China Seven Star Shopping Limited ("China Seven Star" or the "Company") together with its subsidiaries (collectively the "Group") is pleased to present its annual results for the year ended 31 December 2006.

Corporate Development

Year 2006 was a turning point for the Group. Following the acquisition of Shanghai Pei Lian Trading Company Limited ("Shanghai Pei Lian") in 2005, the Group was able to participate more substantially in the business of retail sales and distribution in the PRC. In August 2006, we continued to enhance our distribution capabilities by consolidating a television shopping platform into the Group. On 22 December 2006, the Company changed its name to "China Seven Star Shopping Limited" from "Landune International Limited" to fully reflect its change of focus from property investment onto the fast growing consumer market in the PRC.

Our dedication to develop consumer retail and television shopping business in the PRC has received strong support from institutional investors. The Company placed 438,250,000 new shares at HK$0.118 on 26 April 2006 and 832,200,000 new shares at HK$0.18 on 12 October 2006, raised an aggregate of approximately HK$202 million to fund business expansion and ensure it has sufficient capital to capture market opportunities.

Taking into account the country's economic growth, the nationwide coverage of the country's extensive television network and the increasing disposable income of people in China, the Group sees a solid foundation for it to grow television shopping business. Coupled with the inefficient retail infrastructure in China will present integrated multi-platform retail sales operators like us ample opportunities to grow.

We believe our television shopping business will grow and bring in revenue of amount surpassing those of our other business segments from 2007 onwards. Looking forward, to enlarge market share, we will acquire more advertising airtime and expand our distribution network through cooperation with various media companies and channels.

Market Review

Consumer goods retail market in the PRC

Continuous economic growth, increasing per capita income and accelerating urbanization in the PRC are all factors conducive to a rosy retail sector. And as disposable income of the people grows, consumers in the PRC are not spending merely on daily necessities but also other consumer products. The market also expects spending on consumer products to take on a growing proportion of total spending, giving the retail industry a strong impetus for growth.

Television shopping market in the PRC

Television shopping business in the PRC is still in its infancy. According to Euromonitor, turnover from television direct sales in the country only accounted for 0.23% of the total retail sales of consumer goods in 2005. The percentage was far below than that of developed countries such as the U.S. (8%) and Japan or Korea (10%). As PRC gradually evolves from a developing country into a developed country, the Group believes the country's television shopping business will catch up with that of the US, Japan and Korea.

In China, television shopping business is conducted mainly through advertising on national, satellite, provincial and city television channels. Consumers place their orders by phone and the products will be delivered to their doorstep. Products available to customers include electrical appliances, kitchenware, digital electronic products, healthcare products, fitness equipment, beauty and body care products and educational products. Interesting observation for the PRC market is that there is not much gender differentiation for the customers, in stark contrast to other developed TV home shopping markets where the target customers are mainly young females with strong purchasing power, young high-income families or housewives. According to a Euromonitor survey on China TV home shopping, over 75% of the respondents were receptive to the concept and there were no major differences observed between the two genders. Extensive coverage and strong penetrating ability of television adds to the appeal of bright prospect for television shopping in China, by providing consumers in different regions access to unique, innovative and diverse consumer goods.

The market expects television shopping turnover to achieve a CAGR of 22% from 2003 to 2007. The increasing popularity of mobile communications and internet access will also make consumption through electronic channels more prevalent. Apart from scale advantage, television shopping allows customers to get details about the products through television advertisements, promises security for personal data as orders are placed over the phone and comprehensive after-sale services. These attributes will see television shopping quickly penetrate households and consumers of all levels.

Business Review

For the year ended 31 December 2006, the Group recorded a year-on-year increase of 300% in turnover to HK$92,430,250 and turned around from loss last year to reporting HK$29,556,177 in profit attributable to equity holders of the Company. Basic earnings per share and diluted earnings per share were 0.70 HK cents and 0.69 HK cents respectively.

The board of directors (the "Board") does not recommend paying final dividend for the year ended 31 December 2006 (2005: HK$Nil).

Our significant improvement of the results was attributable to the profit of Shanghai Pei Lian. Its substantial profit contribution has offset the loss of HK$1,502,900 attributable to Shanghai Seven Star International Shopping Co., Ltd. ("Seven Star (Shanghai)") and its subsidiaries ("Seven Star (Shanghai) Group"), which was consolidated into the Group during the year. The Group only pushed on at full force its television shopping business after it incorporated Seven Star (Shanghai) Group in the fourth quarter of 2006. By then, the Group actively realized synergy effect with the new business, and at the same time, increased capital injection to expand product mix, to increase advertising airtime and to strengthen sales network in order to speed up the development pace of the new business. Leveraging on our strong foundation established for the new business during the year, the Group believes that the television shopping business will bring fruitful revenue to the Group from 2007 onwards.

Television shopping business

The Group began to operate retail sales through advertising with the support of call centers and mail order catalogues after the acquisition of Shanghai Pei Lian in 2005. The endeavor has brought about notable business growth for the Group. To expand its television shopping business and income stream, in August 2006, the Group entered into a series of structured contracts with Seven Star (Shanghai) that allows the Group to indirectly engage in the business of retailing and wholesaling in PRC and transformed its core business into television shopping. Pursuant to the structured contracts, the Group has the right to engage in the retail, wholesale and television shopping business under the "Seven Star" trademark.

The Group sells consumer products including digital electronic products, kitchenware, educational products, fitness equipment, cosmetics and healthy food around the clock through television advertisements, supported by call center service and on-line platform. In August 2006, Seven Star (Shanghai) was hailed as one of the "Top Ten Most Satisfactory Brand in TV Shopping" in the country, and in January 2007, it made it into the "Top Ten Most Influential Brand in TV Shopping". Leveraging the well established and renowned "Seven Star" brand with more than a decade's history in the industry and with a nationwide sales network, a broad customer base, extensive management experience and innovative service technology, the Group is confident of maintaining leadership in the industry.


荣誉证书

上海七星国际购物有限公司：

由公众及行业人士提名，《人民网》、《新华网》、《中国品牌网》、《中国联合商报网》、《阳光315网》、《中国消费指南网》等多家权威网站对入围品牌（产品）予以公示，并进行公众投票。根据"公众投票、电话访问、评委审定"三方的评分结果，综合评定贵企业"七星购物"品牌，荣获第四届(2006年度)：

中国电视购物行业消费者满意十佳品牌

二〇〇六年六月二十七日·北京人民大会堂


荣誉证书

上海七星国际购物有限公司：

由公众及行业人士提名，《人民网》、《搜狐网》、《阳光315网》、《中国品牌网》、《中国市场网》、《中国联合商报网》等多家权威网站对入围品牌（产品）予以公示，并进行公众投票，根据公众投票、评委审定的结果，综合评定贵企业"七星购物"，荣获第三届(2006年度)：

中国电视购物行业十大影响力品牌

二〇〇七年一月三十一日·北京人民大会堂

Sales results

As at 31 December 2006, the Group's total sales amounted to HK$92,430,250, representing a growth of 300% when compared with 2005. The substantial increase reflected the full year revenue contribution from Shanghai Pei Lian and also contribution from Seven Star (Shanghai) that joined the family in the fourth quarter of 2006. The Group's gross margin increased by 32 percentage points to 72% braced by a broadened distribution network. Retail revenue at HK$59,185,501 was five times that in the previous year, and accordingly media management service fees also grew by about six times to HK$32,433,550. Gross margin for merchandise sales for the year under review was 56% (2005: 44%).

Sales channels

The Group conducts retail and distribution business through television advertisements, the Internet and call centers. Advertisements of its products are shown on around 25 satellite television channels that are having a geographical coverage of about 85% of China. Orders can be placed with the Group's call centers that operate round-the-clock. In 2006, the Group's call centers were able to turn about 20% of the enquiries into sales orders with average spending per phone call amounted to RMB860, which was higher than the industry average. Delivery arrangement with logistics and courier service providers in relevant areas will be made after a customer order is confirmed. Riding on this remote sales business model and by keeping minimum inventory, the Group is able to quickly adjust its product offerings to suit changing preferences of customers and latest market and product trends.

To compliment television shopping with more choices of merchandise and help consolidate customer relationship and their confidence in the brand, and in turn stabilize profit, the Group maintains an extensive sales network including 300 specialty stores and more than 20,000 sales points. The network matches in scale with those of other retailers in the industry.

Media strategies

After a product promotion plan is confirmed, the Group will proceed with producing direct sales infomercials and come up with a related airtime plan to formally launch the product. In 2006, the Group used a total of about 11,000 minutes of advertising airtime.

To cope with the anticipated business needs and fortify its market leadership, the Group plans to increase media expense in 2007 and offer infomercials to customers round the clock.

Seven Star (Shanghai) has an operational history of over a decade in the PRC and a currently active customer base of about one million. This customer base allows the Group to accurately analyze customer spending patterns and trends, making a unique database for use by the Group in planning more effective marketing strategies to capture target customers in the country's 1.3 billion population.

Latest business development in television shopping

In January 2007, the Group started to sell mobile handsets and market response has been tremendous. In the first quarter of 2007, the Group achieved a daily run rate of about 2,000 handsets. Having forged strategic partnership with handset vendors, the Group targets to sell over a million handsets in 2007 and in the long run become the largest shopless handset retailer in the country. The Group will continue to work with renowned brands to provide more choices and more convenient services to customers.

In April 2007, the Group started to sell insurance products through its television shopping platform and the service has also received encouraging response. Taking into account that the people in the PRC are into saving up for the future and the country's aging population, the Group expects the new product category to develop into a new and high quality revenue stream.

The Group will continue to develop its television shopping business. It will enrich its product offerings, strive to secure additional advertising airtime, enlarge its retail network and expand through M&A. The Group will also aim to extend market coverage and reinforce its leading presence in the television shopping market. More advertising airtime will definitely be secured in 2007 to facilitate sales of the Group's expanded product mix.

Riding on Sever Star (Shanghai) Group, the Group has quickly gained a strong foothold in the PRC television shopping sector and become one of the largest television shopping operators in the country. The Group will continue to look for suitable M&A opportunities to accelerate business development and in turn consolidate its leadership in the market.

Property Investments

The Group disposed of a developing investment property in June 2006 and recorded a gain of approximately HK$6,200,000. As at 31 December 2006, the Group held one investment property for resale. At carrying value of HK$9,800,000, this property is currently on lease at a passing yield of approximately 9.8%. The Board will at appropriate time in the future dispose of the remaining investment property so as to focus on the core business of television shopping.

Financial Resources and Liquidity

As at 31 December 2006, the Group's bank and cash balances amounted to approximately HK$141,407,000 (2005: HK$4,003,000). Total borrowings were HK$10,229,000 (2005: HK$19,603,000). The annual interest rate of the borrowings consisting of both fixed and variable rates was approximately 6% during the year. The borrowings were fully settled after 31 December 2006.

On 26 April 2006 and 12 October 2006, the Company placed to investors 438,250,000 shares at HK$0.118 per share and 832,200,000 shares at HK$0.18 per share, and raised total net proceeds of approximately HK$202,326,000 for funding its daily operations. With the Group at a net cash position of approximately HK$131,178,000 as at 31 December 2006 (2005: net debt of HK$15,600,000), the Directors are of the opinion that there is sufficient cash resources for the Group to meet its financial obligation and business requirements.

As at 31 December 2006, the Group had no material contingent liabilities.

Exposure to Exchange Rate Fluctuation and Related Hedging

The Directors considered the Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Staff and Remuneration Policy

The Group had 206 employees (including Directors) as at 31 December 2006 (2005:156). 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.