



Corporate Snippet

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Improving corporate governance

China Media

China Seven Star Shopping (245 HK, HK\$0.181)

Not Rated

Stock price run up. China Seven Star surged 13.8% to close at HK\$0.181 in trading yesterday.

New CFO on board. We believe the main reason for this run up was the company's appointment of a new CFO. Our understanding is that the new CFO hails from a prominent multinational investment bank, with extensive insight and knowledge of China's retail sector. The appointment is a significant positive in our view as it shows that Seven Star's management is committed to improving corporate governance of the company, which should help to attract long-term institutional investors.

Improving corporate governance. The management has been keen to improve its credibility amongst the investment community. Since raising HK\$150m from the top-up placement on 28 Sep 2006, the management has: 1) moved swiftly to migrate the "old" Seven Star business into the listco (completed at the end of November); 2) changed its name from "Landune" to "China Seven Star Shopping Ltd." to better reflect the company's line of business; 3) been proactive in investor relations, undertaking roadshows in both Hong Kong and Singapore and 4) appointed a new CFO.

Undervalued play in China retail related space. Re-iterating from our previous report "Scaling up air time" (14 Dec 2006), we estimate Seven Star's FY12/06F net profit to come in at around RMB38.0m, assuming one month contribution from its TV home shopping operations. For FY12/07F, we project net profit of RMB114.4m to RMB124.7m (fully diluted EPS: HK\$0.0188 to HK\$0.0205). The stock now trades at 8.8-9.6x FY12/07F P/E and is one of the most undervalued China retail related plays. We are presently finalizing our forecasts and will look to initiate coverage on Seven Star shortly.

Disclosure of interests: SBI E2-Capital acted as the sole bookrunner and joint placing agent for the China Seven Star top-up placement placing of 832.2m new shares at HK\$0.188 per share on 28 September 2006.

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