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 2012

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 2012 together with the comparative figures of the corresponding period in 2011, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2012

		Six months ended	
		30/6/2012	30/6/2011
		(unaudited)	(unaudited and restated)
	Note	***HK$'000***	*HK$'000*
Continuing operations			
Turnover	3	**331,871**	261,900
Cost of sales and services		**(269,711)**	(281,544)
Gross profit/(loss)		**62,160**	(19,644)
Other income		**2,333**	2,663
Distribution costs		**(16,451)**	(28,814)
Administrative expenses		**(16,184)**	(21,265)
Other operating expenses		**(1,054)**	(4,901)
Profit/(loss) from operations		**30,804**	(71,961)
Finance costs	4	**(8,445)**	(16,591)
Profit/(loss) before tax		**22,359**	(88,552)
Income tax expense	5	**(1)**	(94)
Profit/(loss) for the period from continuing operations		**22,358**	(88,646)
Discontinued operation			
Profit for the period from discontinued operation	6	**—**	174
Profit/(loss) for the period	7	**22,358**	(88,472)

	Note	Six months ended 30/6/2012 (unaudited) HK$'000	30/6/2011 (unaudited and restated) HK$'000
Attributable to:			
Owners of the Company			
Profit/(loss) from continuing operations		**8,528**	(10,946)
Profit from discontinued operation		**—**	174
Profit/(loss) attributable to owners of the Company		**8,528**	(10,772)
Non-controlling interests			
Profit/(loss) from continuing operations		**13,830**	(77,700)
Profit from discontinued operation		**—**	—
Profit/(loss) attributable to non-controlling interests		**13,830**	(77,700)
		22,358	(88,472)
Earnings/(loss) per share			
From continuing and discontinued operations			
— basic	9(a)	**HK0.58 cent**	HK(0.74) cent
— diluted	9(a)	**N/A**	N/A
From continuing operations			
— basic	9(b)	**HK0.58 cent**	HK(0.75) cent
— diluted	9(b)	**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Six months ended	
	30/6/2012	30/6/2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Profit/(loss) for the period	**22,358**	(88,472)
Other comprehensive income:		
Exchange differences on translating foreign operations	**585**	(525)
Other comprehensive income for the period, net of tax	**585**	(525)
Total comprehensive income for the period	**22,943**	(88,997)
Attributable to:		
Owners of the Company	**6,409**	(5,619)
Non-controlling interests	**16,534**	(83,378)
	22,943	(88,997)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Note	30/6/2012 (unaudited) HK$'000	31/12/2011 (audited) HK$'000
Non-current assets			
Fixed assets	10	**4,425**	4,421
Intangible assets	11	**262,494**	530,846
		266,919	535,267
Current assets			
Inventories		**12,356**	11,599
Trade receivables	12	**63,356**	34,323
Other receivables, prepayments and deposits		**49,702**	54,078
Pledged bank deposits		**12,635**	24,981
Bank and cash balances		**25,513**	40,689
		163,562	165,670
Current liabilities			
Agency fee payables	11	**314,382**	628,982
Trade payables	13	**19,869**	23,932
Other payables and accruals		**78,730**	53,328
Bank loans		**9,752**	9,864
Current tax liabilities		**2,242**	2,268
		424,975	718,374
Net current liabilities		**(261,413)**	(552,704)
NET ASSETS/(LIABILITIES)		**5,506**	(17,437)
Capital and reserves			
Share capital	14	**14,655**	732,777
Other reserves		**1,302,798**	1,304,917
Accumulated losses		**(1,098,322)**	(1,747,742)
Equity attributable to owners of the Company		**219,131**	289,952
Non-controlling interests		**(213,625)**	(307,389)
TOTAL EQUITY		**5,506**	(17,437)

Notes:

1. **Basis of preparation**

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In preparing the condensed financial statements, the directors of the Company have given consideration to the future liquidity of the Group. The Group has obtained financial support from a shareholder, Group First Limited (a company beneficially owned by executive directors of the Company, Mr. Ni Xinguang as to 60% and by Mr. Wang Zhiming as to 40%), to assist the Group to meet in full its financial obligations as they fall due in the foreseeable future. Also, after taking into account the agency fee payables and TV commercial contracts on hand, the management believed that the Group would have sufficient resources to meet its obligation in the event of default on its part (Note 11). The directors also prepared the profit and cashflow forecast and there was no indication of significant doubt on the Group's ability to continue as a going concern. The directors are therefore of the opinion that it is appropriate to prepare these financial statements on a going concern basis.

These condensed financial statements should be read in conjunction with the 2011 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2011.

2. **Adoption of new and revised Hong Kong financial reporting standards**

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. 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 period 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.

3. Segment information

	PRC retail and distribution *HK$'000* (unaudited)	Television advertising *HK$'000* (unaudited)	(Discontinued operation) Property investment *HK$'000* (unaudited)	Others *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
Six months ended 30 June 2012					
Revenue from external customers	**25,580**	**301,539**	**—**	**4,752**	**331,871**
Intersegment revenue	**—**	**—**	**—**	**—**	**—**
Segment profit/(loss)	**(6,969)**	**36,312**	**—**	**179**	**29,522**
As at 30 June 2012					
Segment assets	**124,415**	**375,229**	**—**	**22,415**	**522,059**
Six months ended 30 June 2011					
Revenue from external customers	34,324	225,118	400	2,458	262,300
Intersegment revenue	—	—	—	—	—
Segment profit/(loss)	(29,862)	(52,458)	174	(62)	(82,208)
	(audited)	(audited)	(audited)	(audited)	(audited)
As at 31 December 2011					
Segment assets	111,950	614,170	129	22,208	748,457

	Six months ended 30/6/2012 (unaudited) *HK$'000*	Six months ended 30/6/2011 (unaudited) *HK$'000*
Reconciliation of segment profit or loss:		
Total profit or loss of reportable segments	**29,522**	(82,208)
Interest income	**158**	296
Unallocated corporate income	**38**	2
Unallocated corporate expenses	**(7,359)**	(6,468)
Elimination of discontinued operation	**—**	(174)
Profit/(loss) before tax from continuing operations	**22,359**	(88,552)

4. Finance costs

	Six months ended	
	30/6/2012	30/6/2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Notional non-cash interest accretion on pre-agreed periodic payments on exclusive advertising agency right	**8,104**	16,524
Interest on bank loans	**341**	67
	8,445	16,591
Representing:		
Continuing operations	**8,445**	16,591

5. Income tax expense

	Six months ended	
	30/6/2012	30/6/2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
PRC tax		
— current	**—**	2
— underprovision in prior years	**1**	92
	1	94
Representing:		
Continuing operations	**1**	94

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit in Hong Kong during the period (six months ended 30 June 2011: 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 periods ended 30 June 2011 and 2012 as the effect of all temporary difference is not material.

6. 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, which have been included in consolidated profit or loss, are as follows:

	Six months ended	
	30/6/2012	30/6/2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Turnover	**—**	400
Cost of sales	**—**	(221)
Gross profit	**—**	179
Administrative expenses	**—**	(5)
Profit before tax	**—**	174
Income tax expense	**—**	—
Profit for the period	**—**	174

7. **Profit/(loss) for the period**

Profit/(loss) for the period is arrived at after charging/(crediting):

	Six months ended	
	30/6/2012	30/6/2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Allowance for inventories	**—**	1,187
Allowance for other receivables	**419**	—
Allowance for trade receivables	**34**	790
Amortisation of exclusive advertising agency right	**263,564**	256,464
Amortisation of insurance agency licence	**51**	50
Cost of inventories sold	**19,703**	24,938
Depreciation	**915**	3,437
Directors' emoluments	**1,162**	1,168
Exchange losses	**214**	—
Fixed assets written off	**332**	—
Impairment loss on prepayments and deposits	**4**	2,556
Interest income	**(158)**	(296)
Reversal of allowance for trade receivables	**(372)**	(1,132)
Written back of other payables and accruals	**(922)**	—
Written back of trade payables	**(120)**	—

8. **Dividend**

The Directors have resolved not to declare any interim dividend in respect of the six months ended 30 June 2012 (six months ended 30 June 2011: HK$Nil).

9. Earnings/(loss) per share

(a) From continuing and discontinued operations

Basic earnings/(loss) per share

The calculation of basic earnings (six months ended 30 June 2011: loss) per share attributable to owners of the Company is based on the profit for the period attributable to owners of the Company of approximately HK$8,528,000 (six months ended 30 June 2011: loss of approximately HK$10,772,000) and the weighted average number of ordinary shares of 1,465,554,000 (six months ended 30 June 2011: 1,465,554,000, as adjusted to reflect the share consolidation in April 2012) in issue during the period.

Diluted earnings/(loss) per share

No diluted earnings (six months ended 30 June 2011: loss) per share is presented as the Company did not have any dilutive potential ordinary shares during the period.

(b) From continuing operations

Basic earnings/(loss) per share

The calculation of basic earnings (six months ended 30 June 2011: loss) per share from continuing operations attributable to owners of the Company is based on the profit for the period from continuing operations attributable to owners of the Company of approximately HK$8,528,000 (six months ended 30 June 2011: loss of approximately HK$10,946,000) and the denominator used is the same as that detailed in (a) above.

Diluted earnings/(loss) per share

No diluted earnings (six months ended 30 June 2011: loss) per share from continuing operations is presented as the Company did not have any dilutive potential ordinary shares during the period.

(c) From discontinued operation

Basic earnings per share

Basic earnings per share from discontinued operation for the six months ended 30 June 2011 is HK0.01 cent per share, based on the profit for the period from discontinued operation attributable to the owners of the Company of approximately HK$174,000 and the denominators used is the same as that detailed in (a) above.

Diluted earnings per share

No diluted earnings per share from discontinued operation for the six months ended 30 June 2011 is presented as the Company did not have any dilutive potential ordinary shares during the period.

10. Capital expenditure

During the period, the Group incurred approximately HK$1,300,000 (six months ended 30 June 2011: approximately HK$1,109,000) on additions to fixed assets.

11. Intangible assets

During the period ended 30 June 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 periods ended 30 June 2011 and 2012.

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 condensed 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 license period and is stated net of accumulated amortisation. Interest accreted on the present value of pre-agreed periodic payments is charged to the condensed 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. As at 30 June 2012, a deposit of approximately HK$36,570,000 relating to the exclusive advertising agency contract has been included in other receivables, prepayments and deposits, and the maximum compensation computed for the remaining period of 2012 was approximately HK$31,000,000. The management believes that the Group would have sufficient resources to meet its obligation in the event of default on its part.

12. Trade receivables

The Group's turnover represented television advertising service income, sales of consumer products and insurance agency service income. For television advertising business, the Group generally requires customers to pay in advance, but grants a credit period of 30 to 120 days to some customers. The payment terms of the sales of consumer products are normally from 30 to 180 days. The payment terms of insurance agency services provided are normally at 30 days.

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:

	30/6/2012	31/12/2011
	(unaudited)	(audited)
	HK$'000	*HK$'000*
0 – 90 days	**49,818**	32,235
91 – 180 days	**12,278**	1,782
181 – 365 days	**1,255**	10
Over 365 days	**5**	296
	63,356	34,323

13. Trade payables

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

The aging analysis of trade payables as at the statement of financial position date, based on date of receipt of goods, is as follows:

	30/6/2012	31/12/2011
	(unaudited)	(audited)
	HK$'000	*HK$'000*
0 – 90 days	**7,172**	15,867
91 – 180 days	**2,380**	1,878
181 – 365 days	**4,826**	813
Over 365 days	**5,491**	5,374
	19,869	23,932

14. Share Capital

	Note	**Number of Shares** *'000*	**Amount** *HK$'000*
Authorised:			
Ordinary shares of HK$0.01 (2011: HK$0.1) each			
At 1 January 2011, 31 December 2011 and 1 January 2012		16,000,000	1,600,000
Reduction in par value	(a)	—	(1,568,000)
Share consolidation	(d)	(12,800,000)	—
At 30 June 2012		3,200,000	32,000
Issued and fully paid:			
Ordinary shares of HK$0.01 (2011: HK$0.1) each			
At 1 January 2011, 31 December 2011 and 1 January 2012		7,327,771	732,777
Reduction in par value	(b)	—	(718,122)
Share consolidation	(d)	(5,862,217)	—
At 30 June 2012		1,465,554	14,655

Note:

On 20 January 2012, a special resolution was passed at an extraordinary general meeting to:

(a) reduce the nominal value of the authorised share capital of the Company from HK$0.1 to HK$0.002 per share such that the authorised share capital is reduced from HK$1,600,000,000 to HK$32,000,000.

(b) reduce the nominal value of each of the issued share from HK$0.1 to HK$0.002 by cancelling the paid-up capital to the extent of HK$0.098 on each issued share. The issued share capital of the Company is then reduced from HK$732,777,000 to HK$14,655,000.

(c) apply the credit of HK$718,122,000 arising from the capital reduction as mentioned in Note (b) to eliminate part of the Company's accumulated losses.

(d) consolidate every five reduced shares of HK$0.002 each in the authorised and issued share capital of the Company into one consolidated share of HK$0.01 each following the capital reduction as mentioned in Notes (a) and (b) above.

The authorised and issued share capital of the Company was consolidated into 3,200,000,000 shares and 1,465,554,000 shares of HK$0.01 each respectively.

The aforesaid capital reduction (Notes (a) and (b)) was approved by the High Court of Hong Kong SAR on 2 April 2012 and duly registered by the Registrar of Companies in Hong Kong on 16 April 2012. The share consolidation (Note (d)) also became effective on 20 April 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In the first half of 2012, the EUROzone debt crisis and sluggish US economic recovery has led to a slowdown in the growth of China's economy. The National Bureau of Statistics of China stated that the GDP recorded a year-on-year increase of 7.8% to RMB22,709.82 billion during the period. The growth rate dropped 1.8 percentage points as compared to the same period last year. The economic slowdown in China and elsewhere caused the growth in China's advertising market to decrease during the period.

During the period under review, the Chinese Government continued to promote the long-term development of the advertising industry taking into consideration its current condition. The "Development Program of Advertising Industry in the Twelfth Five-Year Plan"* (《廣告產業發展「十二五」規劃》) released by the State Administration for Industry and Commerce of the People's Republic of China in May 2012 stated that the Government will provide more financial support for the advertising industry. The assistance is intended to eliminate barriers to entry and encourage financial institutions to provide financing for advertising enterprises with the aim to provide support to safeguard the integrity of the industry and to achieve long-term steady growth. The Group believes that these favourable policies and stable economic development will create more room for the subsequent development and growth of the advertising industry, therefore we remain confident in the prospects of the industry.

Business review

In recent years, the Group has focused on driving the television advertising agency business, which has become its major income source. In the first half of the year, against the backdrop of economy and industry slowdown, the Group utilised its resources to gain in-depth knowledge on the business model of the television advertising industry and to improve its operations and procedures. It also recruited and trained a group of professionals, and initiated and implemented effective marketing strategies to target this niche market. During the period, the Group not only maintained good working relationships with existing partners and customers, but also secured several new partners, providing a solid foundation for its long-term development. Through its unremitting efforts, the Group's operations in this segment have become more effective and efficient. During the reviewing period, the Group's total turnover increased by 27% to HK$331,871,000 as compared to the same period last year.

Since the Group secured the exclusive agency rights contract with Guangdong Satellite Television Channel ("GSTV") in 2010, the Group has actively cooperated and interacted with GSTV on the programmes, and integrated various resources to accommodate to the upgrade of the quality of its programmes. At the same time, GSTV continued to provided an extensive platform and abundant resources for the Group's business. Covering a population of 800 million, GSTV is the most influential provincial television channel in Guangdong with the highest viewing rate, and stays in the forefront in the ranking of the satellite television coverage in China. It has a potential reach of 2 billion people around the globe, and is also the preferred choice for overseas Chinese in the Asia Pacific region. In May 2012, GSTV optimised its programme content and focused on the key programmes in response to market demand. It has increased advertising charges and strived to enhance the advertising impact. These initiatives have generated greater audience support and attracted more advertising clients, which enabled the Group to boost related revenue and explore prospect clients.

As a result of its ongoing business expansion, the Group's existing advertising clientele comprised several influential domestic advertising agencies in China such as the Guangzhou Branch of Beijing Dentsu Advertising Co. Ltd., the Shanghai Branch of DDB Beijing Advertising Co. Ltd., GroupM (Shanghai) Advertising Co. Ltd., Leo Burnett Worldwide, Niu Hao Si Culture and Communications Shanghai Co. Ltd.* (上海紐豪斯文化傳播有限公司) and Saatchi & Saatchi Great Wall. During the period under review, these agencies accounted for around 17% of the Group's total turnover. The advertisements covered a wide variety of sectors such as food, medicine, household products, healthcare products, medical institutions, schools, and automobiles, placed on behalf of famous global and Chinese brands such as Pepsi, 7.UP, Mead Johnson Nutrition, Yashili, China Unicom and Shanghai Volkswagen.

Outlook and strategy

Currently, China's economy is in the early stages of a transition from investment-led growth to consumption-driven growth. It is expected that consumption will be the greatest driver of economic growth throughout 2012. With a steady expansion in the country's economy and the continued rise in disposable income and spending power, the consumer product market in China will continue to grow vigourously, which will provide a good environment for the development of the advertising industry in the long run.

In addition, China's Government issued the "Notice Relating to the Issues of the Pilot Programme of Support from the Modern Service Industry for the Development of the Advertising Industry in 2012"* (《關於開展2012年現代服務業試點支持廣告業發展有關問題的通知》) in July this year. This notice marked the commencement of financial support from the Central Government to the development of the advertising industry in 2012. Through various channels including Government guidance, centralising capital resources and offering key support, to drive the rapid growth of the advertising industry. This marks the first step forward in implementing the "Development Program of the Advertising Industry in the Twelfth Five-Year Plan"* (《廣告產業發展「十二五」規劃》). At the same time, the "Report on the Investment Analysis and Prospect Forecast of the Advertising Industry in China Between 2012-2016"* (《2012–2016年中國廣告業投資分析及前景預測報告》) issued by CIConsulting (中投顧問產業研究中心) has stated that the advertising industry in China will continue to grow throughout 2012 at an expected rate of around 14%, higher than that in the first half of this year. The Group believes that, driven by the promising economic prospect and favourable Government policies, the advertising industry will be presented with enormous and exciting new development opportunities.

Looking ahead, the Group will continue to enhance existing business, leverage its customer relationships and optimise its operating model as well as adjust the marketing and sales strategies according to the program revamp of GSTV. Riding on the Group's competitive advantages and the prominent platform of GSTV, the Group is set to further expand its customer base. It will also engage more professionals within the television advertising industry and provide continued staff training. Under the leadership of a highly effective and energetic management team, the Group is confident to sustain growth and stand out in the competitive market. By seizing the exciting opportunities brought by the development of the industry, the Group aims to become a leading player in the television advertising industry as well as a leading programme planner in China and try its best to maximise returns for shareholders.

* *Management translation*

Financial Review

For the six months ended 30 June 2012, the Group's unaudited consolidated turnover was approximately HK$331,871,000, represents an increase of approximately 27% from the same period of last year, mainly attributable to the increase of advertising sales in PRC. Excluding the advertising sales contribution of approximately HK$301,539,000 to the turnover, the Group recorded a retail revenue of approximately HK$25,580,000 (first half of 2011: approximately HK$34,324,000), a decrease of 25% year-on-year. The reason for the decline was mainly due to focus of resources in GDTV advertising agency business.

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

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

	2012	2011	Change
PRC retail and distribution of consumer products	**25,580**	34,324	–25%
Television advertising	**301,539**	225,118	+34%
Insurance agency service	**4,752**	2,458	+93%
Rental income	**—**	400	–100%
Interest income	**158**	296	–47%
Other income	**2,175**	2,367	–8%
Total revenue	**334,204**	264,963	+26%

The Group recorded a gross profit of HK$62,160,000 mainly due to (i) the lower of the amortization of exclusive advertising agency rights and deemed finance cost charging to the income statement when compared to the actual payment for the related agency right according to an agreement dealing with media management services entered into between Shanghai Seven Star Advertising Co., Ltd, a subsidiary of the Company, and 廣東電視台 (transliterated as Guangdong Television) on 31 December 2009; and (ii) the improvement of gross margin of advertising sales.

Excluding the impact of both the turnover and cost of sales and services relating to the exclusive television advertising agency contract, the gross profit and gross margin related to other business segments for the period was approximately HK$6,303,000 and 21% respectively. During the period, the Group concentrated in selling the kitchen ware products with a lower gross margin, has resulted in the drop of gross profit margin of the Group's merchandise sales from 26% to 21%.

The Group recorded a profit before tax of approximately HK$22,359,000 (first half of 2011: loss of approximately HK$88,378,000). 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 2011 onwards, the non-controlling interests of the PRC business of the Group shared a portion of the profit for the period of approximately HK$13,830,000 (first half of 2011: loss of approximately HK$77,700,000), resulting in an unaudited profit attributable to owners of the Company of approximately HK$8,528,000 (first half of 2011: loss of approximately HK$10,772,000). The Board did not recommend payment of an interim dividend for the six months ended 30 June 2012 (first half of 2011: HK$Nil).

Employee relations

As of 30 June 2012, the Group has 79 employees (as at 30 June 2011: 354 employees). Total remuneration cost for the period under review was approximately HK$5.7 million (six months ended 30 June 2011: approximately HK$14.9 million). No share options were granted during the period under review and no share option cost that was charged to the income statement (six months ended 30 June 2011: approximately HK$Nil). Based on the existing outstanding number of share options as of 30 June 2012 and assume that no further share options are to be granted in the six months to 31 December 2012, no further share option cost will be charged to the income statement.

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. 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.

Liquidity and financial resources

As at 30 June 2012, the Group's cash and bank deposits (include pledged bank deposits) amounted to approximately HK$38 million (31 December 2011: approximately HK$66 million). The gearing ratio as at 30 June 2012 (total interest bearing borrowings to total assets) was 2% (31 December 2011: 1%), indicated that the Group's overall financial position remained strong.

Segment Information

The details of segment information are set out in Note 3 to the announcement.

Capital reorganisation

On 20 January 2012, the shareholders of the Company approved a proposed capital reorganisation (the "Capital Reorganisation") which comprised:

(a) the nominal value of each of the issued Shares of HK$0.10 each be reduced to HK$0.002 each by cancelling the paid-up capital to the extent of HK$0.098 on each issued Share;

(b) the nominal value of each of the authorised but unissued Shares of HK$0.10 each be diminished to HK$0.002 each by a diminution of HK$0.098 on each authorised but unissued Share;

(c) the credit arising from the Reduction of Issued Share Capital in the sum of HK$718,121,542.222 be applied to eliminate part of the Company's accumulated losses, which amounted to approximately HK$1,898,407,000 as at 30 November 2011; and

(d) every five Reduced Shares of HK$0.002 each in the issued and unissued share capital of the Company be consolidated into one Consolidated Share of HK$0.01 each in the issued and unissued share capital of the Company.

Details of the Capital Reorganisation are set out in the circular dated 29 December 2011. The Capital Reorganisation were effective on 20 April 2012 when the authorised and issued capital consisted of 3,200,000,000 and 1,465,554,167 ordinary shares of HK$0.01 each, respectively. The Capital Reduction was approved by the Court on 2 April 2012 and the sealed copy of the Court order has been duly registered by the Registrar of Companies in Hong Kong on 16 April 2012.

Capital structure
Details in the changes of the capital structure of the Company during the six months ended 30 June 2012 are set out in Note 14 to the announcement.

Material acquisitions and disposals of subsidiaries and associates
The Group did not have any material acquisitions or disposals of subsidiaries or associates during the six months ended 30 June 2012.

Charges on Group assets
Apart from the deposits of approximately HK$12,330,000 pledged to a bank to secure a standby letter of credit facilities of approximately HK$10,971,000 and the deposits of approximately HK$305,000 pledged to a bank as securities for two corporate cards with credit limit of approximately HK$244,000 in aggregate granted to two executive directors of the Group, as at 30 June 2012, there were no charges on the Group's assets.

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.

Contingent liabilities
The Group had no material contingent liabilities as at 30 June 2012 (31 December 2011: HK$Nil).

CORPORATE GOVERNANCE

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

The Board of Directors of the Company has applied the principles and complied with all the applicable 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 for the six months ended 30 June 2012 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 ("INEDs") of the Company is appointed for a specific term and this constitutes deviation.

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 of associations of the Company (the "Articles"), such practice meets the same objective and is no less exacting than those prescribed under Code provision A.4.1.

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 has 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 2012.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2012 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 noncompliance with the Model Code during the six months ended 30 June 2012, 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.

EVENTS AFTER THE REPORTING PERIOD

On 21 August 2012, the Company completed the open offer and raised net proceeds of approximately HK$34,796,000 by issuing 732,777,083 offer shares at HK$0.05 each to qualifying shareholders on the basis of one offer share for every two shares. Details of the open offer are set out in the prospectus dated 25 July 2012.

OTHER INFORMATION

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 Company 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 2012 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 and executive director

Hong Kong, 29 August 2012

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