



CHINA SEVEN STAR SHOPPING LIMITED

中國七星購物有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 245)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

INTERIM RESULTS

The Board of Directors (the “Board”) of China Seven Star Shopping Limited (the “Company”) announces the unaudited interim financial results of the Company and its subsidiaries (hereinafter together referred as the “Group”) for the six months ended 30 June 2008 together with the comparative figures of the corresponding period in 2007, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		Six months ended	
		30/6/2008	30/6/2007
		(unaudited)	(unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Turnover	2	155,904	414,013
Cost of sales		(86,693)	(197,202)
Gross profit		69,211	216,811
Other income	3	9,300	7,233
Distribution costs		(105,050)	(117,423)
Administrative expenses		(29,967)	(23,998)
Other operating expenses		(5,333)	(7,935)
(Loss)/profit from operations		(61,839)	74,688
Finance costs		—	(164)
Share of loss of a jointly controlled entity		(4,216)	(89)
(Loss)/profit before tax		(66,055)	74,435
Income tax expense	4	(1,649)	(29,516)
(Loss)/profit for the period	5	(67,704)	44,919
Attributable to:			
Equity holders of the Company		(66,666)	43,291
Minority interests		(1,038)	1,628
		(67,704)	44,919
(Loss)/earnings per share	6		
Basic		(0.91) cents	0.79 cents
Diluted		N/A	0.61 cents
Dividend	7	Nil	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

		30/6/2008 (unaudited) HK\$'000	31/12/2007 (audited) HK\$'000
	Note		
Non-current assets			
Fixed assets		21,291	17,394
Investment in a jointly controlled entity		6,164	2,081
Available-for-sale financial assets		284	160
		<u>27,739</u>	<u>19,635</u>
Current assets			
Properties held for resale		10,300	10,300
Financial assets at fair value through profit or loss	8	78,013	—
Inventories		22,357	38,652
Trade and bills receivables	9	64,047	88,422
Other receivables, prepayments and deposits		61,948	91,752
Bank and cash balances		199,599	275,529
		<u>436,264</u>	<u>504,655</u>
Current liabilities			
Trade payables	10	20,203	23,763
Other payables and accruals		14,749	23,449
Current tax liabilities		13,342	12,230
		<u>48,294</u>	<u>59,442</u>
Net current assets		<u>387,970</u>	<u>445,213</u>
NET ASSETS		<u>415,709</u>	<u>464,848</u>
Capital and reserves			
Share capital		732,428	732,428
Other reserves		1,277,188	1,259,389
Accumulated losses		(1,595,356)	(1,529,328)
Equity attributable to equity holders of the Company		414,260	462,489
Minority interests		1,449	2,359
TOTAL EQUITY		<u>415,709</u>	<u>464,848</u>

Notes:

1. Basis of preparation and accounting policies

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

The accounting policies and methods of computation used in preparation of these condensed consolidated financial statements are consistent with those used in the 2007 Financial Statements.

2. Segment information

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

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

Primary reporting format – business segments

	(Unaudited)		
	PRC retail and distribution <i>HK\$’000</i>	Property investment <i>HK\$’000</i>	Consolidated <i>HK\$’000</i>
Six months ended 30 June 2008			
Turnover	155,469	435	155,904
Segment results	(56,086)	229	(55,857)
Six months ended 30 June 2007			
Turnover	413,579	434	414,013
Segment results	81,922	219	82,141

3. Other income

	Six months ended	
	30/6/2008	30/6/2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest income	2,499	4,541
Reversal of allowance for trade receivables	–	1,217
Sundry income	6,801	1,475
	<u>9,300</u>	<u>7,233</u>

4. Income tax expense

	Six months ended	
	30/6/2008	30/6/2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
PRC tax		
– current	1,583	38,435
– under/(over) provision for prior year	66	(8,919)
	<u>1,649</u>	<u>29,516</u>

No provision for Hong Kong Profits Tax has been made for both periods ended 30 June 2008 and 30 June 2007 since each individual Hong Kong company sustained losses for taxation purposes in each respective period.

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

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

The subsidiary, Fuzhou Shenxing Network Information Consultant Service Co., Ltd. (“Fuzhou Shenxing”) 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% on the turnover. 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. Based on the local determined tax rate, the enterprise income tax of approximately HK\$52,000 for Fuzhou Shenxing has been provided during the period. If the national tax law was applied, there was no assessable profit for current period.

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 period’s condensed consolidated income statement.

No provision for deferred taxation has been made for both periods ended 30 June 2008 and 30 June 2007 as the effect of all temporary difference is not material.

5. (Loss)/profit for the period

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

	Six months ended	
	30/6/2008	30/6/2007
	(unaudited)	(unaudited)
	HK\$’000	HK\$’000
Allowance for inventories	426	134
Allowance for other receivables	2,103	–
Allowance for trade receivables	–	7,800
Cost of inventories sold	86,487	193,959
Depreciation	1,819	619
Directors’ emoluments	1,075	919
Impairment on goodwill for investment in a jointly controlled entity	884	–
Reversal of allowance for trade receivables	–	(1,217)
	=====	=====

6. (Loss)/earnings per share

Basic (loss)/earnings per share

The calculation of basic loss (2007: earnings) per share attributable to equity holders of the Company is based on the loss for the period attributable to equity holders of the Company of approximately HK\$66,666,000 (2007: profit attributable to equity holders of the Company of approximately HK\$43,291,000) and the weighted average number of ordinary shares of 7,324,281,000 (2007: 5,490,622,000) in issue during the period.

Diluted (loss)/earnings per share

The effects of all potential ordinary shares are anti-dilutive for the period ended 30 June 2008.

For the period ended 30 June 2007, the calculation of diluted earnings per share attributable to equity holders of the Company was based on the profit for the period attributable to equity holders of the Company of approximately HK\$43,291,000 and the weighted average number of ordinary shares of 7,154,544,000, being the weighted average number of ordinary shares of 5,490,622,000 in issue during the period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 192,263,000 assumed to have been issued at no consideration on the deemed exercise of the share option and consideration shares of 1,471,659,000 issuable for the acquisition of Top Pro Group respectively outstanding at the balance sheet date.

7. Dividend

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2008 (six months ended 30 June 2007: HK\$Nil).

8. Financial assets at fair value through profit or loss

At 30 June 2008, the balance mainly represented investment in a fund of Asian bonds.

9. Trade and bills receivables

At 30 June 2008, included in trade and bills receivables are trade receivables of approximately HK\$64,047,000 (2007: HK\$85,641,000) and bills receivables of approximately HK\$Nil (2007: HK\$2,781,000).

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

	30/6/2008 (unaudited) HK\$'000	31/12/2007 (audited) HK\$'000
0 – 90 days	37,991	66,124
91 – 180 days	17,687	18,836
181 – 365 days	7,976	681
Over 365 days	393	–
	64,047	85,641

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.

10. Trade payables

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

	30/6/2008 (unaudited) HK\$'000	31/12/2007 (audited) HK\$'000
0 – 90 days	9,014	6,756
91 – 180 days	4,384	6,156
181 – 365 days	3,216	10,220
Over 365 days	3,589	631
	<u>20,203</u>	<u>23,763</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

PRC consumer goods market analysis

The steadily growing PRC economy has presented an environment conducive to the development of the retail industry. The real annual growth rate of retail sales of consumer goods in the PRC has been stable at approximately 12% since 2005 and reaching 13% in the first quarter of 2008, approximately 1 percentage point higher than that of the corresponding period last year. In addition, appreciation of the RMB and the advent of the Olympic Games have also stimulated consumption in the country. Thus, the Group believes the PRC retail industry will continue to maintain high growth this year.

Television Shopping Market Analysis

Television shopping boasts the ability to bring added value to both the consumers and manufacturers. It also agrees with the modern lifestyle that emphasizes speed and convenience, thus has tremendous market potential. In the past few years, the broadcast rate of television shopping channels in the PRC had grown year-on-year from 28,000 hours in 2004 to 93,000 hours in 2007. However, because of lack of monitory and self-discipline, the relatively low entry barriers and absence of leadership in the industry, the integrity of the television shopping sector was at one point questionable. In May 2006, a ban on promotion of five categories of products (medicines, medical appliances, bust cream, slimming and growth enhancing products) on television shopping channels was enforced and that sparked the transformation of the industry. Currently, television shopping channels and infomercials co-exist and are competing for market share. However, as the broadcast format of television shopping channels becomes more disciplined and focused on serving modern household shoppers, the strategy of teaching consumers about making wise choices instead of pushing sales is becoming the mainstream in television shopping.

Television shopping is regarded as the third revolution in the area of sales after retail and the arrival of the supermarket. It has huge development potential in the PRC and poses high investment value. The sector is also expected to evolve alongside continuous development of electronic commerce and digital technology and on the platform where television broadcasting, telecommunications and the computer technologies converge. Emergence of digital television service system will bring television shopping and the Internet together. In 2007, total transaction value of Internet shopping in the PRC reached RMB56 billion, representing a surge of 117% year-on-year. This provides a sound platform for the television shopping industry to expand.

Business Review

In order to tackle surging media costs since 2007 in the PRC, the problems of restrictive product offerings on television direct sales and over-dependence on media, the Group started to explore ways to reform its business in the first half of the year and began to adjust its business model in the end of second quarter of the year. From running only television direct sales in the past, it aims to gradually transform into an operation with a multi-media platform integrating household television shopping, Internet shopping, direct sale catalogue, membership marketing and print media promotion, creating a new model for household shopping in the PRC. Via a diverse shopping platform to bring about enhanced media efficiency, a consumer-oriented service approach and also offers wider product choices. The Group also stepped up brand building efforts to help boosting consumer confidence.

During the period under review, countering rising media costs, the Group introduced more household products on its television shopping platform and purchased airtime on provincial and municipal television channels with strong potential to replace advertising on national media. The Group has also inaugurated interactive online sales service where customers can communicate directly with professional sales staff to seek their advice on product choices, making their shopping experience more personal. Also, building on its strong brand equity, the Group has started to launch specific product zones, namely Star Phone Fang, Star Diamond Fang (under planning), Star Kitchen Fang (under planning), Star Charm Fang (under planning) and Star Kid Fang (under planning). Taking Star Phone Fang as an example, more than 20 brands and 500 models of mobile phone products has been offered at its inauguration.

Understanding that brand building is instrumental to winning customer confidence, the Group will continuously fortify the “Seven Star” brand while transforming its business model. Through the introduction of a membership scheme complemented by a score accumulation system, the Group aims to nurture customer loyalty and encourage repeated purchases, thereby achieve higher sales return.

Outlook and Strategies

Currently the business model of the Group is still in the preliminary stage of transformation. It has yet to realize its full effectiveness and its performance is expected to be affected by the intense market competition in the short run. However, given the continuous improvement of the regulatory framework on the PRC television shopping industry as well as the development of the Internet shopping platform, the Group believes the transformed business model will deliver due effectiveness in the long run. Looking ahead, the Group will adopt a pragmatic approach, continue to improve its shopping platform, seek to achieve steady growth in the short run and also prepare itself for the digital era in the mid to long term, in order to capture the enormous opportunities in the PRC television shopping market.

Financial Review

For the six months ended 30 June 2008, the Group's unaudited consolidated turnover was approximately HK\$155,904,000, a decrease of approximately 62% from the same period of last year. The decrease in turnover was mainly due to the tough market environment continuing from last year, the earthquake in Wen Chuan, Sichuan of the People's Republic of China and stricter shipping and delivery guidelines implemented for the Beijing Olympics. Unaudited net loss attributable to equity holders was approximately HK\$66,666,000 as compared to net profit of approximately HK\$43,291,000 in the corresponding period last year. The Board does not recommend payment of interim dividend for the six months ended 30 June 2008 (2007: HK\$Nil).

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

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

	2008	2007	Change
Retail and distribution			
of consumer products	155,469	413,579	-62%
Rental income	435	434	0%
Interest income	2,499	4,541	-45%
Other income	6,801	2,692	+1.5 times
Total revenue	165,204	421,246	-61%

During the period under review, the Group's retail and distribution revenue of consumer products was approximately HK\$155,469,000 (2007: HK\$413,579,000), approximately 62% lower than that of the same period last year, mainly attributable to intense market competition. Gross margin for merchandise sales dropped to approximately 44% (2007: 52%) reflecting the impact from the persistently weak market since last year and also a revised business model that started in June 2008.

Employee relations

As of 30 June 2008, the Group has approximately 780 employees. Total remuneration cost for the period under review was approximately HK\$22.6 million (six months ended 30 June 2007: HK\$16.7 million). A total of 3,490,000 share options were granted to eligible persons of the Group during the period under review and the share option cost that was charged to the income statement was approximately HK\$2 million (six months ended 30 June 2007: HK\$6.7 million). Based on existing outstanding number of share options as of 30 June 2008 and assuming that no further share options are to be granted in the six months to 31 December 2008, a further of approximately HK\$1.4 million will be charged to the income statement as share option expense.

The employees are remunerated based on their work performance, professional experience and prevailing industry practices. The remuneration policy and package of the Group's employees are periodically reviewed by the Group's management.

Liquidity and financial resources

As at 30 June 2008, the Group's cash and bank deposits amounted to approximately HK\$200 million (31 December 2007: approximately HK\$276 million) and financial assets at fair value through profit or loss of approximately HK\$78 million (31 December 2007: HK\$Nil) with no borrowings (31 December 2007: HK\$Nil). The gearing ratio as at 30 June 2008 (total interest bearing liabilities to total assets) was zero (31 December 2007: zero), indicated that the Group's overall financial position remained strong.

Capital structure

There were no changes to the Group's capital structure during the six months ended 30 June 2008.

Material acquisition, disposals and significant investment

During the six months ended 30 June 2008, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

Charges on Group assets

As at 30 June 2008, the Group had no charges on Group's assets.

Foreign currency risk

The Group did not have any significant exposure to foreign currency risk as most of the Group's operations are in the PRC and transactions are denominated in Renminbi.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2008 (31 December 2007: HK\$Nil).

CORPORATE GOVERNANCE

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

The Board has adopted the principles and complied with 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 for the period ended 30 June 2008 except for deviations from 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 (“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 the 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 that held on 26 May 2008 whereby the Articles was amended to align with provision A.4.2 of the Code.

Review of Accounts

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

The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group and in the course have discussed with the management, the internal controls and financial reporting matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2008.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2008 in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2008, and they all confirmed that they have fully complied with the required standard set out in the Model Code and its code of conduct regarding director’s securities transactions.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

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

The interim report of the Company for the six months ended 30 June 2008 will be despatched to the shareholders and published on the websites of the HKEX and the Company in due course.

On behalf of the Board

Ni Xinguang

Chairman

Hong Kong, 26 September 2008

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