the country's retail market will grow steadily at around 8% to 10% a year. By 2020, the total spending on consumer products of the country will exceed RMB20,000 billion. Promising extensive coverage and penetration, the new retail platform of television shopping is quick becoming a part of life for mass consumers. In different regions of the country, consumers are looking forward to seeing the diverse choices of products and shopping for exclusive and innovative products on television. Television shopping has brilliant prospects in China. According to Euromonitor, between 2005 and 2008, television shopping turnover in China will increase at a CAGR of approximately 19.5%. As mobile communications and the Internet become more popular, consumers have also become more receptive to shopping via electronic channels. We believe television shopping, being an innovative and trendy shopping concept, will easily win the support of mass and household consumers.

In August this year, the Group entered into a non-binding memorandum of understanding with Sinolong Technology (Shanghai) Co Ltd, a wholly-owned subsidiary of a China leading mobile phones designer, Longcheer Holdings Limited, and Shanghai LS Investment Co Ltd for a proposed investment in Shanghai QL Telecommunications Co Ltd ("Shanghai QL"), acquiring 36.3% equity interests by way of capital injection. The management considers mobile handsets to remain a major product category over the television shopping platform given China's vast handset user base, the country's high geographical diversity and inefficient retail infrastructure; and believes that through investing in Shanghai QL, the Group can leverage on Shanghai QL's strong mobile handset marketing and distribution capability in China, and hence strengthen the mobile handset distribution platform with a view to enhanced profitability in the long run.

Looking forward, the Group shall continue to enrich its product offerings, optimize its resource allocation, and enlarge its retail network through cooperation with various media companies and sales channels. It will strive to extend market coverage and build China Seven Star into the most popular television shopping brand in China. The Group will remain committed to accelerating development of its television shopping business to consolidate its leadership in the China market.

## **Employee relations**

As of 30 June 2007, the Group has approximately 1,000 employees. Total remuneration cost for the period was HK\$16.7 million (six months ended 30 June 2006: HK\$3.1 million). A total of 40,310,000 share options were granted to eligible persons of the Group during the period and the share option cost that was charged to the income statement was HK\$6.7 million (six months ended 30 June 2006: HK\$0.5 million). Based on existing outstanding number of share options as of 30 June 2007 and assuming that no further share options is to be granted in the six months to 31 December 2007, a further of HK\$4.9 million will be charged to the income statement as share option expense.

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.

### **Liquidity and financial resources**

The Group's cash and bank deposits as at 30 June 2007 amounted to HK\$444 million (31 December 2006: HK\$141 million). Bank borrowings during the period amounted to HK\$10 million (31 December 2006: HK\$Nil).

### **Capital structure**

During the period, the Company placed 575,000,000 new shares at approximately HK\$0.659 per share to professional investors on 12 February 2007 through a top-up placement and raised approximately HK\$378.7 million for the Group to improve shareholder base and also to fund business expansion.

On 10 August 2007, the Company issued 1,471,658,839 new shares as settlement on the equity portion of the contingent consideration for Top Pro Group acquisition in 2005. For details of the transaction please refer to note 21 Events after balance sheet date of the interim report.

## **CORPORATE GOVERNANCE**

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

The Board has adopted the principles and complied all the applicable provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period ended 30 June 2007 except for deviations from provision A.4.1 and provision A.2.1 of the Code.

Provision A.4.1. stipulates that non-executive directors should be appointed for specific term and subject to re-election. None of the existing independent non-executive directors of the Company is appointed for specific term and this constituted a deviation. However, all Directors are subject to retirement by rotation and re-election at the annual general meeting at least once for every three years. In the opinion of the Directors, this meets the same objectives and is no less exacting than those in the Code.

As stipulated the Company's annual report 2006, Mr. Ni Xinguang is the Chairman of the Board and is assuming the role as Managing Director on a temporary basis. As there is no segregation between the role of the Chairman and Managing Director, this constituted deviation from provision A.2.1 of the Code.

The Board does not consider that this structure will impair the balance of power and authority between the Board and the management of the Company given there is a clear division of responsibility for the individual business operation of the Group. Nevertheless, the Company is actively seeking a replacement to fill in the position of Managing Director who would be responsible for the day to day operation and management of the Group.

## **Review of Accounts**

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

The Audit Committee of the Company and the external auditor have reviewed the accounting principles and practices adopted by the Group and in the course have 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 2007.

## **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 2007, 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.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the period, 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.hkex.com.hk](http://www.hkex.com.hk) under “Latest Listed companies Information” and on the website of the Company at [www.sevenstar.hk](http://www.sevenstar.hk) respectively.

The interim report of the Company for the six months ended 30 June 2007 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, 24 September 2007

*As at the date of this announcement, the board of directors comprises executive directors: Messrs. Ni Xinguang and Wang Zhiming; and independent non-executive directors: Messrs. Chan Wai Sum, Ho Wai Ip and Lu Wei.*