



# 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 2008

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 2008 together with the comparative figures of the corresponding year in 2007, as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2008*

|  | Note | 2008<br>HK\$'000               | 2007<br>HK\$'000        |
|--|------|--------------------------------|-------------------------|
| <b>Turnover</b>  | 2    | <b>298,296</b>                 | 680,228                 |
| Cost of sales  |      | <u>(179,728)</u>               | <u>(369,317)</u>        |
| <b>Gross profit</b>  |      | <b>118,568</b>                 | 310,911                 |
| Other income   | 3    | <b>14,124</b>                  | 16,333                  |
| (Write down)/reversal of write down of<br>properties held for resale |      | <b>(1,600)</b>                 | 500                     |
| Impairment loss on goodwill  |      | <b>(6,860)</b>                 | (247,663)               |
| Distribution costs   |      | <b>(195,154)</b>               | (379,485)               |
| Administrative expenses  |      | <b>(56,897)</b>                | (51,687)                |
| Other operating expenses   |      | <u><b>(30,414)</b></u>         | <u>(29,181)</u>         |
| <b>Loss from operations</b>  |      | <b>(158,233)</b>               | (380,272)               |
| Finance costs  | 5    | <b>—</b>                       | (311)                   |
| Share of loss of a jointly controlled entity                         |      | <u><b>(4,019)</b></u>          | <u>(1,320)</u>          |
| <b>Loss before tax</b>   |      | <b>(162,252)</b>               | (381,903)               |
| Income tax expense   | 6    | <u><b>(5,510)</b></u>          | <u>(12,636)</u>         |
| <b>Loss for the year</b>   | 7    | <u><u><b>(167,762)</b></u></u> | <u><u>(394,539)</u></u> |

**CONSOLIDATED INCOME STATEMENT (Continued)***For the year ended 31 December 2008*

|                               | <i>Note</i> | <b>2008</b><br><b>HK\$'000</b> | 2007<br><i>HK\$'000</i> |
|-------------------------------|-------------|--------------------------------|-------------------------|
| <b>Attributable to:</b>       |             |                                |                         |
| Equity holders of the Company |             | <b>(165,508)</b>               | (385,289)               |
| Minority interests            |             | <b>(2,254)</b>                 | (9,250)                 |
|                               |             | <u><b>(167,762)</b></u>        | <u>(394,539)</u>        |
| <b>Loss per share</b>         | 8           |                                |                         |
| Basic                         |             | <u><b>(2.26) cents</b></u>     | <u>(6.18) cents</u>     |
| Diluted                       |             | <u><b>N/A</b></u>              | <u>N/A</u>              |

# **CONSOLIDATED BALANCE SHEET**

*At 31 December 2008*

|   | <i>Note</i> | <b>2008</b><br><b>HK\$'000</b> | 2007<br>HK\$'000 |
|---|-------------|--------------------------------|------------------|
| <b>Non-current assets</b>                               |             |                                |                  |
| Fixed assets  |             | <b>19,268</b>                  | 17,394           |
| Goodwill  |             | –                              | –                |
| Intangible asset  |             | <b>1,095</b>                   | –                |
| Investment in a jointly controlled entity               |             | –                              | 2,081            |
| Available-for-sale financial assets                     |             | –                              | 160              |
|   |             | <b>20,363</b>                  | 19,635           |
| <b>Current assets</b>                                   |             |                                |                  |
| Properties held for resale                              |             | <b>8,700</b>                   | 10,300           |
| Inventories   |             | <b>13,350</b>                  | 38,652           |
| Trade and bills receivables                             | 9           | <b>40,012</b>                  | 88,422           |
| Other receivables, prepayments and deposits             |             | <b>38,740</b>                  | 91,752           |
| Financial assets at fair value through profit or loss   |             | <b>23,772</b>                  | –                |
| Pledged bank deposits                                   |             | <b>9,299</b>                   | –                |
| Bank and cash balances                                  |             | <b>217,113</b>                 | 275,529          |
|   |             | <b>350,986</b>                 | 504,655          |
| <b>Current liabilities</b>                              |             |                                |                  |
| Trade and bills payables                                | 10          | <b>17,869</b>                  | 23,763           |
| Other payables and accruals                             | 11          | <b>19,540</b>                  | 23,449           |
| Current tax liabilities                                 |             | <b>17,115</b>                  | 12,230           |
|   |             | <b>54,524</b>                  | 59,442           |
| <b>Net current assets</b>                               |             | <b>296,462</b>                 | 445,213          |
| <b>NET ASSETS</b>                                       |             | <b>316,825</b>                 | 464,848          |
| <b>Capital and reserves</b>                             |             |                                |                  |
| Share capital   |             | <b>732,428</b>                 | 732,428          |
| Other reserves  |             | <b>1,277,872</b>               | 1,259,389        |
| Accumulated losses                                      |             | <b>(1,694,198)</b>             | (1,529,328)      |
| Equity attributable to equity holders<br>of the Company |             | <b>316,102</b>                 | 462,489          |
| Minority interests                                      |             | <b>723</b>                     | 2,359            |
| <b>TOTAL EQUITY</b>                                     |             | <b>316,825</b>                 | 464,848          |

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 its accounting year beginning on 1 January 2008. 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:

|   | <b>2008</b>           | 2007           |
|---|-----------------------|----------------|
|   | <b>HK\$’000</b>       | HK\$’000       |
| Manufacture, retail and distribution of consumer products | <b>297,382</b>        | 659,043        |
| Media management service fees                             | –                     | 20,316         |
| Rental income   | <b>914</b>            | 869            |
|   | <u><b>298,296</b></u> | <u>680,228</u> |

## **3. OTHER INCOME**

|   | <b>2008</b>          | 2007          |
|---|----------------------|---------------|
|   | <b>HK\$’000</b>      | HK\$’000      |
| Interest income                             | <b>4,352</b>         | 11,103        |
| Reversal of allowance for trade receivables | –                    | 2,107         |
| Reversal of allowance for other receivables | –                    | 555           |
| Tax subsidy                                 | <b>3,528</b>         | 312           |
| Write back of other payables and accruals   | <b>10</b>            | 913           |
| Sundry income                               | <b>6,234</b>         | 1,343         |
|   | <u><b>14,124</b></u> | <u>16,333</u> |

#### **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*

|   | <b>PRC<br/>retail and<br/>distribution<br/>HK\$'000</b> | <b>Property<br/>investment<br/>HK\$'000</b> | <b>Corporate<br/>and<br/>unallocated<br/>HK\$'000</b> | <b>Consolidated<br/>HK\$'000</b> |
|---|---|---|---|----------------------------------|
| <b>Year ended 31 December 2008</b>              |   |   |   |                                  |
| Turnover  | 297,382   | 914   | –   | 298,296                          |
| Segment results                                 | (144,749)   | (1,109)                                     | –   | (145,858)                        |
| Other income                                    |   |   |   | 4,362                            |
| Unallocated expenses                            |   |   |   | (16,737)                         |
| Loss from operations                            |   |   |   | (158,233)                        |
| Share of loss of a jointly<br>controlled entity | (4,019)   | –   | –   | (4,019)                          |
| Loss before tax                                 |   |   |   | (162,252)                        |
| <b>At 31 December 2008</b>                      |   |   |   |                                  |
| Segment assets                                  | 214,926   | 8,833                                       | –   | 223,759                          |
| Unallocated assets                              |   |   |   | 147,590                          |
| Total assets                                    |   |   |   | 371,349                          |
| Segment liabilities                             | 33,873  | 309   | –   | 34,182                           |
| Unallocated liabilities                         |   |   |   | 20,342                           |
| Total liabilities                               |   |   |   | 54,524                           |
| Other segment information:                      |   |   |   |                                  |
| Capital expenditure                             | 5,565   | –   | 5   | 5,570                            |
| Depreciation                                    | (3,797)   | –   | (124)   | (3,921)                          |
| Impairment loss on goodwill                     | (6,860)   | –   | –   | (6,860)                          |
| Fixed assets written off                        | (265)   | –   | –   | (265)                            |
| Inventories written off                         | (159)   | –   | –   | (159)                            |
| Bad debts/impairment charges                    | (28,247)  | –   | –   | (28,247)                         |
| Write down of properties held<br>for resale     | –   | (1,600)                                     | –   | (1,600)                          |

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

## 5. FINANCE COSTS

|   | 2008<br><i>HK\$'000</i> | 2007<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Interest on bank loans  | –                       | 279                     |
| Interest on loans from a shareholder wholly repayable within five years | –                       | 32                      |
|   | <u>–</u>                | <u>311</u>              |
|   | <u><u>–</u></u>         | <u><u>311</u></u>       |

## 6. INCOME TAX EXPENSE

|   | 2008<br><i>HK\$'000</i> | 2007<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Hong Kong Profits Tax                   |                         |                         |
| – underprovision in prior years         | –                       | 27                      |
| PRC tax                                 |                         |                         |
| – current                               | 5,443                   | 27,281                  |
| – under/(over) provision in prior years | 67                      | (14,672)                |
|   | <u>5,510</u>            | <u>12,636</u>           |
|   | <u><u>5,510</u></u>     | <u><u>12,636</u></u>    |

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 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 is effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements has been reflected in the current year's consolidated income statement.



## 7. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

|   | 2008<br>HK\$'000  | 2007<br>HK\$'000  |
|---|-------------------|-------------------|
| Advertising costs   | 138,701           | 330,425           |
| Allowance for trade receivables<br>(included in other operating expenses)   | 13,770            | 20,836            |
| Allowance for inventories (included in cost of inventories sold)  | 3,607             | 7,573             |
| Allowance for other receivables<br>(included in other operating expenses)   | 1,074             | 5,193             |
| Auditor's remuneration  | 1,380             | 1,500             |
| Cost of inventories sold  | 175,540           | 360,182           |
| Depreciation  | 3,921             | 2,077             |
| Direct operating expenses that generate rental income   | 422               | 423               |
| Fair value loss on financial assets at fair value through<br>profit or loss   | 838               | —                 |
| Fixed assets written off  | 265               | 991               |
| Impairment loss on fixed assets<br>(included in other operating expenses)   | 3,386             | —                 |
| Impairment loss on available-for-sale financial assets<br>(included in other operating expenses)                    | 169               | —                 |
| Impairment loss on goodwill for investment in a jointly<br>controlled entity (included in other operating expenses) | 884               | —                 |
| Impairment loss on prepayments and deposits<br>(included in other operating expenses)                               | 5,357             | —                 |
| Inventories written off (included in cost of inventories sold)  | 159               | —                 |
| Loss on disposals of fixed assets   | —                 | 2                 |
| Operating lease on land and buildings   | 9,034             | 8,049             |
| Staff costs (including directors' emoluments)   | 46,116            | 36,882            |
|   | <u>          </u> | <u>          </u> |

## 8. LOSS PER SHARE

### Basic loss per share

The calculation of basic loss 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\$165,508,000 (2007: approximately HK\$385,289,000) and the weighted average number of ordinary shares of 7,324,281,000 (2007: 6,229,749,000) in issue during the year.

### Diluted loss per share

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

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

## 9. TRADE AND BILLS RECEIVABLES

|                                   | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| Trade receivables ( <i>Note</i> ) | 40,012           | 85,641           |
| Bills receivables                 | –                | 2,781            |
|                                   | <u>40,012</u>    | <u>88,422</u>    |

*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 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:

|                | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|----------------|------------------|------------------|
| 0 – 90 days    | 28,969           | 66,124           |
| 91 – 180 days  | 11,043           | 18,836           |
| 181 – 365 days | –                | 681              |
|                | <u>40,012</u>    | <u>85,641</u>    |

For the year ended 31 December 2008, an allowance was made for estimated irrecoverable trade receivables of approximately HK\$13,770,000 (2007: HK\$20,836,000). The allowance has been included in other operating expenses in the consolidated income statement.

Movement of the allowance for trade receivables:

|                                     | 2008<br><i>HK\$'000</i> | 2007<br><i>HK\$'000</i> |
|-------------------------------------|-------------------------|-------------------------|
| At 1 January                        | 22,115                  | 2,489                   |
| Allowance recognised on receivables | 13,770                  | 20,836                  |
| Amounts reversed                    | –                       | (2,107)                 |
| Exchange differences                | 1,478                   | 897                     |
|                                     | <hr/>                   | <hr/>                   |
| At 31 December                      | <b>37,363</b>           | 22,115                  |
|                                     | <hr/> <hr/>             | <hr/> <hr/>             |

As at 31 December 2008, trade receivables of HK\$11,043,000 (2007: HK\$12,305,000) 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:

|                | 2008<br><i>HK\$'000</i> | 2007<br><i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Up to 3 months | 11,043                  | 11,159                  |
| 3 to 6 months  | –                       | 634                     |
| Over 6 months  | –                       | 512                     |
|                | <hr/>                   | <hr/>                   |
|                | <b>11,043</b>           | 12,305                  |
|                | <hr/> <hr/>             | <hr/> <hr/>             |

Subsequent to 31 December 2008, the Group received cash settlement amount of about HK\$5.2 million for balance overdue 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 AND BILLS PAYABLES

|                                | 2008<br><i>HK\$'000</i> | 2007<br><i>HK\$'000</i> |
|--------------------------------|-------------------------|-------------------------|
| Trade payables ( <i>Note</i> ) | 11,405                  | 23,763                  |
| Bills payables                 | 6,464                   | –                       |
|                                | <hr/>                   | <hr/>                   |
|                                | <b>17,869</b>           | 23,763                  |
|                                | <hr/> <hr/>             | <hr/> <hr/>             |

*Note:*

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

|                | <b>2008</b>               | 2007               |
|----------------|---------------------------|--------------------|
|                | <b><i>HK\$'000</i></b>    | <i>HK\$'000</i>    |
| 0 – 90 days    | <b>5,552</b>              | 6,756              |
| 91 – 180 days  | <b>265</b>                | 6,156              |
| 181 – 365 days | <b>773</b>                | 10,220             |
| Over 365 days  | <b>4,815</b>              | 631                |
|                | <hr/> <b>11,405</b> <hr/> | <hr/> 23,763 <hr/> |

#### **11. OTHER PAYABLES AND ACCRUALS**

|                                  | <b>2008</b>               | 2007               |
|----------------------------------|---------------------------|--------------------|
|                                  | <b><i>HK\$'000</i></b>    | <i>HK\$'000</i>    |
| Other payables and accruals      | <b>18,366</b>             | 19,377             |
| Deposits received                | <b>960</b>                | 3,033              |
| Due to directors ( <i>Note</i> ) | <b>214</b>                | 1,039              |
|                                  | <hr/> <b>19,540</b> <hr/> | <hr/> 23,449 <hr/> |

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

## **DIVIDEND**

The Board did not recommend payment of final dividend for the year ended 31 December 2008 (2007: HK\$Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Market Review**

#### ***PRC consumer goods market analysis***

Despite the economic slowdown brought by the global financial turmoil in the fourth quarter of 2008, the rapid economic growth in the first three quarters of the year has encouraged the PRC economy to grow at a relatively fast pace for its full year at 9%, with annual per capita disposable income of urban residents up by 8.4%. The overall retail sales of consumer goods climbed even quicker by a substantial 21.6% year-on-year, 4.8 percentage points faster than the previous year. Nevertheless, the worsening global economy since the beginning of 2009 posted significant negative impacts on the overall economic development worldwide. In combat, the PRC Government launched a series of policies to stimulate domestic demand and spending, aiming at sustaining a steady economic growth for the year 2009.

#### ***PRC television shopping market analysis and prospect***

Television shopping is a new modern consumption form, integrating shopping platforms of television, newspapers and magazines, Internet and telephones. Meanwhile, television shopping has been an important sales channel gradually adopted by global and domestic renowned corporations with increasing efforts. Despite a RMB10 billion market value of the PRC television shopping industry in 2007 (according to the statistics of relevant organizations), factors like excessive numbers of monitory organizations, lack of self-discipline, and relatively low entry barriers have obstructed the development of the sector. Television shopping sales only accounted for 0.1% of the retail sales of the entire country, compared to that of approximately 5% in Korea and 8% in the US, demonstrating the immense potential of television shopping industry in the PRC.

Two industrial standards are planned to be launched in 2009 to establish positive industry image and to create a healthy and fair environment for all players, after the integrity crisis of the industry started a few years back. Under the supervision of The State Administration of Radio Film and Television, “The PRC TV Shopping Program Standard” is understood to classify television shopping as program, and be distinguished from advertisements. With the content of shopping program, including product quality, guest speakers and scripts of anchors censored by television stations, this program standard aims to enhance the overall industry integrity. And in an attempt to advance the quality of the industry, “The PRC TV Shopping Industry Standard” sets entry criteria to various related operators and platforms, including television shopping channels, television shopping operators, manufacturers, program, internet and call centers. We believe that the industry potential would be unveiled subsequent to the two upcoming industry standards.

The shortened sales chain as promoted by television shopping gained popularity among manufacturers, causing the formation of new cooperation models combining television station, television shopping operators, manufacturers and retail terminals. In this regard, the Group recently established joint venture arrangement with Fuzhou Television Station, as well as jointed hands with television shopping operators in Guangdong, Yunnan, Zhejiang, Guangxi and Jiangxi. Cooperation contracts were also signed between renowned supermarkets and the Group to set up television shopping counters, contributing towards a solid foundation for the Group's development in a more standardized industry.

### **Business Review**

During 2008, the Group undertook a business model reform to shift business focus from product-oriented to service-oriented, that is, to diversify the product range from high concentration in a particular product type to a rich universe of choices. With customer needs as first priority, the Group developed a comprehensive sales platform integrating different channels that includes television, print media, online and retail to provide a more diverse and convenient shopping model, offering abundant product choices to customers. As a pioneer and a leader in the PRC television shopping industry, the Group continues to enhance its brand and customer confidence in products, programs and services. Meanwhile, the Group also strengthened precision in management to enhance overall operational efficiency.

Ground on its efforts in the first half of the year, the Group further deepened the business reform in the second half. Since the positive impacts of the new business model have yet to be fully realized, the Group's turnover for the year ended 31 December 2008 declined by 56% against 2007 to HK\$298 million from HK\$680 million and adjustment in market strategy resulted in a decrease of gross margin to 40% (2007: 46%). Loss attributable to equity holders of the Company amounted to HK\$166 million (2007 loss attributable to equity holders of the Company: HK\$385 million). Basic loss per share amounted to HK2.26 cents (2007: Basic loss per share HK6.18 cents).

### ***Sales results and performance review***

As the optimized business model is yet to demonstrate its impact, keen market competition and sales strategy changes during the year caused the Group to register lower retail revenue at HK\$297 million (2007: HK\$659 million) and lower gross margin for merchandise sales of 41% (2007: 45%).

To date, the Group has successfully established a comprehensive shopping platform comprising television shopping, interactive online video shopping, print media shopping and retail distribution, which significantly enhanced its market influence. On the television-shopping front, the Group has adopted a more flexible approach on its airtime deployment, utilizing a matrix of provincial and local television stations to appeal to targeted consumer groups. Forming alliances with local television shopping companies in various cities and provinces for synergies also helped mitigating the impact of rising media costs on operation while at the same time disperse business risks. Capitalizing on the brand and supplier resources built up over the years, the Group has established four major product zones, namely Star Phone Fang, Diamond Fang, Brand Watch City and Star Home Fang, to sell digital products, jewelry, well-known brand watches and cosmetic products, leather bags and accessories, offering high quality product choices to consumers. As for the newly established interactive online shopping service, personalized shopping experience are further enhanced by allowing consumers to enquire sales staff directly features of our products.

To further enhance its service enterprise image, the Group has stepped up construction of its customer service platform, incorporating a 24-hour call center, online video shopping guide, nation-wide delivery service and multiple payment methods, with the aim of creating a more convenient, rapid and secured shopping environment to customers. The Group believes that to operate a brand-based business is a strategy critical for healthy growth of a television shopping enterprise and will continuously sought to strengthen the brand image of the “China Seven Star Shopping Platform”; in addition to continuous improvement in various aspects of operation including media purchase, product selection, program shooting and media scheduling.

### ***Outlook and Strategy***

Although the global economy is in recession, the PRC economy continues to enjoy strong fundamentals for its growth prospects with deepened urbanization and industrialization and both rising demand and supply. In addition, the government has introduced in-time a series of favorable policies, including 10 major measures to stimulate demand and encourage investment and 10 programs to adjust industry structure and invigorate different sectors. These efforts are expected to help the economy maintain steady growth.

With the establishment and enhancement of the new business model, the Group will reap greater synergies and economies of scale. The Group will take an optimistic yet cautious approach in tackling changes in the market and take reference of customer needs in optimizing its shopping platform, allocating its resources effectively, enriching its product offerings and enhancing cost effectiveness. It will strive to seize every opportunity arising in the developing PRC economy and more disciplined television industry.

### **Financial Resources and Liquidity**

As at 31 December 2008, the Group had financial assets (excluding receivables) amounted to approximately HK\$250,184,000 (2007: HK\$275,529,000) of which approximately HK\$217,113,000 (2007: HK\$275,529,000) 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 580 employees (including Directors) as at 31 December 2008 (2007: 1,204). 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 2008, the Group had a total assets of approximately HK\$371,349,000 (2007: HK\$524,290,000) and no borrowings (2007: HK\$Nil).

### **Segment Information**

The details of segment information are set out in note 4 of this announcement.

### **Capital Structure**

As at 31 December 2008, 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 2007: HK\$732,428,084 divided into 7,324,280,839 shares of HK\$0.10 each).

### **Contingent Liabilities**

The Group did not have any significant contingent liabilities as at 31 December 2008.

### **Capital Commitments**

The Group did not have any significant capital commitments as at 31 December 2008.



## **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 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 2008 except for deviation from Code provisions A.4.1 and A.4.2 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 (the “INEDs”) of the Company is appointed for a specific term, and, pursuant to the articles of association of the Company (“Articles”), 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 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 Articles, such practice meets the same objective and is no less exacting than those prescribed under provision A.4.1.

The deviation from provision A.4.2 of the Code continued until the passing of a special resolution at the annual general meeting of the Company held on 26 May 2008 whereby the Articles was amended to align with provision A.4.2 of the Code. Therefore, with effect from 26 May 2008, the Company has complied with the provision A.4.2 of the Code.

## **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 2008. 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 2008.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Wednesday, 3 June 2009 to Friday, 5 June 2009, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming annual general meeting, all transfers of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 2 June 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 2008.

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and related notes thereto for the year ended 31 December 2008 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 2008, 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 2008 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, 27 April 2009

*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.*