Corporate Flash

Tue, 30 Jan 2007

Kennedy Tsang
(852) 2533 3713
kennedytsang@softbank.com.hk

China Seven Star: Budding TV home shopping star

Recommendation: BUY (initiating coverage) — China Retail

Price	**HK$0.61**
Target price	HK$1.00 (+64%)
12 mth range	HK$0.09-0.67
Market cap.	US$396.0m
Daily t/o, 3 mth	US$2.6m
Free float %	48.9%
Ticker	0245.HK/245 HK

Year to Dec	Net profit RMBm	EPS RMB	EPS Δ %	P/E x	P/B x	EV/EBITDA x	Yield %	ROE %	ROCE %	N. Gear. %
04A	133.6	0.043	n/a	14.3	-	-	-	-	-	-
05A	(16.7)	(0.004)	n/a	n/a	-	-	-	-	-	-
06F	16.0	0.003	n/a	223.6	-	-	-	-	-	-
07F	165.0	0.028	641.7	21.8	-	-	-	-	-	-
08F	226.1	0.039	37.1	15.9	-	-	-	-	-	-

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): +486.5%, +27.8%, +230.3%
Actual price changes (1 mth, 3 mth, 12 mth): +13.0%, +24.5%, +230.3%

Key points:

- Newly established handset platform delivering impressive numbers. Daily sell-through rate of one CECT handset model has exceeded 2,000 units.
- Plans to launch around 20 new handset models for at least 5 brands in FY12/07. Overall target to achieve 1m unit sales in FY12/07 and become the largest shopless handset distributor in China.
- Leveraging the highly scalable business model, Seven Star aims to roll out a further 5 to 6 product specific platforms. This approach is similar to that adopted by Focus Media (FMCN US).
- To meet anticipated demand, Seven Star will expand its Fuzhou call centre by an additional 1,000 call operators by mid year.
- Management has repeatedly demonstrated their ability to tap emerging opportunities and react to market demand.
- Revising up our FY12/07F net profit forecast to RMB165.0m (from RMB124.7m previously) and introducing FY12/08F net profit forecast of RMB226.1m. Numbers are on the conservative side as they have not taken into account contribution from any new product specific platforms to be rolled out by Seven Star. This will further trigger upside earnings revision.
- 2-year net profit CAGR of 41.8% expected to exceed other China retail plays such as Parkson (3338 HK) and Golden Eagle (3308 HK).
- Initiate coverage on Seven Star with a BUY call and a target price of HK$1.00. Stock is underlined by strong growth prospects over the next three years and also commands a scarcity premium. Our price target represents 35.7x FY12/07F, 26.0x FY12/08F P/E and a proforma 06F-08F PEG of 0.6x. Scope for further upward re-rating on the counter on news of additional platform release and associated encouraging sell-through rates.

We recently met with the management and the core team of the company, visiting the Shanghai call centre operations. Key takeaways are as follows:

New handset business wows with impressive sales. Seven Star broadened their consumer electronics portfolio by diversifying into the handset business and began to distribute a model of CECT branded handset. Since commencing selling of the handset on 8 Jan 2006, daily sell-through rate have now exceeded 2,000 units (retail price of RMB1,480 per unit). We note that these impressive sell-through rates have been achieved with only one model. The company has been in talks to other ODM vendors and now plans to launch 20 new handset models for at least 5 brands in 2007. The company targets to sell around 1m units this year and aims to be the largest shopless handset distributor in China. After observing the activity levels of their Shanghai call centre operations, we view this stretch goal as realistic and achievable target.

Product development team showing their market savvy. The company's product development team demonstrated their innovating marketing savvy and was able to develop a marketing campaign for the handset that addressed consumer needs, in this instance talk time and durability. The infomercial was able to differentiate the CECT branded handset from other similar products by focusing on its superior battery life and robustness. (Infomercial URL: http://www.cntvs.com/product_detail.asp?ID=119)

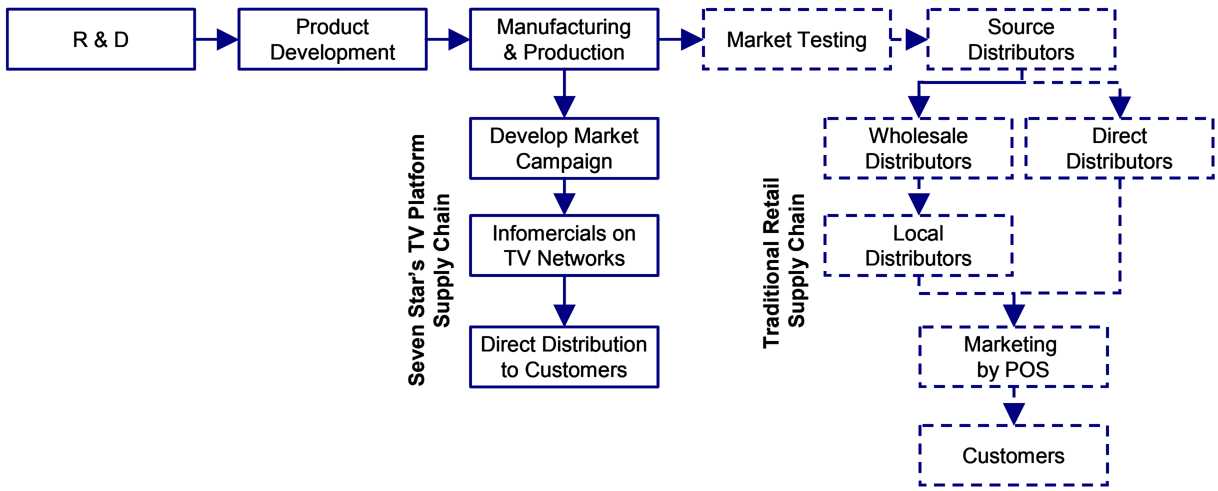
Chart 1: Seven Star's market coverage

Source: Company data

With scalable business model, more product specific platforms to come. The newly established handset platform has once again proved the scalability of the TV home shopping platform model. Seven Star aims to further leverage this business model by rolling out another 5 to 6 product specific platforms, allowing the company to focus on the needs of specific market segments. Though management has not revealed which product segments they are targeting, we believe that it would be in unit rich categories similar to handsets.

TV platform shortens traditional retail supply chain. In our view, one of the key advantages of Seven Star's TV home shopping platform is its ability to shorten the supply chain, resulting in faster time-to-market. In the traditional retail supply chain, manufacturers are forced to deal with wholesalers and local distributors. The issue is further exacerbated by the fragmented nature of China's market, meaning that manufacturers often have to rely on upwards of 50-100 distribution parties. Together with the existing inefficiencies in China's distribution logistics and differing marketing campaigns of various POS, it takes significant lead time for manufactures to get new products into consumers' hands. Seven Star is able to deliver first mover advantage by eliminating low value adding middlemen and shortening the supply chain through its fast response market testing initiatives, value for money innovative marketing campaigns and direct delivery to customers.

Chart 2: Supply chain advantages of Seven Star's TV home shopping platform



Source: SBI E2-Capital

Product specific platforms mirrors Focus Media approach. Looking at the development road map of Seven Star, it is on course to transform itself from a TV home shopping company, selling primarily self-branded products, into a broad based TV home shopping platform, distributing products for a variety of brand owners across a number of different product specific platforms. This approach is similar to that adopted by Focus Media (FMCN US), whereby they develop separate "advertising channels" to suit the needs of different client segments. There is tremendous potential in this business model as it would attract: 1) overseas brand owners who are looking to break into China, but do not possess its own sales and distribution channels and 2) domestic brands aiming to take advantage of an alternative distribution channel to gain market entry or market share. As the company shifts to this model, we estimate that the gross margin will likely contract slightly. However, the magnitude of contraction is not expected to be significant (maintaining well above the company target of 50%) as we expect brand owners will be willing to pay a premium for Seven Star's faster market access and its one-stop-shop value added marketing solutions. Offsetting this, we expect margin gains at the operating expense items as the scalable business model expands. In our view, this transformation offers an opportunity to significantly scale up its operations and accelerate growth going forward.

Fuzhou call centre expansion to meet on-coming demand. Seven Star presently has three call centres located in Shanghai, Beijing and Fuzhou. In anticipation of increase in call traffic, the company aims to expand its Fuzhou call centre from the current 120 operators by an additional 1,000 operators by mid 2007.

Management repeatedly demonstrating ability to tap emerging opportunities and meet market demand. Chairman Ni and his core team has been driving the business of Seven Star since its inception and the cohesiveness of the management is evident in their repeated quick response to tap emerging opportunities and respond to market situations. Since completing the fund raising of HK$150m through a top-up placement on 28 Sep 2006, management has: 1) aggressively diversified into new areas of business (planning, sourcing and launch of the handset platform took only 2-3 months); 2) completed the migration of the TV home shopping operations into the listco ahead of schedule and 3) increased its present on satellite TV networks to 18, from 10 networks previously. Responding to market demands, the company also appointed a CFO at the beginning of 2007. The new CFO who hails from a prominent multinational investment bank, with extensive insight and knowledge of China's retail sector.

Scaling up airtime to drive growth. Management aims to increase its TV ad spend by around 50% in FY12/07 to around RMB300-350m and again in a similar order in FY12/08. Much of the air time will be purchased on the wider coverage satellite networks. The company aims to increase its presence on satellite networks, from the current 18 to 25 (including CCTV-9) in FY12/07. Though air time on satellite networks are more costly, the higher rates are justified by the increased viewership. With increased viewership leading to more call-ins, and considering the expertise of the operators, we believe that the company can maintain its general target of 3:1 sales-to-ad spend ratio.

Combination of scale, client database, intellectual know-how keeps outs entrants. Though entry barriers into the industry are not significant, we view that Seven Star's market share is defendable. The company's most important asset is its staff and their associated intellectual know-how. The critical ingredients to success in this industry is to: 1) understanding the consumers' needs and develop a marketing campaign to address this need while differentiating the product from other substitutes and 2) product knowledge and CRM skills by operators and managers of call centres such that they can raise the call-to-sales conversion ratio. In our view, the combination framework of scale, client database, sourcing networks and intellectual know-how cannot be replicated easily, allowing Seven Star to keep out market entrants.

Seven Star breaking down China's geographical boundaries, adding flexibility to retail channels. We believe that the direct TV home shopping platform is particularly suited to China and that this retail model has potential to deliver exponential growth. Unlike many other countries such as the US, China is essentially made up of many smaller markets, differentiated geographically. The flexibility of the TV home shopping platform allows Seven Star to modify marketing campaigns and product offerings to each of these geographical areas by placing different infomercials on varying networks. In addition, the company can control the "frequency" or "loading" of the particular infomercials based on responses from customers from each of its sub-markets. Moreover, the Chinese population already well versed with using telecommunication tools such as telephones, mobiles and the Internet to conduct various functions of their daily activities. Therefore, there would not be a high level of resistance to this mode of retail. Indeed, a survey by Euromonitor found that on average, 77.4% of people in China are receptive to TV home shopping.

Table 1: Acceptance of TV home shopping in China

	Overall (%)	Male (%)	Female (%)
Yes	77.4	76.7	78.6
No	22.6	23.3	21.4

Source: Company data

Revising up FY12/07F forecast, introducing FY12/08F numbers. We have revised up our FY12/07F net profit forecast to RMB165.0m (from RMB124.7m previously) on a turnover of RMB1,435.2m. The key catalysts for our upgrade are: 1) contribution from the emerging handset business; 2) increased confidence in sell through rates after our recent visit to the Shanghai call centre; 3) a more favourable mix of above/below-the-line sales leading to a higher gross margin. As a first mover in distributing branded handsets on the TV platform, we expect the present strong demand in this product line to boost gross margins higher this financial year. In addition, we are introducing our FY12/08F net profit forecast of RMB226.1m. Our estimates for FY12/08F takes into consideration the organic growth in China's retail industry, growth in penetration/use of the TV home shopping platform and an increase of around 40-50% air time over FY12/07F. We highlight that these numbers are likely on the conservative side as they have not taken into account contribution from any new product specific platforms to be rolled out by Seven Star. This will further trigger upside earnings revision.

Delivering superior growth to mainstream retail plays. Seven Star will deliver a two year net profit CAGR of 41.8% on a proforma basis between FY12/06F to FY12/08F. This growth rate is higher than that of other mainstream China consumer retail plays such as Golden Eagle (3308 HK) 28.2% and Parkson (3368 HK) 34.6% based on consensus estimates. The above market growth rate is a sign of the emerging TV home shopping platform being accepted as a mainstream retail platform on the China's retail space.

Table 2: 2-Yr CAGR growth rates of China retail plays

Ticker	Company	FY12/06F-08F net profit CAGR (%)
3368 HK	Parkson	34.6
3308 HK	Golden Eagle	28.2
002024 CH	Suning	26.1
503 HK	China Paradise	22.9
493 HK	GOME	15.9
Average		**25.6**
245 HK	China Seven Star	41.8

Source: SBI E2-Capital, Bloomberg

Initiating coverage with BUY call, target price HK$1.00. We initiate coverage on Seven Star with a BUY call and a target price of HK$1.00. The stock is underlined by superior growth performance prospects over the next three years and also commands a scarcity premium being the only listed pure China TV home shopping play. Other comparables, such as CJ Home Shopping and GemsTV, have minimal China exposure and derives the bulk of their earnings in mature markets of Korea and the US. In our view, Seven Star should be compared mainly to pure China retail plays. Our price target represents 35.7x FY12/07F and 26.0x FY12/08F P/E and a proforma 06F-08F PEG of 0.6x. Again, we re-iterate that current valuations do not consider any contribution from other product specific platforms currently in the pipeline. News of additional platform release and associated encouraging sell-through rates will warrant an upward re-rating of the counter.

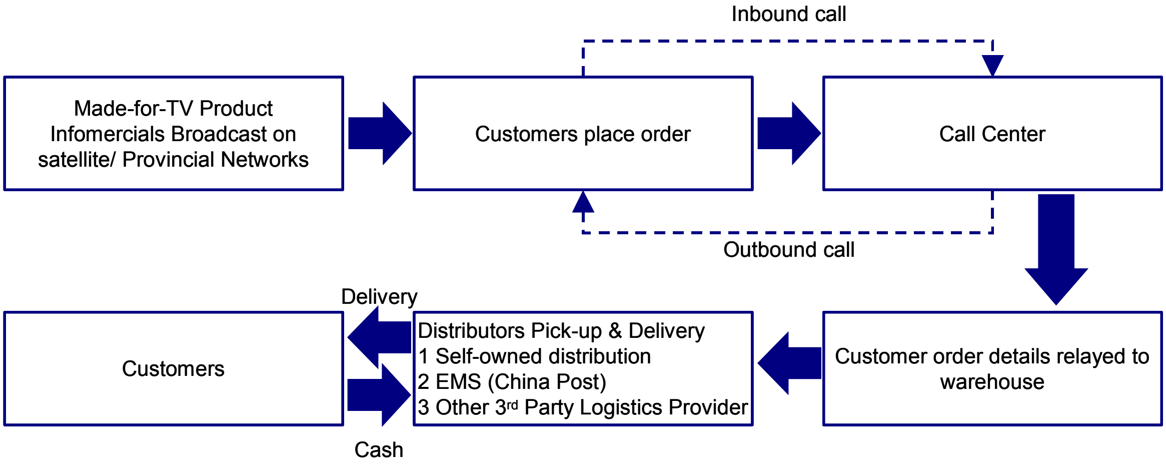
COMPANY BACKGROUND

Company background. China Seven Star (Seven Star) is principally engaged in direct TV sales and retail sales of consumer products in China. The company has been operating in China's emerging direct TV home shopping industry for around 10 years and is one of the largest of its kind. The Chairman, Michael Ni, is also the company's founder and together with the core team has been with Seven Star since its inception. Seven Star came to be listed through acquisition by a shell company and subsequent business operations migration.

Business model. Seven Star derives its revenue mainly from selling consumer products over television networks. The company purchases advertising airtime on various local and provincial channels and broadcasts made-for-TV product infomercials. Due to the length of the infomercials, they are typically shown during non-peak hours of 6:00am-6:00pm and 11:30pm-3:00am. The non-peak time slots are suitable as the product's target audience typically spend a significant amount of time at home. Interested viewers dial-in through a telephone number displayed on the infomercial. The customer call is received by one of Seven Star's three self-owned call centres located in Shanghai, Beijing and Fuzhou. Call operators processes customer requests, takes in the details and relays the relevant information to the warehouses for product delivery. Customer pays when the products are delivered to their door, and all sales are settled by cash or debit cards. Seven Star generally bears shipping expenses, but these costs are transferred to the customers for some high value items. In addition, Seven Star also distributes its products through a retail network POS and wholesale channels. The breakdown is approximately 60% TV home shopping, 40% retail POS.

Push marketing generates secondary sales. An advantage of direct TV sales, is that the customer is typically more willing to provide accurate demographic details. This is because the customer's desire to receive a quality level of service is often reliant on themselves providing accurate information e.g. address, size, age etc. This database of customer profile, together with their respective purchase history, opens up an opportunity for Seven Star to conduct push marketing to generate secondary sales. The company's has a designated group of "outbound" operators, whose purpose is to contact past customers to promote their current product offerings.

Chart 3: TV Home Shopping Process



Source: Company data & SBI E2-Capital

Presence, product portfolio and customer base. Seven Star operates its direct TV sales platform across China under the brand name of CNTVS. Products sold and distributed by Seven Star are primarily aimed at the demographic group of housewives, elderly and young females. The products are generally divided into kitchenware, learning products, cosmetic and slimming products, health food, fitness equipment, home appliance and digital electronic products. At the end of 2005, Seven Star had a customer base of 1m. Management aims to expand this base 10 fold to 10m in 3 years time. Average value per transaction per customer was RMB783 in FY12/05.

Table 3: Product category sales breakdown

Product category	% breakdown in 2005*
Kitchenware products	16
Learning products	7
Cosmetic/slimming products	29
Health foods	9
Fitness equipment	14
Digital electronics products	24
Others	1

Source: Company data

** FY12/05 sales not reflected in company financials as the business operations were not part of the listco at the time.*

Table 4: Main forms of TV shopping

TV sales format	Characteristics
DRTV infomercials	❑ Fast paced, hard-selling infomercials
	❑ Elicit a direct response from viewers
	❑ Purchase the product being demonstrated on TV
24/7 home shopping	❑ TV equivalent of "mail crawling"
	❑ Slow browse products on dedicated channels
Next generation	❑ Interactive shopping channels on digital TV and IPTV platforms
	❑ Compelling and entertaining format
	❑ Facilitate the purchasing decision with technology advances

Source: Company data

Dual channel strategy derives extensive reach. Seven Star's direct TV sales channel (above-the-line sales) stretches across some 18 satellite networks and 35 provincial networks, allowing it to cover the areas in and around Shanghai, Beijing, Fuzhou, Chongqing, Sichuan, Guangzhou and Changsha amongst others. The company has been aggressively increasing its presence on satellite TV channels, which has broader reach than local/provincial channels. The current presence on the 18 satellite networks is an increase from the 10 networks in Sep 2006. The company's three call centres are each staffed with around 120 call operators, excluding support staff. According to management, the call centres each receives around 5,000 calls per day, with approximately a 20% conversion rate. Meanwhile, Seven Star's "below-the-line sales" consist of the company's wholesale and retail operations. The company distributes its products through a network of around 300 POS and 2,700 third party wholesale channels in total, which is sizeable when compared to the distribution network of some pure retail plays. The main role of below-the-line sales is to extend the life cycle of its products. Typically, product sales on the TV home shopping platform are strongly correlated to the amount of air time allocated to the respective product. Having a secondary retail POS channel allows Seven Star to continue to sell its more mature products even after air-time for these items have been scaled back.

Strength in distribution strategy/brand/marketing management. Seven Star does not own manufacturing facilities and sources products from ODM suppliers. When potential products are sourced, it conducts a screening and feasibility study to select products for onward market testing. In this respect, Seven Star has a clear advantage. The company has been established in the industry for 10 years and has been profitable in each year of operation. Furthermore, Chairman Ni has over 10 years experience in the retail, product procurement/ development/packaging in the television shopping industry. Over this period, Seven Star has built up a rich database of customer information and has developed an in-depth appreciation of consumer spending habits and trends across China. Moreover, the flexibility of the direct TV platform allows Seven Star to adopt either a regional or nationwide distribution strategy for its products. Once the products for market testing are identified, the company again draws on its customer base knowledge to develop a media strategy, which includes brand promotion and management, as well as advertising strategy. Seven Star will then proceed to produce a made-for-TV infomercial, typically of 5-10 mins duration. Shanghai Pei Lian, acquired by Seven Star in Sep 2005, will bring synergies to this area with its expertise in retail and media management.

Chart 4: Seven Star's market coverage

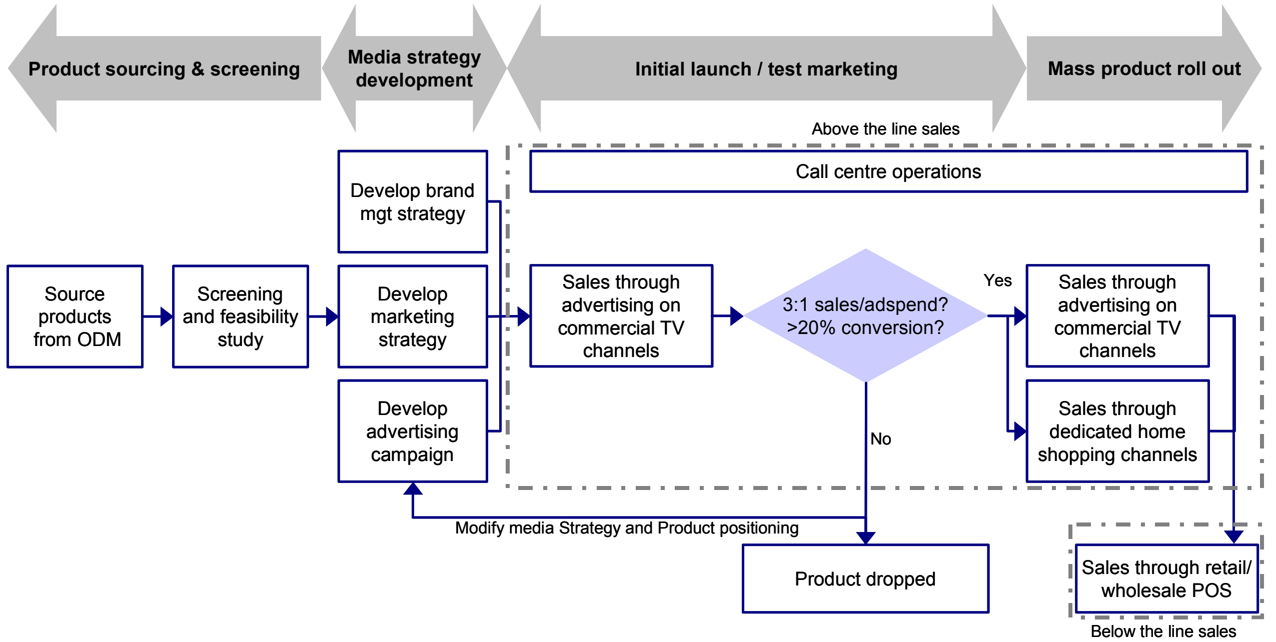
Source: company data

Chart 5: Seven Star call centre in Shanghai

Source: company data

TV platform accelerates market feedback during product development. In addition to forming the core sales distribution channel for its products, Seven Star also utilizes the platform to test potential products. A dedicated product development committee along each product line evaluates and selects potential products from ODMs. The company then initiates the market test process by placing the product infomercial on advertising airtime of commercial TV stations (predominantly on satellite networks) in various cities according to the distribution strategy previously defined over a 0.5 to 1 month period. For the product to be considered "successful", the product will need achieve a number of metrics, including: 1) generate a sales/ad spend ratio of 3:1 and 2) call-to-sales conversion ratio >20%. Products that don't meet this milestone are either sent back to the product development department to have its media strategy and product positioning modified for re-testing, or dropped from the portfolio altogether. The key benefit of using the TV platform to gauge market acceptance is that it minimizes product risk and ensures fast market feedback. Seven Star typically launches around 20 new products per year, with around half considered to be suitable for market launch. Furthermore, the company has agreements with the ODM to takeover the "brand name" of the product if volume sales reach a certain threshold. This allows the Seven Star to keep the goodwill built-up in the brands through its marketing campaign efforts. At present, around 80% of the company's products sold are self-owned brands.

Chart 6: Seven Star's product development model



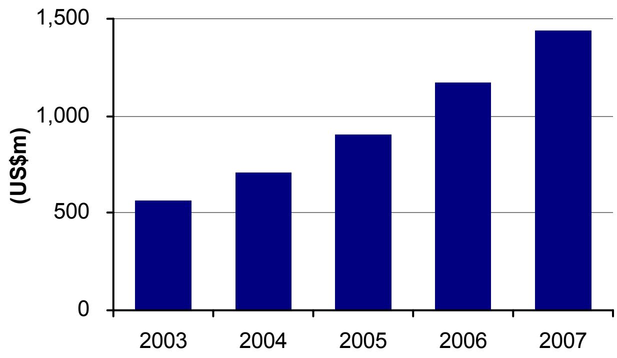
Source: Company data, SBI E2-Capital

Cost sharing with ODMs lowers product development risk. Seven Star is able to further reduce its product development risk through a cost sharing arrangement with the ODMs during the market test process. All ad spend are split on a 20% (Seven Star) / 80% (ODM) basis. Advertising airtime vary widely, ranging from RMB85/min to RMB1,000/min depending on whether the infomercial is placed on local TV stations or national satellite TV stations.

Receivables and inventories not a significant burden. Logistics cost is not significant, accounting for only around 3% of revenues. The company has a self-own distribution team, though it also uses both EMS (China Post) and a Japanese-based logistics services provider. The breakdown between the three channels is approximately 20%/65%/15%. Delivery time typically ranges from 1-7 days, depending on the distribution channel used and account receivables are: self-owned distribution (cash), EMS (45 days) and third party logistics provider (15 days). Return ratio, including defective products and orders rejected by customers on delivery, is <3%. Likewise, inventory is very manageable, at around 15 days. The company is able to tap its vast database of historical data to help forecast future demands and plan sourcing accordingly.

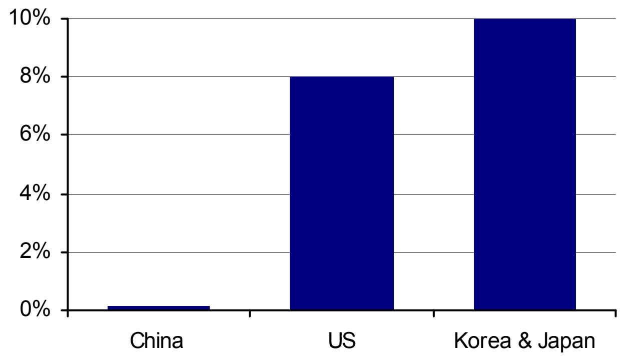
Direct TV sales poised for strong growth. With a penetration rate of 0.23% at the end of 2005, China's direct TV sales industry is still in its nascent stage. This compares to a penetration rate of 8% in the US and 10% in Korea and Japan. Moreover, unlike other emerging industries in China, the infrastructure for direct TV sales is already in place. Number of TV households reached 331m in 2005, with a penetration rate of 95.3%. The industry's growth and increasing penetration will be driven by a number of macro factors. Firstly, as the China economy continues to grow, disposable income levels are also on the rise. China's rising middle class consumers are increasingly shifting their spending towards discretionary consumption. Secondly, China consumers are growing increasingly comfortable with alternative payment methods e.g. credit. According to McKinsey, consumer credit is expected to grow at a CAGR of 25% between 2006 and 2013. Finally, the emergence of next generation media platforms such as digital TV and IPTV is expected to further drive adoption of direct TV sales. The new media will increase the level of interaction with consumers and enhance the overall TV shopping experience. China has shown it can achieve fast adoption rates of new technology platforms as previously demonstrated through mobile communication and Internet. According to Euromonitor, China's direct TV sales market is expected to grow at a CAGR of 22% for 2003 to 2007, compared to a historical average growth rate of around 12% p.a. for the retail industry as a whole.

Chart 7: Growth of China direct TV sales market



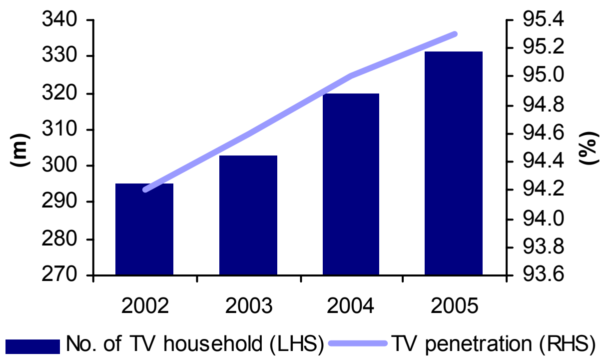
Source: Euromonitor

Chart 8: % home shopping/retail spending in 05



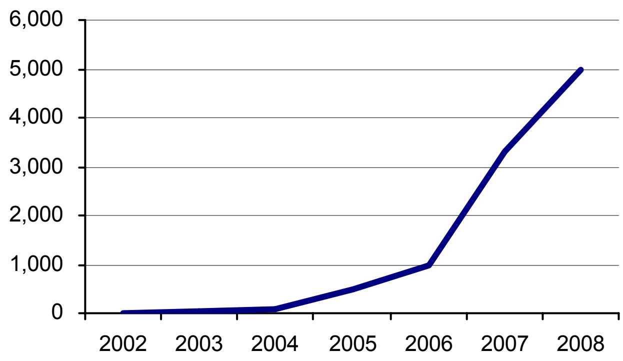
Source: China TVShopping, Euromonitor

Chart 9: TV penetration in China 2005



Source: China Statistical Yearbook (2004, 2005), Asia Pacific Cable and Satellite Market Report 2005

Chart 10: Digital TV subscribers in China



Source: SARFT

Competitive landscape. China's TV home shopping market is dominated by 5 players, which collectively accounted for 44.5% market share in 2005. Seven Star, with a 9.1% market share is ranked second behind industry leader Acorn International. The main markets for TV home shopping include Beijing, Shanghai, Guangdong and Jiangsu. From a geographical perspective, Eastern, Northern and North Eastern China accounted for 64% of the market in 2005.

Table 5: China's direct TV sales leaders

Company	2005 market share (%)
Acorn International	22.5
Seven Star	9.1
Dongfang CJ	5.5
TVSN	4.0
BTV Shopping	3.4

Source: Euromonitor

Entry barriers and sustainability rely on scale. Though barriers to enter the direct TV retail industry are not high, there are significant costs for upstarts to achieve a leading position such as that occupied by Seven Star. These include: 1) operating scale; 2) broad geographical distribution network and 3) rich database of market and client data. The combination of these allow leaders such as Seven Star to derive its competitive advantage of lower cost structure (through lower product sourcing costs and bulk purchase of air time), distribution reach and nationwide brand presence.

Proxy for rising middle class. Seven Star is a direct proxy to China's rising middle class as consumers are increasingly shifting their spending towards discretionary consumption. The company's main target audience, namely middle class housewives and female adolescents, is firmly entrenched in this demographic group.

Increasing focus on consumer electronics will further fuel growth. Seven Star will benefit from several growth catalysts going forward, including: 1) organic industry growth; 2) emerging middle class and 3) selective product line growth in areas such as home appliances, kitchenware and learning products. However, potentially, the biggest growth driver for the company may be its shifting focus to concentrate more on consumer electronic products. The company recently commenced selling one model of CECT branded handsets on 8 Jan 2007. After an initial scaling up period, the company is now averaging 2,000 units sold daily.

Cost structure. As Seven Star only completed the migration into the listco in Nov 2006, the fully consolidated financials won't be fully reflected unit 1H FY12/07F. However, we estimate that the operations are presently enjoying a gross margin of around 57/58%. The company's largest single expense is air time costs, which account for just over 30% of turnover, while remaining G&A costs account for 15%. Gross margins will be dependent on a number of items, including: 1) product mix; 2) channel mix and 3) the proportions of self owned brands. In terms of margin trends, we expect gross margin to gradually moderate over time (though remaining well above 50%) as the proportion of self-owned brands decline and consumer electronics make up a larger part of revenues. However, the company should enjoy margin savings at the G&A line given its extremely scalable business model.

Dividend policy. Management has not committed to a target dividend payout ratio. However, given the potential high growth associated with the company and the cash expenditures required to scale up air time, we believe the management will be re-investing any excess cash back into the business. Therefore, we do not expect the company to be paying out a dividend in the short term.

Risks. 1) entry barriers not significantly high; 2) a slow down in China domestic consumption; 3) rising rental and TV airtime costs; 4) rising rebates for Seven Star's wholesale operations; 5) regulatory risk in terms of both direct TV sales industry and product categories; 6) structured contracts arrangement between Seven Star Shopping and Seven Star (Shanghai); 7) unexpected rise in inventories and receivables as the company increases its focus on consumer electronics and 8) the present lack of financial details given that fully consolidated accounts will not be reflected until 1H FY12/07.

Corporate history. Seven Star was formed through the acquisition and business injection by the former Landune. Landune listco came out of the restructuring and re-naming of the previous Singapore Hong Kong Properties Investment Ltd., a property investment company. Chairman Ni bought into the company through a share subscription, loan capitalization and restructuring agreement in Dec 2003. Over the next two years, the company proceeded to dispose of various non-core investment properties. In Sep 2005, the company acquired Shanghai Pei Lian, a company focusing on the providing media management, call centre operations and distribution services for sales of consumer products. In Aug 2006, Chairman Ni achieved a back door listing for Seven Star (Shanghai) through entering into a series of structured contracts with Landune. After signing the structured contracts, the Chairman migrated the core sales operations from the privately-owned "old" Seven Star into Seven Star (Shanghai) on an area-by-area basis. The process was completed at the end of Nov 06 and Landune was subsequently renamed "China Seven Star Home Shopping Ltd.".

Table 6: P&L

Year to Dec (RMBm)	03A	04A	05A	06F	07F	08F
Turnover	**9.7**	**31.1**	**23.2**	**106.2**	**1,435.2**	**1,943.1**
% chg	-	*220.8*	*(25.5)*	*359.3*	*1252.7*	*33.2*
Cost of sales	(13.3)	(18.5)	(13.9)	(38.2)	(576.0)	(799.0)
Gross profit	(3.6)	12.6	9.3	68.1	859.2	1,144.1
Other revenue	-	-	-	0.3	1.4	3.0
Selling and distribution expenses	-	(9.0)	(5.0)	(32.0)	(377.5)	(528.5)
Administration expenses	(6.9)	(7.3)	(14.9)	(8.3)	(193.8)	(223.5)
Other operating expenses	(14.5)	(0.4)	(1.0)	(1.0)	(6.5)	(7.8)
Operating profit	(25.0)	(4.1)	(11.6)	27.1	282.9	387.4
Finance costs	(28.6)	(3.4)	(0.5)	(0.5)	-	-
Exceptionals	16.7	111.3	(3.4)	-	-	-
Share of profits/(losses) of an associate	-	-	-	-	-	-
Share of profits/(losses) of JCE	-	-	-	-	-	-
Profit before taxation	**(36.9)**	**134.5**	**(15.4)**	**26.6**	**282.9**	**387.4**
Taxation	0.6	-	(2.0)	(6.8)	(49.5)	(75.5)
Profit after taxation	**(36.3)**	**133.7**	**(17.4)**	**19.8**	**233.4**	**311.9**
Minority interests	-	(0.9)	0.8	(3.7)	(68.4)	(92.0)
Profit attributable to shareholders	**(36.3)**	**133.6**	**(16.7)**	**16.0**	**165.0**	**219.9**
% chg	-	*n/a*	*n/a*	*n/a*	*827.0*	*33.3*
Dividend	-	-	-	-	-	-

Source: SBI E2-Capital

Table 7: Valuation comparisons – TV home shopping

Company Name	Ticker	Country	Mkt Cap (US$m)	Price	His. Turnover (US$m)	His. Net Profit (US$m)	Nxt Yr P/E (x)
Media Related Retail							
GS Home Shopping	028150 KS	Korea	571.9	KW71,100	691.7	76.5	7.7
CJ Home Shopping	035760 KS	Korea	854.2	KW62,500	745.9	81.3	12.1
Ideal Shopping Direct	IDS LN	UK	112.1	GBp203.00	148.5	9.7	11.4
Valuevision Media	VVTV US	US	450.0	US$12.03	691.9	(15.8)	66.8
InterActiveCorp	IACI US	US	11,165.7	US$38.02	5,753.7	876.2	21.9
Gems TV	GEMS SP	Sing	1,205.5	SGD1.17	137.6	28.8	12.7
Focus Media	FMCN US	China	4,732.0	US$84.86	68.2	23.6	32.1
Qin Jia Yuan	2366 HK	HK	134.0	HK$2.05	16.0	10.7	7.9
Average							*15.1*
China Retail							
Hongxing Sports	CHHS SP	China	647.1	SGD2.56	38.4	5.8	18.1
Li Ning	2331 HK	China	1,766.3	HK$13.36	311.1	23.7	37.2
Parkson	3368 HK	China	2,901.5	HK$41.00	143.7	31.5	37.3
Suning Appliance	002024 CH	China	6,093.2	RMB66.60	2,019.9	44.5	59.0
China Paradise	503 HK	China	661.7	HK$2.19	1,554.5	36.7	28.8
GOME	493 HK	China	3,114.8	HK$7.98	2,279.7	63.3	21.1
Golden Eagle	3308 HK	China	1,434.9	HK$6.16	93.9	16.9	29.9
Average							*33.0*

Source: Bloomberg, SBI E2-Capital

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.