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CHINA SEVEN STAR SHOPPING LIMITED
中 國 七 星 購 物 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 245)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The Board (the "Board") of Directors (the "Directors") 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 2011 together with the comparative figures of the corresponding year in 2010, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	**2011** **HK$'000**	2010 HK$'000 (Restated)
Continuing operations			
Turnover	5	**577,978**	579,145
Cost of sales and services		**(593,342)**	(616,534)
Gross loss		**(15,364)**	(37,389)
Other income	6	**54,935**	42,929
Distribution costs		**(53,095)**	(144,274)
Administrative expenses		**(41,218)**	(53,313)
Other operating expenses		**(21,805)**	(21,167)
Loss from operations		**(76,547)**	(213,214)
Finance costs	8	**(29,665)**	(38,374)
Loss before tax		**(106,212)**	(251,588)
Income tax expense	9	**(109)**	(50)
Loss for the year from continuing operations		**(106,321)**	(251,638)

	Note	2011 HK$'000	2010 HK$'000 (Restated)
Discontinued operation			
Profit for the period/year from discontinued operation	10	**155**	2,142
Loss for the year	11	**(106,166)**	(249,496)
Attributable to:			
Owners of the Company			
Loss from continuing operations		**(19,147)**	(44,509)
Profit from discontinued operation		**155**	2,142
Loss attributable to owners of the Company		**(18,992)**	(42,367)
Non-controlling interests			
Loss from continuing operations		**(87,174)**	(207,129)
Profit from discontinued operation		**—**	—
Loss attributable to non-controlling interests		**(87,174)**	(207,129)
		(106,166)	(249,496)
Loss per share			
From continuing and discontinued operations			
— basic	12(a)	**HK(0.26) cent**	HK(0.58) cent
— diluted	12(a)	**N/A**	N/A
From continuing operations			
— basic	12(b)	**HK(0.26) cent**	HK(0.61) cent
— diluted	12(b)	**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
Loss for the year	**(106,166)**	(249,496)
Other comprehensive income		
Exchange differences on translating foreign operations	**(942)**	2,912
Other comprehensive income for the year, net of tax	**(942)**	2,912
Total comprehensive income for the year	**(107,108)**	(246,584)
Attributable to:		
Owners of the Company	**(7,876)**	(34,889)
Non-controlling interests	**(99,232)**	(211,695)
	(107,108)	(246,584)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Fixed assets		**4,421**	13,984
Intangible assets	13	**530,846**	1,011,586
		535,267	1,025,570
Current assets			
Properties held for resale		**—**	11,000
Inventories		**11,599**	16,204
Trade receivables	14	**34,323**	25,754
Other receivables, prepayments and deposits		**54,078**	57,358
Pledged bank deposits		**24,981**	6,286
Bank and cash balances		**40,689**	112,124
		165,670	228,726
Current liabilities			
Agency fee payables — current portion	13	**628,982**	494,202
Trade and bills payables	15	**23,932**	21,632
Other payables and accruals		**53,328**	51,241
Bank loans		**9,864**	—
Current tax liabilities		**2,268**	2,167
		718,374	569,242
Net current liabilities		**(552,704)**	(340,516)
Total assets less current liabilities		**(17,437)**	685,054
Non-current liabilities			
Agency fee payables — non current portion	13	**—**	595,383
NET (LIABILITIES)/ASSETS		**(17,437)**	89,671
Capital and reserves			
Share capital		**732,777**	732,777
Other reserves		**1,304,917**	1,295,679
Accumulated losses		**(1,747,742)**	(1,730,628)
Equity attributable to owners of the Company		**289,952**	297,828
Non-controlling interests		**(307,389)**	(208,157)
TOTAL EQUITY		**(17,437)**	89,671

Notes:

1. GENERAL INFORMATION

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

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

2. GOING CONCERN BASIS

The Group incurred a loss of approximately HK$106,166,000 for the year ended 31 December 2011 and as at 31 December 2011 the Group had net current liabilities and net liabilities of approximately HK$552,704,000 and HK$17,437,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These financial statements have been prepared on a going concern basis, the validity of which depends, to a significant extent, upon the sufficiency of income generated from TV commercial contracts regarding television advertising business and financial support of a substantial shareholder of the Company at a level sufficient to finance the working capital requirements of the Group. In the year 2012, the Group has to settle approximately HK$579 million (net) license fee for the television advertising business under the exclusive advertising agency contract. Up to the date of these financial statements, the Group has entered more than 75% of the TV commercial contracts with its customers. The management believed that they would have sufficient contracts to be entered in the remaining months of 2012. In additions, deposit of approximately HK$37 million was included in other receivables, prepayments and deposits for the television advertising business and can be offset against payment to Guangdong Satellite Television Channel upon expiry of the exclusive advertising agency contract in December 2012. Furthermore, a substantial shareholder of the Company has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. In view of the above, the management believed that the Group would have sufficient resources to meet its obligation. The directors are therefore of the opinion that these financial statements have been prepared on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets.

3. 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 2011. 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 significant changes to the Group's accounting policies, presentation of the Group's financial statements 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 an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

4. BASIS OF PREPARATION

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

These financial statements have been prepared under the historical cost convention.

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

5. TURNOVER

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

	2011	2010
	HK$'000	*HK$'000*
PRC retail and distribution of consumer products	**71,307**	196,912
Television advertising service income	**500,870**	367,580
Insurance agency service income	**5,801**	14,653
Sales of properties	**11,000**	—
Rental income	**643**	940
	589,621	580,085
Representing:		
Continuing operations	**577,978**	579,145
Discontinued operation *(Note 10)*	**11,643**	940
	589,621	580,085

6. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Interest income	**457**	828
Commission income from television advertising services	**48,775**	37,279
Exchange gains, net	**1,529**	154
Fair value gain on financial assets at fair value through profit or loss	**—**	686
Reversal of allowance for trade receivables	**1,233**	156
PRC tax subsidy	**188**	1,148
Write back of other payables and accruals	**1,091**	567
Write back of trade payables	**55**	480
Sundry income	**1,607**	1,631
	54,935	42,929
Representing:		
Continuing operations	**54,935**	42,929

7. SEGMENT INFORMATION

The Group has three reportable segments as follows:

PRC retail and distribution	—	retail and distribution of consumer products in the PRC
Television advertising	—	provision of television advertising services in the PRC
Property investment	—	property holding and investment in Hong Kong (Discontinued operation)

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different marketing strategies.

The Group's other operating segment includes the insurance agency service business, which earns insurance agency service income. This segment does not meet any of the quantitative thresholds for determining reportable segments. The information of this operating segment is included in the 'other' column.

Segment profits or losses do not include interest income, fair value gain on financial assets at fair value through profit or loss, corporate income and corporate expenses. Segment assets do not include corporate assets. Segment liabilities do not include corporate liabilities.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

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

	PRC retail and distribution *HK$'000*	Television advertising *HK$'000*	(Discontinued operation) Property investment *HK$'000*	Other *HK$'000*	Total *HK$'000*
Year ended 31 December 2011					
Revenue from external customers	71,307	500,870	11,643	5,801	589,621
Intersegment revenue	—	—	—	—	—
Segment profit/(loss)	(67,603)	(29,430)	155	(198)	(97,076)
Interest revenue	137	23	—	33	193
Interest expense	402	29,263	—	—	29,665
Income tax expense	106	—	—	3	109
Depreciation and amortisation	7,117	519,416	—	110	526,643
Reversal of bad debts/ impairment charges	1,233	—	—	—	1,233
Bad debts/impairment charges	17,513	15,174	—	—	32,687
Write back of trade and other payables and accruals	107	223	—	—	330
Fixed assets written off	343	—	—	—	343
Additions to segment non-current assets	1,900	14	—	—	1,914
At 31 December 2011					
Segment assets	111,950	614,170	129	22,208	748,457
Segment liabilities	59,219	752,695	—	494	812,408

	PRC retail and distribution *HK$'000*	Television advertising *HK$'000*	(Discontinued operation) Property investment *HK$'000*	Other *HK$'000*	Total *HK$'000*
Year ended 31 December 2010					
Revenue from external customers	196,912	367,580	940	14,653	580,085
Intersegment revenue	—	32,448	—	—	32,448
Segment profit/(loss)	(133,150)	(100,468)	2,142	(66)	(231,542)
Interest revenue	306	39	—	49	394
Interest expense	—	38,374	—	—	38,374
Income tax expense	21	8	—	21	50
Depreciation and amortisation	6,990	453,240	—	121	460,351
Reversal of bad debts/ impairment charges	156	—	—	—	156
Bad debts/impairment charges	29,091	—	—	—	29,091
Write back of trade and other payables and accruals	1,047	—	—	—	1,047
Reversal of write down of properties held for resale	—	—	1,700	—	1,700
Fixed assets written off	—	—	—	14	14
Additions to segment non-current assets	489	1,428,176	—	3	1,428,668
At 31 December 2010					
Segment assets	136,628	1,097,886	11,133	21,840	1,267,487
Segment liabilities	48,304	1,199,565	326	983	1,249,178

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

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Total revenue of reportable segments	**589,621**	612,533
Elimination of intersegment revenue	**—**	(32,448)
Elimination of discontinued operation	**(11,643)**	(940)
Consolidated revenue from continuing operations	**577,978**	579,145
Profit or loss		
Total profit or loss of reportable segments	**(97,076)**	(231,542)
Fair value gain on financial assets at fair value through profit or loss	**—**	686
Interest revenue	**457**	828
Unallocated corporate income	**2,345**	154
Unallocated corporate expenses	**(11,783)**	(19,572)
Elimination of discontinued operation	**(155)**	(2,142)
Consolidated loss before tax from continuing operations	**(106,212)**	(251,588)
Assets		
Total assets of reportable segments	**748,457**	1,267,487
Corporate assets	**49,492**	74,601
Elimination of intersegment assets	**(97,012)**	(87,792)
Consolidated total assets	**700,937**	1,254,296
Liabilities		
Total liabilities of reportable segments	**812,408**	1,249,178
Corporate liabilities	**2,978**	3,239
Elimination of intersegment liabilities	**(97,012)**	(87,792)
Consolidated total liabilities	**718,374**	1,164,625

Geographical information:

	Revenue		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**11,643**	940	**27**	48
PRC except Hong Kong	**577,978**	579,145	**535,240**	1,025,522
Discontinued operation	**(11,643)**	(940)	**—**	—
Consolidated total	**577,978**	579,145	**535,267**	1,025,570

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

Revenue from major customers:

	2011	2010
	HK$'000	*HK$'000*
Television advertising segment		
Customer a	**—**	110,710
Customer b	**118,139**	—

8. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Notional non-cash interest accretion on pre-agreed periodic payments on exclusive advertising agency right	**29,263**	38,374
Interest on bank loans	**402**	—
	29,665	38,374
Representing:		
Continuing operations	**29,665**	38,374

9. INCOME TAX EXPENSE

	2011 *HK$'000*	2010 *HK$'000*
PRC tax		
— current	**2**	50
— underprovision in prior years	**107**	—
	109	50
Representing:		
Continuing operations	**109**	50

No provision for Hong Kong Profits Tax is required since the Group has no assessable profits in Hong Kong for the year (2010: HK$Nil).

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

No provision for deferred taxation has been made for both years ended 31 December 2010 and 2011 as the tax effect of all temporary difference is not material.

10. DISCONTINUED OPERATION

Pursuant to an agreement dated 16 September 2011 entered into between a subsidiary of the Company, Marson Development Limited ("Marson") and an independent third party (the "Purchaser"), Marson disposed of its properties held for resale to the Purchaser at a consideration of HK$11,000,000.

The disposal was completed in October 2011 and the Group discontinued its property investment business.

The results of the discontinued operation for the period/year, which have been included in consolidated profit or loss, are as follows:

	From 1 January 2011 to 31 October 2011 *HK$'000*	Year ended 31 December 2010 *HK$'000*
Turnover	**11,643**	940
Cost of sales	**(11,431)**	(432)
Gross profit	**212**	508
Reversal of write down of properties held for resale	**—**	1,700
Administrative expenses	**(57)**	(66)
Profit before tax	**155**	2,142
Income tax expense	**—**	—
Profit for the period/year	**155**	2,142

During the period, the discontinued operation received approximately HK$10,833,000 (year end 31 December 2010: approximately HK$459,000) in respect of operating activities.

11. LOSS FOR THE YEAR

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

	2011	2010
	HK$'000	*HK$'000*
Advertising costs	**9,247**	69,106
Allowance for inventories (included in cost of inventories sold)	**12,852**	8,433
Allowance for other receivables (included in other operating expenses)	**4,886**	1,173
Allowance for trade receivables (included in other operating expenses)	**5,505**	5,746
Amortisation of exclusive advertising agency right (included in cost of sales and services)	**519,383**	453,223
Amortisation of internet platform and insurance agency licence (included in other operating expenses)	**101**	318
Auditor's remuneration	**1,700**	1,700
Bad debts written off (included in other operating expenses)	**—**	437
Cost of inventories sold	**66,890**	142,834
Depreciation	**7,186**	6,844
Direct operating expenses that generate rental income	**321**	432
Exchange differences, net	**(1,529)**	(154)
Fair value gain on financial assets at fair value through profit or loss	**—**	(686)
Fixed assets written off	**343**	14
Impairment loss on fixed assets (included in other operating expenses)	**4,522**	158
Impairment loss on intangible asset (included in other operating expenses)	**—**	666
Impairment loss on prepayments and deposits (included in other operating expenses)	**4,922**	12,282
Inventories written off (included in cost of inventories sold)	**—**	196
Operating lease charges		
— Hire of plant and equipment	**1,317**	1,914
— Land and buildings	**7,196**	8,240
Staff costs (including directors' emoluments)	**27,760**	41,612

12. LOSS PER SHARE

(a) From continuing and discontinued operations

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$18,992,000 (2010: approximately HK$42,367,000) and the weighted average number of ordinary shares of 7,327,771,000 (2010: 7,326,518,000) in issue during the year.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2011.

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2010.

(b) From continuing operations

Basic loss per share

The calculation of basic loss per share from continuing operations attributable to owners of the Company is based on the loss for the year from continuing operations attributable to owners of the Company of approximately HK$19,147,000 (2010: approximately HK$44,509,000) and the denominator used is the same as that detailed in (a) above.

Diluted loss per share

No diluted loss per share from continuing operations is presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2011.

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2010.

(c) From discontinued operation

Basic earnings per share

Basic earnings per share from the discontinued operation is HK 0.002 cent per share (2010: HK 0.029 cent per share), based on the profit for the year from discontinued operation attributable to the owners of the Company of approximately HK$155,000 (2010: approximately HK$2,142,000) and the denominator used is the same as that detailed in (a) above.

Diluted earnings per share

No diluted earnings per share from the discontinued operation is presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2011.

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2010.

13. INTANGIBLE ASSETS

During the year ended 31 December 2010, the Group incurred approximately HK$1,428,016,000 on additions to intangible assets. The additions represented the exclusive advertising agency right. No further additions incurred for the year ended 31 December 2011.

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

In the event of termination of the exclusive advertising agency contract by either party to contract, the cancelling or default party will be responsible for a compensation amounted to 10% of the unfulfilled contract sum for the year of default as well as an amount equals to the deposit on account for the contract. At 31 December 2011, a deposit of approximately HK$36,990,000 relating to the exclusive advertising agency contract has been included in other receivables, prepayments and deposits, and the maximum compensation computed for 2012 was approximately HK$63,000,000 respectively. The management believes that the Group would have sufficient resources to meet its obligation in the event of default on its part.

14. TRADE RECEIVABLES

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

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

	2011	2010
	HK$'000	*HK$'000*
0–90 days	**32,235**	19,676
91–180 days	**1,782**	2,898
181–365 days	**10**	3,144
Over 365 days	**296**	36
	34,323	25,754

15. TRADE AND BILLS PAYABLES

At 31 December 2011, included in trade and bills payables are trade payables of approximately HK$23,932,000 (2010: HK$15,757,000) and bills payables of approximately HK$Nil (2010: HK$5,875,000).

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

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

	2011	2010
	HK$'000	*HK$'000*
0–90 days	**15,867**	9,590
91–180 days	**1,878**	1,005
181–365 days	**813**	1,332
Over 365 days	**5,374**	3,830
	23,932	15,757

16. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2011 (2010: HK$Nil).

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Material uncertainty relating to the going concern basis

Without qualifying our opinion, we draw attention to Note 2 to the financial statements which mentions that the Group incurred a loss of HK$106,166,000 for the year ended 31 December 2011 and as at 31 December 2011 the Group had net current liabilities and net liabilities of HK$552,704,000 and HK$17,437,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

These financial statements have been prepared on a going concern basis, the validity of which depends, to a significant extent, upon the sufficiency of income generated from TV commercial contracts regarding television advertising business and financial support of a substantial shareholder of the Company at a level sufficient to finance the working capital requirements of the Group. In the year 2012, the Group has to settle approximately HK$579 million (net) license fee for the television advertising business under the exclusive advertising agency contract. Up to the date of these financial statements, the Group has entered more than 75% of the TV commercial contracts with its customers. The management believed that they would have sufficient contracts to be entered in the remaining months of 2012. In additions, deposit of approximately HK$37 million was included in other receivables, prepayments and deposits for the television advertising business and can be offset against payment to Guangdong Satellite Television Channel upon expiry of the exclusive advertising agency contract in December 2012. Furthermore, a substantial shareholder of the Company has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. In view of the above, the management believed that the Group would have sufficient resources to meet its obligation.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Analysis of China's consumer goods market

In 2011, the European debt crisis created uncertainties in the global economy. Meanwhile, the rising price of commodities in China posed pressure on the country's macro economy. To strictly control inflation and reduce the impact of the global economy on China's financial system, the Central Government continued to implement prudent monetary policies and actively adjust the economic structure, enabling the Chinese economy to maintain stable yet rapid development. The National Bureau of Statistics of China stated that the GDP in 2011 reached RMB47,156.4 billion, a year-on-year increase of 9.2%. Income of Chinese citizens also continued to improve. According to the National Bureau of Statistics of China, urban residents' per capita disposable income was RMB21,810, an actual growth of 8.4% excluding the effect of inflation. Increasing spending power of the Chinese public has driven the amount of annual consumption. In 2011, total retail sales of consumer products in the country amounted to RMB18,400 billion, up 17.1% when compared to last year.

Analysis and prospects for China's advertising market

2011 was the first year of the Twelfth Five-Year Plan. The gloomy economic prospects of developed countries in Europe and the US weakened demand for Chinese goods. Domestic demand therefore played a greater contributory role to the national economy, and is expected to continue to grow.

To further bolster the domestic demand and consumption, the Central Government launched a series of related support policies, among which included the "Guiding Opinions on Promoting the Development of the Retail Industry during the Twelfth Five-year Period (2011–1015)*" (《關於十二五(2011–2015年)時期促進零售業發展的指導意見》), launched by the Ministry of Commerce. It states that the country has to achieve an annual average growth in total retail sales of 15%, and adopt related tax benefit measures during the Twelfth Five-Year Plan period. The Group expects that the booming consumer market in China, which is driven by supportive national policies, and strong demand for quality products resulting from increasing affluence and rising standards of living will present promising prospects for the advertising industry in mainland China, facilitating rapid growth of related industries.

Currently, China is the world's second largest advertising market, just behind the US, with annual advertising turnover reaching RMB234.05 billion in 2010. As domestic and overseas brands compete to capture a share of the Chinese market, intense competition will lead to huge profits for the advertising industry in China. MAGNAGLOBAL, a subsidiary of Interpublic Group of Companies Inc. ("IPG") in the US, estimated that the CAGR of revenue derived from the advertising industry in China will stand at 16.6% between 2012 and 2016.

For the media shopping industry, the matter of integrity among enterprises has not been entirely resolved. Even though the Chinese Government implemented a series of policies to regulate and consolidate the industry, questionable business practices still surfaced amid the highly competitive market environment, jeopardising consumers' confidence as a result. In turn, this has stunted the industry's ability to properly and healthily develop.

BUSINESS REVIEW

Starting from 2010, the Group expanded into the advertising agency business by securing a three-year exclusive agency rights contract with Guangdong Satellite Television Channel ("GSTV"). In the years since the contract, the Group has expended significant effort and accumulated ample experiences through the running of the business, consequently improving the operation skills. This business has developed favorably in the second half of 2011.

With the aforementioned exclusive advertising agency rights, the Group can sell all of the advertising time of GSTV, which covers more than 20 programs for a total advertising air time of 114,000 minutes. In 2011, the Group sold 113,880 minutes of advertising air time, an increase of 17.5% when compared to 2010.

GSTV is the number one television channel among all provincial satellite TV stations in southern China, covering more than 800 million people in about 70 major cities across the country. GSTV has created serious and diverse programs and gained widespread recognition from society and overwhelmingly positive response from the audience. According to a survey conducted by CSM, the viewing rate of GSTV is the highest among television channels in southern China in the first half of 2011.

With popular prime time programs and rising viewership, GSTV provides a strong platform for a variety of premium and extensive advertising clients. During the year under review, the Group's relationship with its partners in related businesses further strengthened and the operation of associated businesses further developed. As a result, the advertising agency business became a key income stream, accounting for more than half of the Group's total revenue in 2011. The Group has commenced close cooperation with a number of major clients such as Beijing Dentsu Advertising Co. Ltd., DDB Beijing Advertising Co. Ltd, Carat China, GroupM (Shanghai) Advertising Co. Ltd., Leo Burnett Worldwide and Saatchi & Saatchi Great Wall. Cooperative arrangements involved a variety of sectors, including television shopping, food, medicine, cosmetics, finance and household products, while the advertising customers included some world renowned brands such as Canon, Pepsi, Johnson & Johnson, China Mobile, KFC and Extra. With the business continuing to expand, the Group remains optimistic about its development and believes that it will become a new growth driver for the Group.

In respect of the media shopping industry which remains unregulated, the Group adjusted its investment in this segment accordingly. During the year, this segment continued to perform steadily, with the Group presently providing convenient and safe shopping services for customers via a cross network interactive shopping platform, including a 24-hour JIA XI GOU WU shopping channel (家禧購物頻道) in Fuzhou City, Fujian Province; retail stores, namely JIA XI XING HUO GUAN (家禧星活館); and a major shopping website called XING HUO GUAN (星活館).

Sales results and performance review

For the year ended 31 December 2011, the Group's consolidated turnover was approximately HK$589,621,000, represents a slight increase of approximately 1.6% from 2010. The Group recorded a loss on the gross profit line during the year. Based on the legal interpretation of the terms as contained in the structural contracts the Group entered into for the purpose of consolidating the financial results of the television shopping and related businesses, and under the HKAS 27 (revised) "Consolidated and Separate Financial Statements" that became effective for the Company's financial statements from 2010 onwards, the non-controlling interests of the PRC business of the Group shared a portion of the loss before tax of approximately HK$87,174,000 (2010: HK$207,129,000), resulting in an loss attributable to the owners of the Company of approximately HK$18,992,000 (2010: HK$42,367,000).

As a result of the questionable practices of some television shopping industry players triggering an integrity crisis which led to a decrease in the ratio of television sales to advertising costs, the higher return rate of goods sold as well as the conscious decision to business segment diversification by the Group, the retail revenue of the Group dropped 64% to HK$71,307,000 (2010:HK$196,912,000). Gross margin of merchandise sales was 5% (2010: 25%).

On financial position and cash flows, for the year ended 31 December 2011, the Group's total assets were HK$700,937,000 (2010: HK$1,254,296,000), an decrease of 44% when compared with 2010. Net cash (outflows)/inflows from operating activities, investing activities and financing activities were at HK$(63,931,000), HK$4,529,000 and HK$(14,808,000) respectively (2010: HK$(63,628,000), HK$7,133,000 and HK$1,060,000). Capital expenditure for the year was HK$1,920,000 (2010: HK$675,000) with depreciation and amortization for tangible and intangible assets at HK$526,670,000 (2010: HK$460,385,000). Strength of the Chinese Yuan also contributed to a favorable currency effect of HK$11,116,000 (2010: HK$7,478,000) to the current year's reserves. As at 31 December 2011, the total cash position of the Group was HK$65,670,000 (2010: HK$118,410,000).

Outlook and strategy

During the Twelfth Five-Year Plan period, the Government will launch a number of support policies aimed at improving people's livelihood and boosting domestic consumption. The spending power of the general public is expected to increase further, creating a solid foundation for the prosperous development of the retail industry. As income continues to rise, people will pursue a better lifestyle as well as purchase better quality goods. Local and international brands are intent on capturing a greater share of this world's biggest market, and will employ different advertising media such as television and the internet to promote their goods. This will in turn spur strong growth of the Chinese advertising industry.

With the highest penetration rate, television has become the most influential form of media, making it the top choice for many advertising customers, hence occupying the largest share of the advertising market. According to data compiled by the State Administration of Radio, Film, and Television and First Capital Securities Corporation Limited, television advertising revenue for the first half of 2011 reached RMB46.4 billion, 21.9% higher than the same period last year. The increase reflected the enormous potential of the television advertising industry. Also, from a CTR report, advertisement placements among provincial satellite channels and provincial channels, including GSTV, are increasing rapidly, and has exceeded the industry average. The Group will therefore seek to capture the enormous opportunities emerging from favorable policies to develop advertising agency business, and thus support its long-term growth.

Meanwhile, in light of chaotic competition within the media shopping industry and strict examination of television shopping advertisements, the Group will closely evaluate the uncertainties in the industry and adjust the media shopping business in due course. While the global economic outlook remains uncertain, the Group will continue to actively and closely monitor the market, imposing strict controls to limit financial risk and strategically adjust the business with the aim of maintaining stable growth and generating fair returns to shareholders.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2011, the Group had financial assets (excluding receivables) amounted to approximately HK$65,670,000 (2010: HK$118,410,000) of which approximately HK$40,689,000 (2010: HK$112,124,000) 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 certain exposure to foreign currency risk as some of its business transactions and assets are denominated in currencies other than the functional currency of respective Group entities such as Renminbi. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. 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 111 employees (including Directors) as at 31 December 2011 (2010: 402). 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 2011, the Group had total assets of approximately HK$700,937,000 (2010: HK$1,254,296,000) and the gearing ratio (calculated on the basis of the Group's total bank and other borrowings, over the equity attributable to owners of the Company) was approximately 3.4% as at 31 December 2011 (at 31 December 2010: Nil%).

CAPITAL STRUCTURE

As at 31 December 2011, the Company's issued ordinary share capital was HK$732,777,084 divided into 7,327,770,839 shares of HK$0.10 each (at 31 December 2010: HK$732,777,084 divided into 7,327,770,839 shares of HK$0.10 each).

In order to strengthen the Company's shareholder base and attract other high quality institutional investors, the Company has proposed at the end of last year to undergo capital reorganisation including reduction of issued share capital to eliminate part of the Company's accumulated losses and a 5 to 1 share consolidation. In addition, the board lot size was increased from 10,000 shares to 20,000 shares. The capital reorganisation, which involves the Company applying the credit arising from the Reduction of Issued Share Capital to eliminate part of the Company's accumulated losses, is proposed to facilitate the payment of dividends as and when the Directors consider it appropriate in the future. Upon completion of the capital reorganisation, the Company will be able to issue consolidated shares at any price equal to or greater than the nominal value of HK$0.01 per consolidated share, and therefore, increase flexibility for the Company to raise funds in the future.

CHARGES ON GROUP'S ASSETS

At 31 December 2011, the Group's pledged bank deposits included a deposit pledged to a bank of approximately HK$309,000 (2010: HK$294,000) as securities for two corporate cards granted to two executive directors of the Group. The credit limit of both corporate cards is approximately HK$247,000 (2010: HK$235,000) in aggregate.

At 31 December 2011, the Group's and the Company's pledged bank deposits included a deposit pledged to a bank of approximately HK$24,672,000 to secure bank loans of approximately HK$9,864,000.

Save for the details of pledged bank deposits as set out above, as at 31 December 2011, there were no charges on the Group's assets.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2011.

CAPITAL COMMITMENTS

The Group did not have any significant capital commitments as at 31 December 2011.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group did not have any material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2011.

CORPORATE GOVERNANCE

The Board has applied the principles and complied with all the applicable Code provisions and where applicable, the recommended practices of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2011 except for deviation from Code provision A.4.1 of the Code.

Code provision A.4.1 stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

None of the existing independent non-executive Directors (the “INEDs”) is appointed for a specific term.

Although the INEDs are not appointed for a specific term, the Company believes that as all Directors are subject to retirement by rotation and re-election at the annual general meeting at least once for every three years pursuant to the Articles, such practice meets the same objective and is no less exacting than those prescribed under Code provision A.4.1.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors securities transactions. 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 2011.

AUDIT COMMITTEE

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. Wong Chak Keung (Chairman), Mr. Ling Yu Zhang 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 2011.

The figures in respect of the Group’s consolidated statement of financial position, consolidated income statement and related notes thereto for the year ended 31 December 2011 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 LISTED SECURITIES

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company’s listed securities.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

The annual report of the Company for the year ended 31 December 2011 will be dispatched to shareholders and be published on the aforementioned websites in due course.

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

Hong Kong, 30 March 2012

As at the date of this announcement, the Board comprises Mr. Ni Xinguang and Mr. Wang Zhiming as executive directors, and Mr. Wong Chak Keung, Mr. Ling Yu Zhang and Mr. Lu Wei as independent non-executive directors.

* *Management translation*