



**CHINA SEVEN STAR SHOPPING LIMITED**

(Incorporated in Hong Kong with limited liability)

Stock Code : 245



**INTERIM REPORT | 2007**

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The English text of this Interim Report shall prevail over Chinese text.

## CHINA SEVEN STAR SHOPPING LIMITED

### CORPORATE INFORMATION

#### Directors

*Executive Directors:*

Ni Xinguang

*(Chairman and Managing Director)*

Wang Zhiming

*Independent Non-Executive Directors:*

Chan Wai Sum

Ho Wai Ip

Lu Wei

#### Audit Committee

Chan Wai Sum

Ho Wai Ip

Lu Wei

#### Remuneration Committee

Chan Wai Sum

Ho Wai Ip

Lu Wei

#### Qualified Accountant and Company Secretary

Chen Man Wai, Molly

#### Bankers

China Merchants Bank

China Construction Bank

Industrial and Commercial Bank of

China (Asia) Limited

The Hongkong and Shanghai Banking

Corporation Limited

UBS

#### Stock Code

245 HK

#### Solicitors

Anthony Chiang & Partners

Boase Cohen & Collins

Or, Ng & Chan

#### Independent Auditor

RSM Nelson Wheeler

*Certified Public Accountants*

#### Registered Office

Suite 1206, 12/F

Great Eagle Centre

23 Harbour Road

Wanchai

Hong Kong

#### Principal Place of Business in Shanghai

No. 568, Hongxu Road

Minhang District

Shanghai, China

#### Registrars and Transfer Office

Tricor Tengis Limited

26/F Tesbury Centre

28 Queen's Road East

Hong Kong

#### Website

[www.sevenstar.hk](http://www.sevenstar.hk)

## MANAGEMENT DISCUSSION AND ANALYSIS

China Seven Star Shopping Limited (“China Seven Star” or the “Company”) together with its subsidiaries (collectively the “Group”) is pleased to present its interim results for the six months ended 30 June 2007.

### Results

For the six months ended 30 June 2007, the Group’s unaudited consolidated turnover was HK\$414,013,000, an increase of 2,197% from the same period of last year. Unaudited net profit attributable to equity holders was HK\$43,291,000, an increase of 332% from the same period of last year. Basic earnings per share and diluted earnings per share were 0.79 HK cents and 0.61 HK cents, representing an increase of 204% and 144% respectively. The board of directors does not recommend payment of interim dividend for the six months ended 30 June 2007 (2006: HK\$Nil).

### Review of results and operations

#### *Financial review*

After the introduction of the television shopping platform into the Group in 4Q06, and boosted by China strong domestic consumption momentum which based on the country’s strong economic development, the Group’s turnover reached HK\$414,013,000, representing an increase of 2,197% year-on-yearly over the last corresponding period. Sales of goods grew to 94.7% of total turnover owing to the contribution from television shopping sales.

As of 30 June 2007, the Group’s gross profit was HK\$216,811,000, an increase of 1,453% compared to last corresponding period, with gross margin at 52%, the decrease in gross margin compared with the gross margin registered for 2006 due to the change in revenue mix to having a higher proportion in television shopping sales.

Pre-tax profit during the period was HK\$74,435,000, an increase of 501% year-on-yearly and net profit attributable to equity holders was 332% to HK\$43,291,000.

## CHINA SEVEN STAR SHOPPING LIMITED

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

	<b>2007</b>	2006	Change
Manufacture, retail and distribution			
of consumer products	<b>391,937</b>	9,570	+40 times
Media management service fees	<b>21,642</b>	8,000	+1.7 times
Rental income	<b>434</b>	457	-5%
Interest income	<b>4,541</b>	65	+69 times
Other income	<b>2,692</b>	–	Nm
Total revenue	<b>421,246</b>	18,092	+22 times

The strong increase in revenue from sales of consumer products and media management service fees was mainly due to the addition of the television sales platform in late 2006. Media management service fees refer to the commission income the Group received from vendors on the sales from distribution channel other than the television sales platform. The increase in the media management service fees for the period was mainly due to handsets sales.

### *Business review*

Boasting a diverse product mix, support of a nationwide sales network, a broad customer base and innovative service technology, the Group was able to consolidate and continuously expand its business base, and gain a strong foothold in the PRC television shopping sector. Today, the Group is one of the biggest television shopping enterprises in the PRC. Our determination and efforts to develop consumer retail and television shopping business in the PRC and the value of the “Seven Star” brand are well-recognized and supported by consumers, as reflected in our being named among the “Top Ten Most Influential Brand in TV Shopping” in January 2007. During the period, management has been making strenuous effort in identifying new consumer products and merger & acquisition opportunities with encouraging results, which shall benefit the Group’s development in future.

Guided by its market positioning of “healthy, trendy, convenient and good value-for-money”, the Group continued to optimize its product mix and actively seeking for cooperation with strategic investors to further develop the high value-added consumer product businesses. In 1Q, the management introduced mobile handsets to television shopping and the product proved itself to be a very popular product category among the Chinese consumers; in 2Q, the Group partnered with a local insurance company and offered intangible products on the television distribution platform. Although the Group witnessed heightened interest and demand for investment products, cannibalization from the strong performance of the PRC equity market has caused lower-than-expected run rate on the investment-linked products. Switching approach to tap the vast business potential the China insurance market offers, management planned to launch two new insurance products in 4Q, including both single premium and regular premium in nature.

During the first half of the year, the Group expanded its call center capacity (in utilisation) to 420 seats, located in three call centers in Fuzhou, Shanghai and Beijing with capacity of 180, 180 and 60 respectively. The scalable infrastructure of our call centers allows the Group to increase its seats capacity to over a thousand should business needs arise. A total of about 140,000 minutes of advertising airtime has been shown over 25 provincial satellite television channels with total advertising expenses at HK\$100 million.

### **Prospects**

As the Chinese economy continues to prosper, people’s earnings increase and urbanization gains speed, the retail market in the PRC will continue to flourish. According to the forecast by The State Information Centre of the PRC, between 2005 and 2010, the country’s retail market will grow steadily at around 8% to 10% a year. By 2020, the total spending on consumer products of the country will exceed RMB20,000 billion. Promising extensive coverage and penetration, the new retail platform of television shopping is quick becoming a part of life for mass consumers. In different regions of the country, consumers are looking forward to seeing the diverse choices of products and shopping for exclusive and innovative products on television. Television shopping has brilliant prospects in China. According to Euromonitor, between 2005 and 2008, television shopping turnover in China will increase at a CAGR of approximately 19.5%. As mobile communications and the Internet become more popular, consumers have also become more receptive to shopping via electronic channels. We believe television shopping, being an innovative and trendy shopping concept, will easily win the support of mass and household consumers.

## CHINA SEVEN STAR SHOPPING LIMITED

In August this year, the Group entered into a non-binding memorandum of understanding with Sinolong Technology (Shanghai) Co Ltd, a wholly-owned subsidiary of a China leading mobile phones designer, Longcheer Holdings Limited, and Shanghai LS Investment Co Ltd for a proposed investment in Shanghai QL Telecommunications Co Ltd ("Shanghai QL"), acquiring 36.3% equity interests by way of capital injection. The management considers mobile handsets to remain a major product category over the television shopping platform given China's vast handset user base, the country's high geographical diversity and inefficient retail infrastructure; and believes that through investing in Shanghai QL, the Group can leverage on Shanghai QL's strong mobile handset marketing and distribution capability in China, and hence strengthen the mobile handset distribution platform with a view to enhanced profitability in the long run.

Looking forward, the Group shall continue to enrich its product offerings, optimize its resource allocation, and enlarge its retail network through cooperation with various media companies and sales channels. It will strive to extend market coverage and build China Seven Star into the most popular television shopping brand in China. The Group will remain committed to accelerating development of its television shopping business to consolidate its leadership in the China market.

### **Employee relations**

As of 30 June 2007, the Group has approximately 1,000 employees. Total remuneration cost for the period was HK\$16.7 million (six months ended 30 June 2006: HK\$3.1 million). A total of 40,310,000 share options were granted to eligible persons of the Group during the period and the share option cost that was charged to the income statement was HK\$6.7 million (six months ended 30 June 2006: HK\$0.5 million). Based on existing outstanding number of share options as of 30 June 2007 and assuming that no further share options is to be granted in the six months to 31 December 2007, a further of HK\$4.9 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**

The Group's cash and bank deposits as at 30 June 2007 amounted to HK\$444 million (31 December 2006: HK\$141 million). Bank borrowings during the period amounted to HK\$10 million (31 December 2006: HK\$Nil).

**Capital structure**

During the period, the Company placed 575,000,000 new shares at approximately HK\$0.659 per share to professional investors on 12 February 2007 through a top-up placement and raised approximately HK\$378.7 million for the Group to improve shareholder base and also to fund business expansion.

On 10 August 2007, the Company issued 1,471,658,839 new shares as settlement on the equity portion of the contingent consideration for Top Pro Group acquisition in 2005. For details of the transaction please refer to note 21 Events after balance sheet date of the interim report.

On behalf of the Board

**Ni Xinguang**

*Chairman*

Hong Kong, 24 September 2007



**DIRECTOR'S INTEREST AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

As at 30 June 2007, the directors and their respective associated corporations had interests in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") as follows:

Name of director	Number of shares held		Number of underlying ordinary shares held under equity derivatives	Total	Percentage of the issued share capital*
	Personal interests	Corporate interests			
Ni Xinguang ("Mr. Ni")	58,780,000	1,884,680,000 (Note)	37,000,000	1,980,460,000	34.50%
Wang Zhiming ("Mr. Wang")	57,780,000	1,884,680,000 (Note)	37,000,000	1,979,460,000	34.48%

Note: 1,884,680,000 shares were owned by Group First Limited, a private company beneficially owned by Mr. Ni as to 60% and Mr. Wang as to 40%, representing approximately 32.83% of the issued share capital of the Company.

\* The percentage has been calculated based on the total number of ordinary shares of the Company in issue as at 30 June 2007 (i.e. 5,740,632,000 shares).

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or his associates of the Company or their respective associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Furthermore, save as disclosed in the "Share Options" section below, at no time during the six months period ended 30 June 2007 was the Company or any of its subsidiaries a party to any arrangements to enable the

directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## **SUBSTANTIAL SHAREHOLDER'S INTEREST**

As at 30 June 2007, the interests of those persons (other than the directors) in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

<b>Name</b>	<b>Capacity in which Ordinary shares were held</b>	<b>Number of ordinary shares (Long position)</b>	<b>Percentage of the issued share capital (Long position)</b>
Group First Limited	Beneficial owner (Note (a))	1,884,680,000	32.83%
Keywise Capital Management (HK) Limited	Investment Manager	332,988,000	5.80%
UBS AG	(Note (b))	296,057,994	5.16%

Note: (a) Group First Limited is a private company beneficially owned by Mr. Ni Xinguang as to 60% and by Mr. Wang Zhiming as to 40%. Both Mr. Ni Xinguang and Mr. Wang Zhiming are executive directors of the Company. Accordingly, the 1,884,680,000 shares owned by Group First Limited is also deemed to be the corporate interests of each of Mr. Ni Xingunag and Mr. Wang Zhiming.

(b) Of 296,057,994 shares, 73,369,994 shares were held in the capacity as "beneficial owner" and 222,688,000 shares were held in the capacity as "person has a security interest". Besides this, UBS AG also held 2,700,000 shares in short position of the Company.

Apart from the aforesaid, as at 30 June 2007, the Company had not been notified of any interests and short position in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

## **SHARE CAPITAL AND SHARE OPTIONS**

### **Share Capital**

- (a) During the period, Group First Limited (“Group First”), a substantial shareholder of the Company, entered into a placing agreement (the “Placing Agreement”) with a placing agent (the “Placement”). Pursuant to the Placing Agreement, the placing agent agreed to place up to the maximum of 575,000,000 shares at a price of HK\$0.68 per share on behalf of Group First to not less than six independent placees. On the same date, the Company entered into a conditional subscription agreement (the “Subscription Agreement”) with Group First (the “Subscription”). Pursuant to the Subscription Agreement, Group First subscribes 575,000,000 shares of the Company at a price of approximately HK\$0.659 per share. The Placement and Subscription were completed on 26 February 2007.
  
- (b) The Company issued and allotted 102,390,000 shares to eligible persons pursuant to the share option scheme of the Company.

## Share Options

By resolutions of the shareholders of the Company at a shareholders meeting held on 28 May 2004, the Company had adopted a share option scheme (the “Scheme”). The Scheme will expire on 27 May 2014.

Category	Date of grant	Number of option shares held as at 01/01/2007	Number of option shares granted during the period (Note (a))	Number of option shares exercised during the period (Note (b))	Number of option shares lapsed during the period	Number of option shares held as at 30/06/2007	Exercise price HK\$	Exercise period
<b>Directors</b>								
Ni Xingunag	20/12/2004	37,000,000	-	-	-	37,000,000	0.113	27/06/2005 – 26/12/2007
Wang Zhiming	20/12/2004	37,000,000	-	-	-	37,000,000	0.113	27/06/2005 – 26/12/2007
<b>Employees</b>								
	13/06/2006	59,000,000	-	(40,000,000)	-	19,000,000	0.180	13/12/2006 – 12/06/2008
	27/12/2006	6,320,000	-	(6,320,000)	-	-	0.157	27/03/2007 – 26/03/2017
	27/12/2006	6,330,000	-	-	-	6,330,000	0.157	27/06/2007 – 26/06/2017
	27/12/2006	12,660,000	-	-	-	12,660,000	0.157	27/12/2007 – 26/12/2017
	27/12/2006	12,660,000	-	-	-	12,660,000	0.157	27/06/2008 – 26/06/2018
	27/12/2006	12,660,000	-	-	-	12,660,000	0.157	27/12/2008 – 26/12/2018
	08/03/2007	-	10,000,000	-	-	10,000,000	0.722	08/03/2007 – 07/03/2015
	08/03/2007	-	10,000,000	-	-	10,000,000	0.722	08/03/2008 – 07/03/2015
	08/03/2007	-	10,000,000	-	-	10,000,000	0.722	08/03/2009 – 07/03/2015
	08/03/2007	-	10,000,000	-	-	10,000,000	0.722	08/03/2010 – 07/03/2015
	08/03/2007	-	70,000	(70,000)	-	-	0.722	08/03/2007 – 07/03/2009
	30/04/2007	-	240,000	-	-	240,000	1.230	30/04/2008 – 29/04/2015
<b>Consultants</b>								
	13/06/2006	71,000,000	-	(56,000,000)	-	15,000,000	0.180	13/12/2006 – 12/06/2008
		<u>254,630,000</u>	<u>40,310,000</u>	<u>(102,390,000)</u>	<u>-</u>	<u>192,550,000</u>		

Notes:

- (a) The closing prices before the date of grant on 8 March 2007 and 30 April 2007 were HK\$0.72 and HK\$1.28 respectively.
- (b) The weight average closing price of the shares immediately before the dates of exercise of share option was HK\$1.11.

The Company has used the Black-Scholes option-pricing model (“the Model”) to value the share options granted during the review period. The value of an option varies with different variable of certain subjective assumptions. Any change in the variables as adopted may materially offset the estimation of the fair value of an option. For the six months ended 30 June 2007, 40,070,000 and 240,000 shares options were granted on 8 March 2007 and 30 April 2007 respectively.

## CHINA SEVEN STAR SHOPPING LIMITED

The inputs into the Model were as follows:

	Share options granted on	
	8 March	30 April
	2007	2007
Closing price on the date of grant	HK\$0.72	HK\$1.23
Expected volatility	76.78-98.48%	97.89%
Expected life	1-4 years	2 years
Risk free rate	3.951-4.068%	3.941%
Expected dividend yield	0%	0%
Estimated fair values	HK\$16,121,291	HK\$114,484

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 260 trading days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

## CORPORATE GOVERNANCE

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

The Board has adopted the principles and complied 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 on the Stock Exchange (the "Listing Rules") throughout the period ended 30 June 2007 except for deviations from provision A.4.1 and provision A.2.1 of the Code.

Provision A.4.1. stipulates that non-executive directors should be appointed for specific term and subject to re-election. None of the existing independent non-executive directors of the Company is appointed for specific term and this constituted a deviation. However, all Directors are subject to retirement by rotation and re-election at the annual general meeting at least once for every three years. In the opinion of the Directors, this meets the same objectives and is no less exacting than those in the Code.

As stipulated the Company's annual report 2006, Mr. Ni is the Chairman of the Board and is assuming the role as Managing Director on a temporary basis. As there is no segregation between the role of the Chairman and Managing Director, this constituted deviation from provision A.2.1 of the Code.

The Board does not consider that this structure will impair the balance of power and authority between the Board and the management of the Company given there is a clear division of responsibility for the individual business operation of the Group. Nevertheless, the Company is actively seeking a replacement to fill in the position of Managing Director who would be responsible for the day to day operation and management of the Group.

### **Review of Accounts**

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

The Audit Committee of the Company and the external auditor have 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 2007.

### **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 2007, 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 BALANCE SHEET DATE**

- (a) The Company acquired Top Pro Group in 2005 and the consideration comprised a cash consideration of HK\$25 million, a deferred cash consideration and issue of consideration shares. The acquisition of Top Pro Group was completed on 11 April 2006 with the cash consideration being paid in full upon completion.

## CHINA SEVEN STAR SHOPPING LIMITED

In accordance with the terms as stipulated in the agreement relating to the acquisition of the Top Pro Group, a special audit was carried out in July 2007 to determine the amount of deferred cash consideration and number of consideration share to be issued. An amount of HK\$50 million and a total of 1,471,658,839 shares were paid and issued on 10 August 2007 as settlement on the contingent portion of the purchase consideration.

- (b) Pursuant to disclosure requirement under Rule 13.09 of the Listing Rules, the Company announced that as at 27 August 2007, the Company entered into a memorandum of understanding with Sinolong Technology (Shanghai) Co Ltd (國龍信息技術(上海)有限公司) and 上海朗聖投資有限公司 (Shanghai LS Investment Co Ltd) for a proposed investment in 上海其樂通訊科技有限公司 (Shanghai QL Telecommunications Co Ltd) (“上海其樂”). 上海其樂 is principally engaged in the marketing and distribution of mobile handsets in the PRC.

The Group is mainly engaged in television shopping and consumer retail business in the PRC and began selling mobile handset products on its existing television shopping platform in January 2007. The Directors believe that the Proposed Investment will enhance the Group’s marketing and distribution capabilities.

## OTHER INFORMATION

### Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association of the Company 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, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

# RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

## **INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA SEVEN STAR SHOPPING LIMITED**

*(Incorporated in Hong Kong with limited liability)*

### **Introduction**

We have reviewed the interim financial information set out on pages 16 to 34 which comprises the condensed consolidated balance sheet of the Company as at 30 June 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Scope of Review**

We conducted our review 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 ("HKSRE 2410"). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Financial Reporting Standards.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated financial information for the six months ended 30 June 2006 has not been reviewed in accordance with HKSRE 2410.

### **RSM Nelson Wheeler**

*Certified Public Accountants*

Hong Kong

24 September 2007



**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the six months ended 30 June 2007

		<b>Six months ended</b>	
	Note	<b>30/6/2007 (unaudited) HK\$'000</b>	30/6/2006 (unaudited) HK\$'000
<b>Turnover</b>	3	<b>414,013</b>	18,027
Cost of sales		<b>(197,202)</b>	(4,069)
<b>Gross profit</b>		<b>216,811</b>	13,958
Other income	4	<b>7,233</b>	65
Gain on disposal of a subsidiary		-	6,200
Distribution costs		<b>(117,423)</b>	(2,537)
Administrative expenses		<b>(23,998)</b>	(4,820)
Other operating expenses		<b>(7,935)</b>	(85)
<b>Profit from operations</b>		<b>74,688</b>	12,781
Finance costs		<b>(164)</b>	(396)
Share of loss of a joint venture		<b>(89)</b>	-
<b>Profit before tax</b>		<b>74,435</b>	12,385
Income tax expense	5	<b>(29,516)</b>	(2,385)
<b>Profit for the period</b>	6	<b>44,919</b>	10,000
<b>Attributable to:</b>			
Equity holders of the Company		<b>43,291</b>	10,020
Minority interests		<b>1,628</b>	(20)
		<b>44,919</b>	10,000
<b>Earnings per share</b>	7		
Basic		<b>0.79 cents</b>	0.26 cents
Diluted		<b>0.61 cents</b>	0.25 cents
<b>Dividend</b>	8	<b>Nil</b>	Nil

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 June 2007

	Note	30/6/2007 (unaudited) HK\$'000	31/12/2006 (audited) HK\$'000
<b>Non-current assets</b>			
Fixed assets	9	14,427	2,792
Goodwill	10	247,663	28,422
Investment in a joint venture		3,209	–
Available-for-sale financial assets		154	150
		<b>265,453</b>	31,364
<b>Current assets</b>			
Properties held for resale		9,800	9,800
Inventories		26,606	2,199
Trade and bills receivables	11	236,617	66,673
Other receivables, prepayments and deposits	12	173,485	57,941
Pledged bank deposits	13	150,000	–
Bank and cash balances		294,155	141,407
		<b>890,663</b>	278,020
<b>Current liabilities</b>			
Trade and bills payables	14	140,040	13,716
Other payables and accruals	15	254,978	15,295
Borrowings	16	10,260	10,229
Current tax liabilities		42,126	16,761
		<b>447,404</b>	56,001
<b>Net current assets</b>		<b>443,259</b>	222,019
<b>NET ASSETS</b>		<b>708,712</b>	253,383
<b>Capital and reserves</b>			
Share capital	17	574,063	506,324
Other reserves		1,222,893	879,461
Accumulated losses		(1,100,727)	(1,142,167)
Equity attributable to equity holders of the Company		696,229	243,618
Minority interests		12,483	9,765
<b>TOTAL EQUITY</b>		<b>708,712</b>	253,383

**CHINA SEVEN STAR SHOPPING LIMITED**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2006

	Unaudited									
	Attributable to equity holders of the Company									
	Share capital	Share premium	Share-based payments reserve	Special capital reserve	Foreign currency		Accumulated losses	Sub-total	Minority interests	Total
					translation reserve	reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2006	372,279	64,395	5,778	726,699	134	(1,169,134)	151	1,610	1,761	
Translation differences	-	-	-	-	(59)	-	(59)	-	(59)	
Shares issue expenses	-	(1,695)	-	-	-	-	(1,695)	-	(1,695)	
Net expense recognised directly in equity	-	(1,695)	-	-	(59)	-	(1,754)	-	(1,754)	
Profit for the period	-	-	-	-	-	10,020	10,020	(20)	10,000	
Total recognised income and expense for the period	-	(1,695)	-	-	(59)	10,020	8,266	(20)	8,246	
Issue of shares	50,825	8,799	-	-	-	-	59,624	-	59,624	
Recognition of share-based payments	-	-	514	-	-	-	514	-	514	
Transfer	-	2,808	(2,808)	-	-	-	-	-	-	
At 30 June 2006	<u>423,104</u>	<u>74,307</u>	<u>3,484</u>	<u>726,699</u>	<u>75</u>	<u>(1,159,114)</u>	<u>68,555</u>	<u>1,590</u>	<u>70,145</u>	

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(continued)**

For the six months ended 30 June 2007

	Unaudited									
	Attributable to equity holders of the Company									
	Share capital	Share premium	Share-based payments reserve	Special capital reserve	Foreign currency translation reserve	Statutory surplus reserve	Accumulated losses	Sub-total	Minority interests	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	506,324	140,853	8,545	726,699	775	2,589	(1,142,167)	243,618	9,765	253,383
Translation differences	-	-	-	-	5,607	-	-	5,607	115	5,722
Shares issue expenses	-	(311)	-	-	-	-	-	(311)	-	(311)
Net income recognised directly in equity	-	(311)	-	-	5,607	-	-	5,296	115	5,411
Profit for the period	-	-	-	-	-	-	43,291	43,291	1,628	44,919
Total recognised income and expense for the period	-	(311)	-	-	5,607	-	43,291	48,587	1,743	50,330
Issue of shares	67,739	329,557	-	-	-	-	-	397,296	-	397,296
Capital injection by minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	975	975
Recognition of share-based payments	-	-	6,728	-	-	-	-	6,728	-	6,728
Exercise of share options	-	4,351	(4,351)	-	-	-	-	-	-	-
Transfer	-	-	-	-	-	1,851	(1,851)	-	-	-
At 30 June 2007	574,063	474,450	10,922	726,699	6,382	4,440	(1,100,727)	696,229	12,483	708,712

## CHINA SEVEN STAR SHOPPING LIMITED

### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Six months ended	
	30/6/2007 (unaudited) HK\$'000	30/6/2006 (unaudited) HK\$'000
Net cash used in operating activities	<b>(83,320)</b>	(3,445)
Net cash (used in)/generated from investing activities	<b>(160,948)</b>	3,097
Net cash generated from financing activities	<b>397,016</b>	45,284
Net increase in cash and cash equivalents	<b>152,748</b>	44,936
Cash and cash equivalents at beginning of period	<b>141,407</b>	4,003
Cash and cash equivalents at end of period	<b>294,155</b>	48,939
Analysis of the balances of cash and cash equivalents		
Bank and cash balances	<b>294,155</b>	48,939

## **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

### **1. General Information**

The Company was incorporated in Hong Kong as a company 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 Company is an investment holding company. The principal activities of its major subsidiaries as at 30 June 2007 are retail and distribution of consumer products through TV channels.

### **2. 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 2006 Financial Statements.

**3. 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**

	<b>PRC retail and distribution</b>	<b>Property investment</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000
<b>Six months ended</b>			
<b>30 June 2007</b>			
Turnover	413,579	434	414,013
Segment results	81,922	219	82,141
<b>Six months ended</b>			
<b>30 June 2006</b>			
Turnover	17,570	457	18,027
Segment results	10,543	52	10,595

**4. Other income**

	<b>Six months ended</b>	
	<b>30/6/2007</b> <b>(unaudited)</b> <b>HK\$'000</b>	30/6/2006 (unaudited) HK\$'000
Interest income	<b>4,541</b>	65
Reversal of allowance for bad and doubtful debts	<b>1,217</b>	–
Sundry income	<b>1,475</b>	–
	<b>7,233</b>	65

**5. Income tax expense**

	<b>Six months ended</b>	
	<b>30/6/2007</b> <b>(unaudited)</b> <b>HK\$'000</b>	30/6/2006 (unaudited) HK\$'000
PRC tax		
– current	<b>38,435</b>	2,385
– overprovision for prior year	<b>(8,919)</b>	–
	<b>29,516</b>	2,385

No provision for Hong Kong profits tax is required for both periods ended 30 June 2007 and 30 June 2006 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.



**5. Income tax expense (continued)**

The subsidiary, Fuzhou Landun Science of Life Co., Ltd. ("Fuzhou Landun") operating in the PRC, is subject to enterprise income tax rate at 33% 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, Shanghai Pei Lian Trading Company Limited 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 3.3% on the turnover in 2007. 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. On prudent measure, the taxable profit of such subsidiary upon consolidation is provided at the standard enterprise income tax rate of 33% in accordance with Provisional Regulations of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例). The current tax liabilities as at 30 June 2007 in the amount of HK\$23,502,000 would be reassessed at each balance sheet date and would be written back if consider excessive in future.

During the current period, two newly incorporated subsidiaries operating in the PRC, are subject to enterprise income tax rate of 33% in accordance with Provisional Regulations of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例). However, pursuant to notices issued by Beijing Haidian District State Tax Bureau (北京海淀區國家稅務局) and Beijing Daxing District State Tax Bureau (北京大興區國家稅務局) on 26 March 2007 and 2 July 2007 respectively, these subsidiaries are entitled to full exemption from enterprise income tax for the year 2007.

**5. Income tax expense (continued)**

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 will be effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements will depend on the detailed implementation rules and regulations that have not been issued as of the date of the approval of these consolidated financial statements. Therefore, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

No provision for deferred taxation has been made for both periods ended 30 June 2007 and 30 June 2006 as the effect of all temporary difference is not material.

**6. Profit for the period**

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

	<b>Six months ended</b>	
	<b>30/6/2007</b>	30/6/2006
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Allowance for bad and doubtful debts	<b>7,800</b>	–
Allowance for inventories	<b>134</b>	–
Bad debt written off	–	2
Depreciation of fixed assets	<b>619</b>	391
Directors' emoluments	<b>919</b>	851
Fixed assets written off	–	130
Loss on disposal of fixed assets	–	28
Reversal of allowance for bad and doubtful debts	<b>(1,217)</b>	–

## CHINA SEVEN STAR SHOPPING LIMITED

### 7. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	<b>Six months ended</b>	
	<b>30/6/2007</b>	30/6/2006
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<b><u>43,291</u></b>	<u>10,020</u>
	<b>30/6/2007</b>	30/6/2006
	<b>Number of</b>	Number of
	<b>ordinary</b>	ordinary
	<b>shares</b>	shares
	<b>'000</b>	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>5,490,622</b>	3,901,546
Effect of dilutive potential ordinary shares:		
Share options	<b>192,263</b>	12,740
Consideration shares issuable for the acquisition of Top Pro Group	<b><u>1,471,659</u></b>	<u>74,260</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b><u>7,154,544</u></b>	<u>3,988,546</u>

### 8. Dividend

The Directors have resolved not to declare any interim dividend in respect of the six months ended 30 June 2007 (six months ended 30 June 2006: HK\$Nil).

### 9. Capital expenditure

During the period, the Group incurred HK\$12,191,000 (six months ended 30 June 2006: HK\$364,000) on additions to fixed assets. Included in additions during the period are construction in progress of leasehold improvement and call centres of HK\$5,714,000 and HK\$1,515,000 respectively.

**10. Goodwill**

During the period, the increase in goodwill of HK\$219,241,000 represented deferred consideration payable for the acquisition of Top Pro Group.

In accordance with the sales and purchase agreement for the aforesaid acquisition, the deferred consideration comprised of a deferred cash consideration (“Deferred Cash Consideration”) and issue of consideration shares (“Consideration Shares”). The acquisition of Top Pro Group was completed in April 2006. The Deferred Cash Consideration and issue of the Consideration Shares represented the contingent portion of the consideration which is associated with future financial performance of Top Pro Group.

The Deferred Cash Consideration would be equivalent to the audited consolidated net profit of Top Pro Group for the first full financial year after completion (the “Deferred Consideration Period”). The maximum amount of the Deferred Cash Consideration shall not be more than HK\$50 million.

The aggregate value of the Consideration Shares would be equivalent to 3 times the audited consolidated net profit of Top Pro Group for the Deferred Consideration Period. The maximum number of the Consideration Shares shall be limited to 1,500,000,000 shares.

Subsequent to the balance sheet date, Deferred Cash Consideration of HK\$50,000,000 was paid and Consideration Shares of 1,471,658,839 shares were issued (Notes 15 and 21(a)).

**11. Trade and bills receivables**

At 30 June 2007, included in trade and bills receivables are trade receivables of approximately HK\$235,491,000 (2006: HK\$66,673,000) and bills receivables of approximately HK\$1,126,000 (2006: HK\$Nil).

The ageing analysis of the trade receivables was as follows:

	<b>30/6/2007</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/2006 (audited) HK\$'000
0 – 90 days	<b>175,597</b>	64,990
91 – 180 days	<b>38,636</b>	1,374
181 – 365 days	<b>21,236</b>	287
Over 365 days	<b>22</b>	22
	<b><u>235,491</u></b>	<b><u>66,673</u></b>

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 payment terms of media management services provided are normally at 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.

## 12. Other receivables, prepayments and deposits

At 30 June 2007, included in other receivables, prepayments and deposits is an amount due from a related company of approximately HK\$3,310,000 (2006: HK\$6,595,000). The amount due from a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name	Name of directors having beneficial interest	Balance at	Balance at	Maximum amount
		30 June 2007	31 December 2006	outstanding during the period ended
		HK\$'000	HK\$'000	HK\$'000
Win Town Holdings Limited	Mr. Ni Xinguang and Mr. Wang Zhiming	3,310	6,595	6,595

The amount due is unsecured, interest free and has no fixed repayment terms. Subsequent to the balance sheet date, the amount due from a related company was fully settled.

## 13. Pledged bank deposits

At 30 June 2007, the pledged bank deposits of HK\$150,000,000 (2006: HK\$Nil) are to secure banking facilities granted to a subsidiary of the Company.

## 14. Trade and bills payables

At 30 June 2007, included in trade and bills payables are trade payables of approximately HK\$29,142,000 (2006: HK\$13,716,000) and bills payables of approximately HK\$110,898,000 (2006: HK\$Nil).

The ageing analysis of the trade payables was as follows:

	30/6/2007 (unaudited) HK\$'000	31/12/2006 (audited) HK\$'000
0 – 90 days	21,735	13,178
91 – 180 days	6,810	–
181 – 365 days	54	439
Over 365 days	543	99
	<b>29,142</b>	<b>13,716</b>

## CHINA SEVEN STAR SHOPPING LIMITED

### 15. Other payables and accruals

At 30 June 2007, included in other payables and accruals are deferred consideration payables of HK\$219,241,000 (2006: HK\$Nil) for acquisition of Top Pro Group. Subsequent to the balance sheet date, the aforesaid payables were settled by cash of HK\$50,000,000 and issuance of 1,471,658,839 shares (Note 21(a)).

### 16. Borrowings

	<b>30/6/2007</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/2006 (audited) HK\$'000
Bank loan	<b>10,260</b>	–
Loans from a shareholder (Note)	<b>–</b>	10,229
	<b>10,260</b>	10,229

Note: The loans from a shareholder were fully repaid during the period.

### 17. Share capital

	<b>Number of</b> <b>shares</b> <b>'000</b>	HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 (2006: HK\$0.10) each		
At 1 January and 30 June 2007	<u>16,000,000</u>	<u>1,600,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 (2006: HK\$0.10) each		
At 1 January 2007	5,063,242	506,324
Issue of shares on placement (Note a)	575,000	57,500
Issue of shares on share option scheme (Note b)	<u>102,390</u>	<u>10,239</u>
At 30 June 2007	<u>5,740,632</u>	<u>574,063</u>

**17. Share capital (continued)**

Notes:

(a) On 12 February 2007, Group First entered into a placing agreement (the "Placing Agreement") with a placing agent (the "Placement"). Pursuant to the Placing Agreement, the placing agent agreed to place up to the maximum of 575,000,000 shares at a price of HK\$0.68 per share on behalf of Group First to not less than six independent placees. On the same date, the Company entered into a conditional subscription agreement (the "Subscription Agreement") with Group First (the "Subscription"). Pursuant to the Subscription Agreement, Group First subscribed 575,000,000 shares of the Company at a price of approximately HK\$0.659 per share. The Placement and Subscription was completed on 26 February 2007.

Net proceed (after shares issue expenses) of the Subscription of approximately HK\$378.7 million were used for future expansion of the Group in the retail and wholesale of consumer products and television shopping in the PRC.

(b) During the period, the Company allotted 102,390,000 ordinary shares to the share option holders upon exercise of their share options. Details of the allotments are as follows:

<b>Date of allotment</b>	<b>Number of shares issued</b>	<b>Exercise price</b>
	'000	HK\$
7 February 2007	11,000	0.180
26 April 2007	6,320	0.157
26 April 2007	70	0.722
16 May 2007	70,000	0.180
14 June 2007	15,000	0.180
	<hr/>	
	102,390	
	<hr/> <hr/>	



**18. Pending litigations**

As stipulated in our previous annual reports, the Group is pursuing a legal proceeding against the vendor, a director of the vendor and two ex-directors of the Company in connection with the acquisition of a PRC hotel at a consideration of HK\$120 million undertaken by the Group in September 2000. The Group is claiming for the costs and expenses associated with the acquisition and as at the reporting date, the parties of the case are still attending to interlocutory matters and no hearing date has yet been fixed.

**19. Capital commitments**

At 30 June 2007, the capital commitments of the Group are as follows:

	<b>30/6/2007</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/2006 (audited) HK\$'000
Contracted but not provided for	<b>2,994</b>	–
Capital contribution to a joint venture	<u>–</u>	<u>3,192</u>

**20. Related party transactions**

(a) In addition to those related party transactions and balances disclosed elsewhere in the interim financial statements, the Group had the following transactions with its related parties during the period ended:

	<b>30/6/2007</b> <b>(unaudited)</b> <b>HK\$'000</b>	30/6/2006 (unaudited) HK\$'000
Interests paid to Group First (Note (i))	<b>32</b>	–
Sales to 上海力星生化科技有限公司 (「上海力星」) (Note (ii))	<b>396</b>	–
Rental paid to a related company (Note (iii))	<u><b>125</b></u>	<u>42</u>

**20. Related party transactions (continued)**

Notes:

- (i) Mr. Ni Xinguang (“Mr. Ni”) and Mr. Wang Zhiming (“Mr. Wang”), the executive directors of the Company, has 60% and 40% equity interest in Group First respectively. Group First is the substantial shareholder of the Company.
  - (ii) Mr. Wang has 90% equity interest in 上海力星 until 31 January 2007.
  - (iii) In May 2006, the Group entered into a management agreement with a related company owned as to 60% and 40% by Mr. Ni and Mr. Wang respectively, for taking over the operation and management control of a manufacturing plant in the PRC which is a subsidiary of that related company from June 2006 onwards for two years. The Group is responsible for the day-to-day operating profits or losses of the manufacturing plant and in return has committed to pay rental of HK\$500,000 per annum. However, pursuant to the management agreement, the assets and liabilities of the manufacturing plant do not belong to the Group. The management contract was terminated on 31 March 2007.
  - (iv) The abovesaid related party transactions were made under normal commercial terms and conditions that would also be available to unrelated third parties.
- (b) At balance sheet date, the following balances with related parties included in:

	<b>30/6/2007 (unaudited) HK\$'000</b>	31/12/2006 (audited) HK\$'000
Trade receivables from a related company (Note (i))	–	554
Prepayments to related companies (Note (ii))	–	1,676
Trade payables to a related company (Note (i))	<b>(410)</b>	(19)
Other payables to related companies (Note (iii))	<b>(1,654)</b>	(3,272)

**20. Related party transactions (continued)**

Notes:

- (i) The above amounts are trade in nature, unsecured, interest free and repayable in normal trading terms.
- (ii) The prepayments included advertising fee prepaid through a related company of approximately HK\$Nil (2006:HK\$1,500,000) and deposits paid for purchases to a related company of approximately HK\$Nil (2006: HK\$176,000).
- (iii) The other payables mostly included expenses paid on behalf of the Group by related companies. The amounts due are unsecured, interest free and have no fixed repayment terms.

**21. Events after the balance sheet date**

- (a) The Company acquired Top Pro Group in 2005 and the consideration comprised a cash consideration of HK\$25 million, a deferred cash consideration and issue of consideration shares. The acquisition of Top Pro Group was completed on 11 April 2006 with the cash consideration being paid in full upon completion.

In accordance with the terms as stipulated in the agreement relating to the acquisition of Top Pro Group, a special audit was carried out in July 2007 to determine the amount of deferred cash consideration and number of consideration share to be issued. An amount of HK\$50 million and a total of 1,471,658,839 shares were paid and issued and allotted on 10 August 2007 as settlement on the contingent portion of the purchase consideration.

- (b) Subsequent to the balance sheet date, the Company entered into a memorandum of understanding with Sinolong Technology (Shanghai) Co Ltd (國龍信息技術(上海)有限公司) and 上海朗聖投資有限公司 (Shanghai LS Investment Co Ltd) for a proposed investment in 上海其樂通訊科技有限公司 (Shanghai QL Telecommunications Co Ltd) (“上海其樂”). 上海其樂 is principally engaged in the marketing and distribution of mobile handsets in the PRC. Details please refer to the Company’s announcement dated 27 August 2007.