七星购物
7-STAR

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 2007

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 2007 together with the comparative figures of the corresponding year in 2006, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	**2007** *HK$'000*	2006 *HK$'000*
Turnover	2	**680,228**	92,430
Cost of sales		**(369,317)**	(25,999)
Gross profit		**310,911**	66,431
Other income	3	**16,333**	4,178
Gain on disposal of a subsidiary		**–**	6,200
Reversal of write down of properties held for resale		**500**	100
Impairment loss on goodwill		**(247,663)**	–
Distribution costs		**(379,485)**	(11,201)
Administrative expenses		**(51,687)**	(17,650)
Other operating expenses		**(29,181)**	(2,983)
(Loss)/profit from operations		**(380,272)**	45,075
Finance costs	5	**(311)**	(945)
Share of loss of a jointly controlled entity		**(1,320)**	–
(Loss)/profit before tax		**(381,903)**	44,130
Income tax expense	6	**(12,636)**	(11,927)
(Loss)/profit for the year	7	**(394,539)**	32,203

CONSOLIDATED INCOME STATEMENT ***(Continued)***

For the year ended 31 December 2007

	Note	**2007** *HK$'000*	2006 *HK$'000*
Attributable to:			
Equity holders of the Company		**(385,289)**	29,556
Minority interests		**(9,250)**	2,647
		(394,539)	32,203
(Loss)/earnings per share	8		
Basic		**(6.18) cents**	0.70 cents
Diluted		**N/A**	0.69 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Note	**2007**	2006
		HK$'000	*HK$'000*
Non-current assets			
Fixed assets		**17,394**	2,792
Goodwill		**–**	28,422
Investment in a jointly controlled entity		**2,081**	–
Available-for-sale financial assets		**160**	150
		19,635	31,364
Current assets			
Properties held for resale		**10,300**	9,800
Inventories		**38,652**	2,199
Trade and bills receivables	9	**88,422**	66,673
Other receivables, prepayments and deposits		**91,752**	57,941
Bank and cash balances		**275,529**	141,407
		504,655	278,020
Current liabilities			
Trade payables	10	**23,763**	13,716
Other payables and accruals	11	**23,449**	15,295
Loans from a shareholder		**–**	10,229
Current tax liabilities		**12,230**	16,761
		59,442	56,001
Net current assets		**445,213**	222,019
NET ASSETS		**464,848**	253,383
Capital and reserves			
Share capital		**732,428**	506,324
Other reserves		**1,259,389**	879,461
Accumulated losses		**(1,529,328)**	(1,142,167)
Equity attributable to equity holders of the Company		**462,489**	243,618
Minority interests		**2,359**	9,765
TOTAL EQUITY		**464,848**	253,383

Notes:

1. **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 accounting periods beginning on or after 1 January 2007. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced on 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.

2. **TURNOVER**

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

	2007	2006
	HK$'000	*HK$'000*
Manufacture, retail and distribution of consumer products	**659,043**	59,185
Media management service fees	**20,316**	32,434
Rental income	**869**	811
	680,228	92,430

3. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Interest income	**11,103**	1,624
Reversal of allowance for trade receivables	**2,107**	–
Reversal of allowance for other receivables	**555**	–
Write back of other payables and accruals	**913**	1,037
Sundry income	**1,655**	1,517
	16,333	4,178

4. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is organised into two main business segments:

PRC retail and distribution – manufacture, retail and distribution of consumer products as well as the provision of media management services in the PRC

Property investment – property holding and investment

(b) Secondary reporting format – geographical segments

No geographical segment information is presented as the Group's revenue and assets are substantially derived from customers and operations based in the PRC and accordingly, no further analysis of the Group's geographical segments is disclosed.

Primary reporting format – business segments

	PRC retail and distribution *HK$'000*	Property investment *HK$'000*	Corporate and unallocated *HK$'000*	Consolidated *HK$'000*
Year ended 31 December 2007				
Turnover	679,359	869	–	680,228
Segment results	(373,872)	934	–	(372,938)
Other income				12,329
Unallocated expenses				(19,663)
Loss from operations				(380,272)
Finance costs				(311)
Share of loss of a jointly controlled entity	(1,320)	–	–	(1,320)
Loss before tax				(381,903)
At 31 December 2007				
Segment assets	331,159	10,433	–	341,592
Investment in a jointly controlled entity	2,081	–	–	2,081
Unallocated assets				180,617
Total assets				524,290
Segment liabilities	42,999	279	–	43,278
Unallocated liabilities				16,164
Total liabilities				59,442
Other segment information:				
Capital expenditure	17,547	–	71	17,618
Depreciation	(1,857)	–	(220)	(2,077)
Impairment loss on goodwill recognised in consolidated income statement	(247,663)	–	–	(247,663)
Fixed assets written off	(991)	–	–	(991)
Bad debts/impairment charges	(33,580)	–	(22)	(33,602)
Reversal of write down of properties held for resale	–	500	–	500

	PRC retail and distribution *HK$'000*	Property investment *HK$'000*	Corporate and unallocated *HK$'000*	Consolidated *HK$'000*
Year ended 31 December 2006				
Turnover	91,619	811	–	92,430
Segment results	50,262	472	–	50,734
Other income				8,883
Unallocated expenses				(14,542)
Profit from operations				45,075
Finance costs				(945)
Profit before tax				44,130
At 31 December 2006				
Segment assets	183,325	9,933	–	193,258
Unallocated assets				116,126
Total assets				309,384
Segment liabilities	23,695	280	–	23,975
Unallocated liabilities				32,026
Total liabilities				56,001
Other segment information:				
Capital expenditure	392	739	416	1,547
Depreciation	(647)	–	(127)	(774)
Fixed assets written off	(135)	–	(27)	(162)
Bad debts/impairment charges	(2,952)	–	–	(2,952)
Reversal of write down of properties held for resale	–	100	–	100

5. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on bank loans	**279**	–
Interest on other loans wholly repayable within five years	**–**	188
Interest on loans from a shareholder wholly repayable within five years	**32**	680
Interest on loan from a minority shareholder wholly repayable within five years	**–**	77
	311	945

6. INCOME TAX EXPENSE

	2007	2006
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
– underprovision in prior years	**27**	–
PRC tax		
– current	**27,281**	11,927
– overprovision in prior years	**(14,672)**	–
	12,636	11,927

No provision for Hong Kong Profits Tax has been made since each individual Hong Kong company sustained losses for taxation purposes.

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 & 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. During the current year, an overprovision for the year ended 31 December 2006 of approximately of HK$1,356,000 was reversed.

The subsidiary, Seven Star Shopping (China) Co., Ltd. (formerly known as Shanghai Pei Lian Trading Company Limited) ("Seven Star (China)") 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 (2006: at 0.6% and 4.8% on the invoiced amount of the retail sales and media management service fees respectively). 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. However, Seven Star (China) received a confirmation which was issued by Shanghai Jia Ding District State Tax Bureau (上海市嘉定區國家稅務局) dated 6 March 2008 that the aforesaid tax rate of enterprise income tax was accepted for the years ended 31 December 2004, 2005, 2006 and 2007 and it is also in accordance with State Tax Law (2008) Issue no. 30 Notice of "Enterprise Income Tax Deemed Profit Method" (國稅法(2008) 30號《企業所得稅核定征收辦法》) which the applicable tax rate is within the allowed range. The difference of tax liabilities which is calculated by using the aforesaid tax rate and the standard enterprise income tax rate of 33% of approximately HK$13,316,000 for the prior years from 2004 to 2006 was reversed in current year.

During the year, four 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), Beijing Daxing District State Tax Bureau (北京大興區國家稅務局) and Shanghai Luwan District Local Tax Bureau (上海盧灣區地方稅務局) on 26 March 2007, 2 July 2007, 6 and 7 December 2007 respectively, these subsidiaries are entitled to full exemption from enterprise income tax for the year 2007.

7. (LOSS)/PROFIT FOR THE YEAR

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

	2007	2006
	HK$'000	*HK$'000*
Advertising costs	**330,425**	7,725
Allowance for trade receivables (included in other operating expenses)	**20,836**	2,412
Allowance for inventories (included in cost of inventories sold)	**7,573**	–
Allowance for other receivables (included in other operating expenses)	**5,193**	540
Auditor's remuneration	**1,500**	900
Cost of inventories sold	**360,182**	23,607
Depreciation	**2,077**	774
Direct operating expenses that generate rental income	**423**	577
Fixed assets written off	**991**	162
Loss on disposal of fixed assets	**2**	–
Operating lease on land and buildings	**8,049**	1,230
Staff costs (including directors' emoluments)	**36,882**	8,573

8. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

The calculation of basic loss (2006: earnings) per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of approximately HK$385,289,000 (2006: profit attributable to equity holders of the Company of approximately HK$29,556,000) and the weighted average number of ordinary shares of 6,229,749,000 (2006: 4,252,328,000) in issue during the year.

Diluted (loss)/earnings per share

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2007.

For the year ended 31 December 2006, the calculation of diluted earnings per share attributable to equity holders of the Company was based on the profit for the year attributable to equity holders of the Company of approximately HK$29,556,000 and the weighted average number of ordinary shares of 4,279,426,000, being the weighted average number of ordinary shares of 4,252,328,000 in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 27,098,000 assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date.

9. TRADE AND BILLS RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables *(Note)*	**85,641**	66,673
Bills receivables	**2,781**	–
	88,422	66,673

Note:

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.

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

	2007	2006
	HK$'000	*HK$'000*
0 – 90 days	**66,124**	64,990
91 – 180 days	**18,836**	1,374
181 – 365 days	**681**	287
Over 365 days	**–**	22
	85,641	66,673

For the year ended 31 December 2007, an allowance was made for estimated irrecoverable trade receivables of approximately HK$20,836,000 (2006: HK$2,412,000). The allowance has been included in other operating expenses in the consolidated income statement.

As at 31 December 2007, trade receivables of HK$12,305,000 (2006: HK$2,408,000) were overdue but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2007	2006
	HK$'000	*HK$'000*
Up to 3 months	**11,159**	2,099
3 to 6 months	**634**	–
Over 6 months	**512**	309
	12,305	2,408

Subsequent to 31 December 2007, the Group received cash settlement amount of about HK$3.6 million for balance overdue up to 3 months, about HK$0.2 million for balance overdue from 3 to 6 months and about HK$0.4 million for balance overdue for 6 months. The Group also applied a net off of deposit received of about HK$2.1 million for settlement of overdue balance of up to 3 months. For the remaining balance overdue, these relate to a number of independent customers that have good track record with the Group. Base on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral over these balances.

10. TRADE PAYABLES

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

	2007	2006
	HK$'000	*HK$'000*
0–90 days	**6,756**	13,178
91–180 days	**6,156**	–
181–365 days	**10,220**	439
Over 365 days	**631**	99
	23,763	13,716

11. OTHER PAYABLES AND ACCRUALS

	2007	2006
	HK$'000	*HK$'000*
Other payables and accruals	**19,377**	14,867
Deposits received	**3,033**	372
Due to directors *(Note)*	**1,039**	56
	23,449	15,295

Note: The amounts due are unsecured, interest free and have no fixed repayment terms.

DIVIDEND

The board has resolved not to recommend the payment of any dividend for the year ended 31 December 2007 (2006: HK$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

PRC consumer goods market analysis

The total retail sales of consumer goods in the PRC has been maintaining at a real growth rate of approximately 12% since 2005, while the percentage reached a record high of 12.9% in 1H07. The Group considers that the PRC retail industry is at the onset of another boom round. With the continuous increase in the income level in the PRC, structural upgrade in consumption expenditures led by the change in consumption attitudes and the sustained improvement in social security system, it is believed that the retail sales growth momentum will maintain enormous in a long run, underpinned by the strong consumption power of the PRC consumers. In addition, strengthening of the Renminbi (RMB) and the hosting of the Olympics further stimulate the growth of the retail industry.

The per capita disposable income of urban residents in the first three quarters in 2007 was RMB10,346, exhibited a nominal year-on-year growth rate of 17.6% or real growth rate of 13.2%. The per capita cash income of rural residents was RMB3,321, at a real growth rate of 14.8%, 3.4% higher compared with that of the corresponding period last year. The per capita consumption expenditure of urban residents in the first three quarters in 2007 was RMB7,395, increased by 14.1% and 9.8% on nominal and real basis respectively. As consumption growth is largely and fundamentally dependant on the income growth of residents, the Group recognizes the strong spending power of the PRC residents (including rural population) as a key driver for China's consumption theme.

Besides, the apparent changes in residents' spending structure also add prospects to China's retail industry: 1) Downward trend in Engle coefficient – the 2006 Engle coefficient of the PRC urban and rural residents were lowered by 1.9% and 3.2% respectively from 2002; 2) Increase in proportion of consumption for development and enjoyment – expenditures for development and enjoyment purposes such as transportation and communications, education and entertainment as well as medical and health care all gain in proportion to total spending. As motor vehicles and electronic products such as computers and handsets become more affordable for the PRC families, transportation and communications products prone to be new drivers for consumption spending; 3) Increase in proportion for service expenditure – consumption and demand for service and its relative proportion in consumption expenditure is likely to exhibit continuous increase with the upgrade in the living standards of the PRC residents. In 2006, the per capita service consumption expenditure of urban and rural residents increased by 47.9% and 1.8% respectively compared with that of in 2002; 4) Higher lodging expenses of urban residents – improvement in living standard leads to a higher consciousness on living condition and environment from a comfort and environmental-friendly perspective. In 2006, the per capita expense on lodging of urban residents increased by 44.9% compared with that of in 2002; 5) Continuous increase in proportion of currency consumption of rural residents – the cash expenditure for living consumption of rural residents increased by 64.6% to RMB2,415 in 2006 from RMB1,468 in 2002. The Group believes that the consumption ability and the actual expenditure incurred by the PRC residents will be further enhanced owing to the increased income effect, establishment and improvement in the social security system, RMB appreciation as well as change in consumption attitude, casting a solid impetus for a continuous growth.

PRC television shopping market analysis

Benefiting all parties, including the television industry, the retailers and consumers, television shopping is an ideal shopping solution with an enormous market potential. However, the rapid growth of the industry in China also generated industry issues in the early stages of its development. As of today, the industry in the country is still recovering from the "over-speedy expansion" in mid-late 1990s and "goodwill crisis" during 1999-2000, facing problems including monotonous products, presence of numerous small players and inadequate consumer confidence. The Group considers the lack of disciplined operators in the television shopping industry is the major reason that prevents the market from developing to its full potential. Thus, it is important for the Government to formulate specific industrial policies, establish a sound and complete regulatory framework, cultivate an efficient nationwide logistics system and encourage the setting up of a few authoritative television shopping channels to push forward a healthy development of the industry.

The television shopping industry in the PRC is currently in transformation, characterized by coexistence of television shopping channels and infomercials which have been competing directly for market share in the past two years. Since the prohibition of sales on five major types of consumer products (including medicines, medical appliances, bust cream, slimming and growth enhancing products) ("five major products") from 2006, the television shopping industry has been actively exploring new ideas to tap the huge market. We believe that such pattern shall persist for the industry over the short term, i.e. television shopping companies will seek for series of appropriate products and promoted them through television media. But from a product development perspective, the ban of the "five major products" selling on television, together with negative propaganda from time to time, poses difficulty in finding appropriate products. Hence, we believe that the key to success for the television shopping industry lies in flexible and adaptive media strategy, high quality call center management and effective marketing strategies.

Outlook and Strategies

Globally speaking, television shopping can be regarded as the third revolution in sales after retail and supermarket. With the breadth of China's consumer market and high television penetration, the Group sees great potential and investment value for television shopping industry in the PRC. Based on the national digital television development plan, it is expected that the country will achieve a full digitalization of television transmission signal by 2010 and the analogue transmission signal phasing out completely by 2015. Development in the digital technology shall help to transform the consumers' television sets into intelligent information centers, allowing the television shopping companies to fulfill the residents' consumption needs in a simple, convenient and economical fashion. Judging by the fact that 362 million households in the PRC own a television in 2006, we believe that the development in digital broadcasting and subsequent penetration of digital televisions has laid a solid foundation for the future development of television shopping channels.

In 2008, the Group will proactively enhance its cost effectiveness by focusing resources on potential provinces and cities. The Group planned to purchase more airtime in provincial television channels that would lower the cost and enhance sales effectiveness as compared to its nationwide advertisement broadcast in the past. Moreover, the Group will continuously upgrade its logistics management system to strengthen its nationwide sales and distribution modules so as to enhance its logistics and operation efficiencies.

Looking ahead, the Group will remain pragmatic and cautious given the weak business environment in the short run. The Group will seek to realize the full potential of its resources and pursue fine management to create the most effective marketing mechanism covering from promotion to sales, logistics and after-sale support and with the complement of the Internet, product catalogs and call-center. The Group will solidify its leadership in the TV shopping sector and strive to expand market coverage by applying its advantages in cost and inventory, and mastery of a medium that transcend boundaries, and offering products with strong margins. Furthermore, the Group will also actively explore potential business partners and actualize product diversification, in order to lay a firm foundation for upcoming television shopping market opportunities in PRC in the long run.

Business Review

For the year ended 31 December 2007, the Group's total turnover amounted to HK$680,228,000, representing an increase of 6.4 times compared with that of in 2006. The substantial increase was mainly due to the full year revenue contribution in 2007 from Seven Star (Shanghai) that joined the Group in the fourth quarter of 2006. The Group's gross margin was 45.7% (2006: 71.9%), decreased by 26.2 percentage points owing to the risen proportion of television shopping revenue in 2007. The loss attributable to equity holders amounted to HK$385,289,000 (2006: profit attributable to equity holders was approximately HK$29,556,000). Loss per share was 6.2 HK cents.

The board of directors (the "Board") does not recommend the payment of any dividend for the year ended 31 December 2007 (2006: HK$Nil).

The loss for the year was mainly attributable to a goodwill impairment loss of HK$247,663,000 (2006: HK$Nil) related to the acquisition of the Top Pro Group. In determining the impairment loss on goodwill related to the Top Pro Group acquisition, the recoverable amount of the cash-generating unit of retail and distribution of consumer products and the provision of media management services is derived from value in use calculations. The Company prepares cash flow projections based on management's forecast on turnover, budgeted gross margin and overheads and determine the recoverable amount using discount rate for present value and perpetuity growth rate of 18% and 3% respectively. Owing to the unfavorable changes in the operating environment for the television shopping industry in the PRC in the second half of 2007, together with the competitive industry landscape, low visibility on earning's quality due to restrictive environment in products selection and change in business strategy, at 31 December 2007, the aforesaid recoverable amount was insignificant and hence the Board considered it prudent to make a full impairment loss on the two entries of goodwill related to the Top Pro acquisition, where amounts of HK$28,422,000 and HK$219,241,000 have been booked respectively in 2006 annual results and 2007 interim results. With the loss contributed from the abovesaid impairment loss, coupled with the significant increase in advertising cost and deterioration of industry landscape, the operating loss for the year was about HK$380,272,000.

During the year, the Company has announced on 27 August 2007 the entering into non-binding memorandum of understanding with Sinolong Technology (Shanghai) Co Ltd and Shanghai LS Investment Co Ltd in relation to a proposed investment in 上海其樂通訊科技有限公司; and also on 25 September 2007 the entering into non-binding memorandum of understanding with 顧新惠 and 熊碧輝 regarding a proposed acquisition of equity interest in Uniscope Company Limited, 上海優思通信有限公司 and 上海浦歌電子有限公司. Subsequent to the balance sheet date, the Company and the other parties have agreed not to proceed with the two deals due to commercial reasons.

Sales results and performance review

Retail revenue at approximately HK$659,043,000 was 10.1 times higher than that in previous year (2006: approximately HK$59,185,000); and media service income was 37% lower year-on-year to HK$20,316,000 mainly due to declined volume in wholesales sales of the cookware category. (2006: HK$32,434,000). Gross margin for merchandise sales for the year under review was lowered to 45% against the previous year due to heightened market competition (2006: 56%).

Due to heightened competition in the mobile handset product category that constituted about 83% of our total turnover and also the limited availability of products that are suitable for infomercial selling owing to regulatory restriction, the Group suffered from a decline in turnover of about 36% in 2H07 when compared half-on-half, while the significant upsurge in advertising expenses decreased the effectiveness measure of our advertisement, which is reflected in the ratio of turnover to advertising expenses. The advertisement effectiveness measure for the year was 2.1, down from 4.1 at 1H07. Apart from advertising expenses, the Group succeeded in containing other operating costs under the inflationary environment, with the second largest cost item – staff cost maintained at around 4.2% of turnover on an ex-equity-settled share-based payment basis (2006: 6.5%). Total expenses relating to equity-settled share-based payments that charged to the profit and loss in 2007 was about HK$8,460,000 (2006: HK$5,576,000).

During the year, the Group continued its product diversification strategy to introduce more household products apart from its popular handsets and insurance products. The Group's product strategy is underscored by the principle of "designing for the home and professional delivery" and applied in the most popular household product categories (3C, kitchen ware, jewelry and accessories, beauty and health). The Group endeavored to build a professional management team and consolidate upstream resources to realize penetration of all market segments and ensure to operate a supply chain with strong core competitiveness.

The Group has in place brand building measures targeting at nourishing customer loyalty and boosting the reputation of different brand, and creating favorable words of mouth, thereby lower media cost. By encouraging repeated purchases, the Group hopes to raise sales while lowering costs. The Group will strive to raise the brand profile of "Seven Star" to highlight integrity of the brand. It will also step up after-sale services including setting up a strata membership system complemented by the award of scores from purchase, introducing a national service hotline, etc., with the aim of retaining loyal customers and creating greater value for the Group.

Property Investments

As at 31 December 2007, the Group held one investment property for resale. At carrying value of HK$10,300,000, this property is currently on lease at a short-term passing yield of approximately 9.3%. The Board will dispose the remaining investment property at an appropriate time in the future to focus on its core television shopping business.

Financial Resources and Liquidity

As at 31 December 2007, the Group's bank and cash balances amounted to approximately HK$275,529,000 (2006: HK$141,407,000) with no borrowings (2006: HK$10,229,000).

On 12 February 2007, the Company placed 575,000,000 new shares at approximately HK$0.659 per share to professional investors through a top-up placement and raised approximately HK$378.7 million to fund business expansion. As at 31 December 2007, with a net cash position of approximately HK$275,529,000 (2006: HK$131,178,000) of the Group, the Directors are of the opinion that there is sufficient cash resources for the Group to meet its financial obligation and business requirements.

As at 31 December 2007, the Group had no material contingent liabilities.

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 and Renminbi. 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 has 1,204 employees (including Directors) as at 31 December 2007 (2006: 206). 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.

CORPORATE GOVERNANCE

The Board of the Company is committed to maintaining and ensuring high standards of corporate governance as good corporate governance can safeguard the interests of all shareholders and enhance corporate value. The Board continuously reviews and improves the corporate governance practices and standards of the Group from time to time to ensure that business activities and decision making processes are regulated in a proper manner.

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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended 31 December 2007 except for deviation from provisions A.4.1, A.4.2 and A.2.1 of the Code.

Provisions A.4.1 and A.4.2 stipulate that (a) non-executive directors should be appointed for a specific term, subject to re-election; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

None of the existing Independent Non-executive Directors ("INEDs") of the Company is appointed for a specific term, and, pursuant to the articles of association of the Company, all directors appointed to fill a casual vacancy shall hold office only until the next following annual general meeting and these both constitutes deviations.

Although the non-executive directors 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 association of the Company, such practice meets the same objective and is no less exacting than those prescribed under provision A.4.1.

Regarding the provision A.4.2, the Company has proposed to amend the relevant articles of association of the Company at the forthcoming annual general meeting to the effect that any director appointed by the Board to fill a causal vacancy shall hold office until the next following general meeting instead of the next following annual general meeting to ensure compliance with the Code.

The deviation from provision A.2.1 of the Code continued until the appointment of Mr. Wang Zhiming as the Managing Director of the Company in mid October 2007, segregating the duplicate role of Mr. Ni Xinguang as Chairman and temporary Managing Director of the Company.

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 2007. 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 2007.

AUDIT COMMITTEE AND FINANCIAL INFORMATION

The Company has an Audit Committee which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises all the INEDs of the Company and has reviewed the annual results of the Group for the year ended 31 December 2007.

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and related notes thereto for the year ended 31 December 2007 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

Save for the issue of 575,000,000 shares in placement, 214,380,000 shares in share option scheme and 1,471,658,839 shares as settlement in the equity portion of the contingent consideration for Top Pro Group acquisition in 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

The 2007 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
Ni Xinguang
Chairman

Hong Kong, 28 April 2008

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.