

Starlight

INTERIM REPORT

2009/2010



STARLITE

升岡國際有限公司

Starlight International Holdings Ltd

(Incorporated in Bermuda with limited liability)

Stock Code: 485



STARLITE

OUR MISSION

In striving to become a world leader in the consumer electronics arena, we pledge to serve customers with innovation and quality services, operate an efficient organization to create value for all stakeholders and honour our responsibilities as a good global corporate citizen. —



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Lau Sak Hong, Philip
Lau Sak Kai, Anthony
Lau Sak Yuk, Andy

Non-executive Director:

Hon Sheung Tin, Peter

Independent Non-executive Directors:

Ho Hau Chong, Norman
Chan Chak Chung
Chuck Winston Calptor

SECRETARY

Lo Tai On
(appointed on 18 September 2009)

AUDITOR

Deloitte Touche Tohmatsu

AUDIT COMMITTEE

Hon Sheung Tin, Peter
Ho Hau Chong, Norman
Chan Chak Chung

PRINCIPAL BANKERS

The Hongkong and Shanghai
Banking Corporation
Standard Chartered Bank (Hong Kong)
Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of
China (Asia) Limited

SOLICITORS

Hon & Company

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Secretaries Limited

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL OFFICE

5th Floor
Shing Dao Industrial Building
232 Aberdeen Main Road
Hong Kong
Tel: (852) 2554 6303
Fax: (852) 2873 0230
email: starlite@starlight.com.hk
website: www.starlight.com.hk

INTERIM RESULTS

The Board of Directors of Starlight International Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

		Six months ended 30 September	
	Notes	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Turnover	3	389,549	767,424
Cost of sales		<u>(317,443)</u>	<u>(595,380)</u>
Gross profit		72,106	172,044
Other income	4	14,386	8,113
Distribution costs		(55,048)	(97,116)
Administrative expenses		(55,619)	(59,979)
Net increase (decrease) in fair value of financial instruments	5	5,051	(5,655)
Share of profits of associates		461	1,175
Finance costs		<u>(5,034)</u>	<u>(10,988)</u>
(Loss) profit before taxation		(23,697)	7,594
Taxation	7	<u>(1,044)</u>	<u>(724)</u>
Net (loss) profit for the period		(24,741)	6,870
Attributable to:			
Owners of the Company		(17,675)	10,359
Minority interests		<u>(7,066)</u>	<u>(3,489)</u>
Other comprehensive income (loss)			
Exchange difference arising on translation of foreign operations		<u>3,773</u>	<u>(4,180)</u>
Total comprehensive (loss) income for the period		(20,968)	2,690
Attributable to:			
Owners of the Company		(14,214)	6,666
Minority interests		<u>(6,754)</u>	<u>(3,976)</u>
(Loss) earnings per share			
– Basic	8	<u>(2.25) cents</u>	<u>1.31 cents</u>
– Diluted	8	<u>N/A</u>	<u>1.25 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2009

		At 30 September 2009 <i>HK\$'000</i> (Unaudited)	At 31 March 2009 <i>HK\$'000</i> (Audited)
Non-current assets			
Investment properties		91,916	91,916
Property, plant and equipment	10	258,462	272,565
Prepaid lease payments		3,835	63,676
Product development costs		87	260
Goodwill		26,541	26,541
Interest in associates		8,532	8,071
Available-for-sale investments		24,052	24,048
Deferred tax assets		5,918	5,918
		<u>419,343</u>	<u>492,995</u>
Current assets			
Inventories		456,742	402,471
Debtors, deposits and prepayments	11	334,181	181,451
Prepaid lease payments		121	1,386
Amounts due from associates		2,989	2,945
Taxation recoverable		2,564	4,919
Investments held for trading		11,941	6,955
Financial assets designated at fair value through profit or loss		564	798
Bank balances and cash		132,938	103,572
		<u>942,040</u>	<u>704,497</u>
Current liabilities			
Creditors and accrued charges	12	314,022	185,227
Amount due to an associate		2,809	2,809
Derivative financial instruments		532	50
Taxation payable		2,114	1,797
Borrowings – amount due within one year		363,106	302,309
Bank overdrafts		23	–
		<u>682,606</u>	<u>492,192</u>

	At 30 September 2009 <i>HK\$'000</i> (Unaudited)	At 31 March 2009 <i>HK\$'000</i> (Audited)
Net current assets	259,434	212,305
Total assets less current liabilities	678,777	705,300
Non-current liabilities		
Deferred tax liabilities	5,821	5,821
Borrowings – amount due over one year	18,227	23,782
	24,048	29,603
Net assets	654,729	675,697
CAPITAL AND RESERVES		
Share capital	314,035	314,035
Reserves	336,851	351,065
Equity attributable to owners of the Company	650,886	665,100
Share option reserve of a listed subsidiary	392	392
Minority interests	3,451	10,205
Total equity	654,729	675,697

Notes

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CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009 (Unaudited)

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Goodwill reserve HK\$'000	Investment revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated profits HK\$'000	Equity attributable to owners of the Company HK\$'000	Share option reserve of a listed subsidiary HK\$'000	Minority interests HK\$'000	Total HK\$'000
The Group														
At 1 April 2008	316,151	109,628	37,138	(3,688)	(82)	2,007	9,579	3,553	53,852	253,601	781,739	253	17,784	799,776
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(3,693)	-	-	-	(3,693)	-	(487)	(4,180)
Profits for the period	-	-	-	-	-	-	-	-	-	10,359	10,359	-	(3,489)	6,870
Total comprehensive income for the period	-	-	-	-	-	-	(3,693)	-	-	10,359	6,666	-	(3,976)	2,690
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	282	282
Capital contribution from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	88	88
Repurchase of shares	(898)	-	-	-	-	-	-	-	898	(709)	(709)	-	-	(709)
At 30 September 2008	315,253	109,628	37,138	(3,688)	(82)	2,007	5,886	3,553	54,750	263,251	787,696	253	14,178	802,127
At 1 April 2009	314,025	109,628	37,138	(3,688)	(82)	2,007	4,327	3,556	55,968	142,211	665,100	392	10,205	675,697
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	3,461	-	-	-	3,461	-	312	3,773
Loss for the period	-	-	-	-	-	-	-	-	-	(17,675)	(17,675)	-	(7,066)	(24,741)
Total comprehensive income for the period	-	-	-	-	-	-	3,461	-	-	(17,675)	(14,214)	-	(6,754)	(20,968)
At 30 September 2009	314,025	109,628	37,138	(3,688)	(82)	2,007	7,788	3,556	55,968	124,536	650,886	392	3,451	654,729

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net Cash used in Operating Activities	(11,886)	(56,500)
Net Cash used in Investing Activities	(9,338)	(23,309)
Net Cash inflow from Financing Activities	50,567	83,797
	<hr/>	<hr/>
Net Increase in Cash and Cash Equivalents	29,343	3,988
Cash and Cash Equivalents at beginning of period	103,572	68,897
	<hr/>	<hr/>
Cash and Cash Equivalents at end of period	132,915	72,885
	<hr/>	<hr/>
Analysis of balances of Cash and Cash equivalents		
Bank balances and cash	132,938	72,999
Bank overdrafts	(23)	(114)
	<hr/>	<hr/>
	132,915	72,885
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

1. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial report for the six months ended 30 September 2009 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting".

2. CHANGES IN ACCOUNTING POLICIES

The following new/revised and amendments to standards are relevant to the Group and are mandatory for the financial year beginning on or after 1 January 2009:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Amendment)	Borrowing Costs
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments

The adoption of the above amendments to existing standards did not have significant impact to the Group's financial position and has not led to any changes in the Group's accounting policies.

The following new standards, amendments to standards and interpretations are mandatory for the financial year beginning on or after 1 January 2009, but are not currently relevant for the Group:

HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Embedded Derivatives
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment–Vesting Conditions and Cancellations
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedged Item
HKFRS 2 (Amendments)	Share-based Payments – Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised) and HKAS 7 (Revised)	Business Combinations and Consolidated and Separate Financial Statements
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) – Int 18	Transfers of Assets from Customers
Various	HKICPA's improvements to HKFRSs

3. SEGMENT INFORMATION

Business segments

HKFRS 8 Operating Segments requires the disclosure of information about the Group's operating segments. The adoption of this standard did not have any effect on the Group's results of operations or financial position. The Group determines that the operating segments are the same as the business segments previously identified and disclosed in accordance with HKAS 14 Segment Reporting.

The Group is currently organised into two operating divisions – design, manufacture and sale of electronic products and securities trading. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

SIX MONTHS ENDED 30 SEPTEMBER 2009

	Design, manufacture and sale of electronic products HK\$'000	Securities trading HK\$'000	Consolidated HK\$'000
TURNOVER	389,549	–	389,549
SEGMENT RESULTS	(27,338)	5,156	(22,182)
Interest income			639
Unallocated income			2,419
Share of profits of associates			461
Finance costs			(5,034)
Loss before taxation			(23,697)
Taxation			(1,044)
Loss for the period			(24,741)

SIX MONTHS ENDED 30 SEPTEMBER 2008

	Design, manufacture and sale of electronic products <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER	767,424	–	767,424
SEGMENT RESULTS	22,428	(5,386)	17,042
Interest income			365
Share of profits of associates			1,175
Finance costs			(10,988)
Profit before taxation			7,594
Taxation			(724)
Profit for the period			6,870

4. OTHER INCOME

	Six months ended 30 September	
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Other income includes:		
Commission	343	1,191
Exchange gain, net	7,441	596
Income from investments	1,113	1,173
Rental income	2,419	2,334
Miscellaneous income	3,070	2,819
	14,386	8,113

5. NET INCREASE (DECREASE) IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase in fair value of derivative financial instruments	675	417
Increase (decrease) in fair value of financial assets designated at fair value through profit or loss	374	(669)
Increase (decrease) in fair value of investments held for trading	4,002	(5,403)
	<u>5,051</u>	<u>(5,655)</u>

6. DEPRECIATION AND AMORTISATION

During the period, depreciation and amortisation of approximately HK\$24,639,000 (HK\$27,267,000 for the six months ended 30 September 2008) was charged to the consolidated financial results in respect of the Group's property, plant and equipment, prepaid lease payments and product development costs.

7. TAXATION

	Six months ended 30 September	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge (credit) comprises:		
Hong Kong Profits Tax	–	1,081
Taxation (recovery) in other jurisdictions	1,044	(357)
	<u>1,044</u>	<u>724</u>
Taxation attributable to the Company and its subsidiaries	<u>1,044</u>	<u>724</u>

No provision of Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 September 2008: HK\$1,081,000).

Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profit for the period.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

8. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 September	
	2009	2008
Net (loss) profit for the period attributable to owners of the Company for the purpose of basic and diluted (loss) earnings per share	<u>HK\$(17,675,000)</u>	<u>HK\$10,359,000</u>
Weighted average number of shares for the purpose of basic (loss) earnings per share	785,088,828	789,241,999
Effect of dilutive potential ordinary shares for the purpose of dilutive (loss) earnings per share – Share option	<u>N/A</u>	<u>42,410,925</u>
Weighted average number of ordinary shares for the purpose of dilutive (loss) earnings per share	<u>N/A</u>	<u>831,652,924</u>

9. INTERIM DIVIDEND

The directors have resolved not to pay an interim dividend for the year ending 31 March 2010 (Year ended 31 March 2009: nil cent per share).

10. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
Net book value at beginning of year	272,565	298,575
Currency realignment	(149)	(64)
Additions	10,452	22,647
Depreciation	<u>(24,406)</u>	<u>(26,401)</u>
	<u>258,462</u>	<u>294,757</u>

11. DEBTORS, DEPOSITS AND PREPAYMENTS

At 30 September 2009, debtors, deposits and prepayments includes trade debtors of HK\$228,826,000 (31 March 2009: HK\$102,003,000). The Group provides credit periods of up to 90 days, depending on the products sold, to its trade customers. The following is an aged analysis of accounts receivable at the reporting date:

	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
0 – 30 days	183,566	67,376
31 – 60 days	22,804	5,002
61 – 90 days	2,139	9,338
Over 90 days	20,317	20,287
	<u>228,826</u>	<u>102,003</u>

12. CREDITORS AND ACCRUED CHARGES

At 30 September 2009, creditors and accrued charges includes trade creditors of HK\$188,456,000 (31 March 2009: HK\$120,323,000). The aged analysis of trade creditors at the balance sheet date is as follows:

	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
0 – 30 days	140,838	29,264
31 – 60 days	19,680	16,914
61 – 90 days	6,771	19,641
Over 90 days	21,167	54,504
	<u>188,456</u>	<u>120,323</u>

13. SHARE CAPITAL

	Number of shares	Issued and Fully paid Share capital HK\$'000
Balance at 1 April 2009 and 30 September 2009	<u>785,088,828</u>	<u>314,035</u>

14. CAPITAL COMMITMENTS

	30 September 2009 HK\$'000	31 March 2009 HK\$'000
Contracted for but not provided in the consolidated financial results in respect of: – capital expenditure for acquisition of property, plant and equipment	<u>1,389</u>	<u>3,229</u>

15. CONTINGENT LIABILITIES

There are no significant contingent liabilities as of 30 September 2009 and 31 March 2009.

16. RELATED PARTY TRANSACTIONS

There were no significant related party transactions undertaken by the Group at any time during the six months period.

BUSINESS REVIEW AND GROUP RESULTS

Due to the prolonged global economic recession, high unemployment, and weak consumer spending, the Group has yet to reverse its performance during this interim period. The Group recorded sales of HK\$390M (2008: HK\$767M) and a net loss attributable to the owners of the Company of HK\$18M as compared with a net profit attributable to owners of the Company of HK\$10M in 2008.

The Group experienced a 49% reduction in turnover, primarily due to slow sales at the beginning of the fiscal year. Slow sales were influenced by the following multiple factors outside of the Group's control. At the beginning of the year, the U.S. retail trend was cautious as retailers reduced forecasts due to excess inventory in stores and uncertain trends with consumer confidence. As a result, retailers delayed placing orders or cancelled orders entirely. In addition, traditional holidays such as Easter, Mother's Day, and Father's Day did not lift retail spending. To cater for the weak economy spending, retailers also focused on ordering affordable, entry-level products. However, two years prior when the economy was strong, the Group switched its strategy from manufacturing entry-level products to high-end products. This shift in retail buying trend did not follow the Group's strategy to focus on high-end product. The Group was also affected by a shortage of workers in the Pearl Delta area when the Christmas holiday season orders began coming in. The loss in sales, although not significant did contribute to a higher unit cost of manufacturing and a lower gross profit margin during this period.

Gross profit margin dropped from 22% to 19%. Workers wages have stabilized but due to a shortage of labor, we had to increase workers overtime to make up for the shortage. Since the closing of thousands of factories in the southern province of China, many workers returned to their home towns hundred of miles away and did not return to wait for employment. Gross profit margin was also negatively affected as the Group took aggressive action in the beginning of the fiscal year to reduce surplus inventory and reduce the cost of storage and financing.

The Group cut its administrative expenses and finance costs by 7% and 54% respectively. Administrative payroll was cut across the board by 10%-25%. Finance charges were substantially reduced compared with 2008 as we maintained a low level of borrowing throughout the current period.

The net loss attributable to the owners of the Company of HK\$18M was primarily due to the decline in sales and a moderate drop in gross profit margin. Management had anticipated a better result but attributed the current net loss to factors that were outside management control.

PROSPECTS

While certain economic indicators are showing early signs of recovery around the globe, the prediction of ending the current economic recession has been postponed from 2009 to 2010. Management is cautiously optimistic that our sales will improve in 2010. We have positioned the Group to sustain a prolonged recovery by maintaining a low level of bank borrowing, carefully monitored inventory planning, strengthening our sales presence in the US and UK, and a continued action to reduce our overhead structure.

FINANCIAL POSITION

Liquidity and financial resources

On 30 September 2009 the Group had cash, deposits and marketable securities of \$145 million (31 March 2009: \$111 million). Net bank borrowings was 38% of shareholders' equity (31 March 2009: 33%). Cash was used to primarily finance the increase in inventory and account receivable leading up to the holiday selling season. As management is cautious about the current economic condition, inventory at 30 September 2009 was \$143 million less than the same period in 2008. We will monitor our inventory closely in the next half of the fiscal year.

Trade receivable was \$229 million at 30 September 2009 (31 March 2009: \$102 million). The increase reflects the seasonality of the Group's trade pattern and we expect receivable will be reduced to the March 2009 level at the end of the current fiscal year.

Financing and capital structure

The Group finances its operations from retained earnings and short term bank borrowings. As at 30 September 2009 our banking facilities amounted to HK\$1,005 million of which \$421 million was utilized (31 March 2009: HK\$332 million). All bank borrowings were denominated in Hong Kong dollars or US dollars at prevailing market rate. We plan that our bank borrowings will be further reduced in the next six months as we collect from receivable and sell our inventory.

The Group's transactions were mostly denominated in US dollars and HK dollars. Apart from the exposure to the Chinese RMB, we consider our exposure to exchange risk as minimal.

During a period of economic down turn, management will focus on reducing our borrowings and maintain cash reserve to fund our operation in the next half of this fiscal year.

STAFF

As at 30 September 2009, the Group had a total staff of 2,925 of which 2,762 were employed in the PRC for the Group's manufacturing business.

The Group provides employee benefits such as staff insurance, retirement scheme, discretionary bonus and share option scheme and also provides in-house training programmes and external training sponsorship.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2009, the interests and short positions of the directors or chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

Name of director	Long position/ short position	Capacity	Number of shares held	Approximate percentage of shareholding
<i>Executive directors:</i>				
Lau Sak Hong, Philip	Long position	Beneficial owner	98,590,529	12.55%
		Interest of controlled corporation (note a)	3,165,277	0.40%
		Interest of controlled corporation (note b)	10,100,415	1.29%
		Held by trust (note c)	169,069,209	21.54%
			<u>280,925,430</u>	<u>35.78%</u>
Lau Sak Kai, Anthony	Long position	Beneficial owner	38,693,836	4.93%
		Interest of controlled corporation (note a)	3,165,277	0.40%
		Interest of controlled corporation (note b)	10,100,415	1.29%
			<u>51,959,528</u>	<u>6.62%</u>

Name of director	Long position/ short position	Capacity	Number of shares held	Approximate percentage of shareholding
Lau Sak Yuk, Andy	Long position	Beneficial owner	37,507,445	4.78%
		Interest of controlled corporation (note a)	3,165,277	0.40%
		Interest of controlled corporation (note b)	10,100,415	1.29%
			<u>50,773,137</u>	<u>6.47%</u>
<i>Non-executive director:</i>				
Hon Sheung Tin, Peter	Long position	Beneficial owner	<u>206,769</u>	<u>0.03%</u>
<i>Independent non-executive director:</i>				
Chuck Winston Calptor	Long position	Beneficial owner	<u>770,000</u>	<u>0.10%</u>

Notes:

- (a) These shares are held by K.K. Nominees Limited, a company which is wholly and beneficially owned by Lau Sak Hong, Philip, Lau Sak Kai, Anthony and Lau Sak Yuk, Andy (hereinafter collectively with other family members referred to as the "Lau's family").
- (b) These shares are held by Wincard Management Services Limited, a company which is wholly and beneficially owned by the Lau's family.
- (c) These shares are wholly and beneficially owned directly or indirectly by Philip Lau Holding Corporation, a company beneficially owned by a discretionary trust, the discretionary objects of which include Lau Sak Hong, Philip and his associates.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, as at 30 September 2009, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

Share options of the Company

The Company has a share option scheme which was approved and adopted at the special general meeting of the Company held on 12 September 2002 (the "Old Scheme") for a period of 5 years. The primary purpose is to provide incentives or rewards to participants for their contribution to the Group. Eligible participants of the Old Scheme included any employees, non-executive directors, suppliers of goods or services, customers, advisors or consultants and shareholders of any member of the Group.

The Old Scheme expired on 11 September 2007 and thereafter, no more option could be granted pursuant to the Old Scheme. In respect of the options already granted under the Old Scheme, the provisions shall remain in force. The movements of the share options granted to certain employees of the Group pursuant to the Old Scheme were as follows:

Date of grant	Exercise price HK\$	Number of share options		
		Outstanding as at 1.4.2009	Exercised during the period	Outstanding as at 30.9.2009
02.11.2004	0.814	500,000	–	500,000
05.01.2006	0.890	12,000,000	–	12,000,000
13.11.2006	1.450	2,000,000	–	2,000,000
04.01.2007	1.660	220,000	–	220,000
01.02.2007	1.720	40,000	–	40,000
07.03.2007	1.930	3,000,000	–	3,000,000
		<u>17,760,000</u>	<u>–</u>	<u>17,760,000</u>

Notes:

- (a) The above options were granted for an exercise period of five years from the date of grant of the options.
- (b) No option was granted, exercised, lapsed or cancelled during the period.

A new share option scheme (the "New Scheme") was approved and adopted at the special general meeting of the Company held on 15 January 2008 for a period of 10 years. The primary purpose is to recognise the contribution of participants and to recruit and retain high calibre employees and attract human resources that are valuable to the Group. Eligible participants of the New Scheme included any full time employees (including directors, whether executive or non-executive and whether independent or not), suppliers, consultants, agents and advisors of the Group.

The movements of the share options granted to certain employees of the Group pursuant to the New Scheme were as follows:

Date of grant	Exercise price HK\$	Number of shares option outstanding at 1.4.2009	Number of shares option exercised during the period	Number of shares option at 30.9.2009
23.01.2008	1.042	150,000	–	150,000
28.01.2008	0.960	346,000	–	346,000
15.10.2008	0.400	500,000	–	500,000
		<u>996,000</u>	<u>–</u>	<u>996,000</u>

No share options were granted to the directors of the Company pursuant to the New Scheme during the period.

Notes:

- (a) The above options were granted for an exercise period of ten years from the date of grant of the options.
- (b) No option was granted, exercised, lapsed or cancelled during the period.

Share options of The Singing Machine Company, Inc. ("SMC"), a 52.4% owned subsidiary of the Company

The movements of the share options granted to certain employees of the Group pursuant to the SMC Scheme were as follows:

Date of grant	Exercise price US\$	Number of share options				Outstanding as at 30.9.2009
		Outstanding as at 1.4.2009	Granted during the period	Exercised during the period	Forfeited during the period	
5 September 2000	2.04	5,550	-	-	-	5,550
31 December 2002	9.00	19,000	-	-	-	19,000
19 December 2003	1.97	13,680	-	-	-	13,680
6 February 2004	1.54	6,500	-	-	-	6,500
26 February 2004	1.36	20,000	-	-	-	20,000
29 March 2004	1.20	20,000	-	-	-	20,000
29 November 2004	0.75	40,000	-	-	-	40,000
1 December 2004	0.77	20,000	-	-	-	20,000
9 May 2005	0.60	112,000	-	-	-	112,000
6 June 2005	0.76	30,000	-	-	-	30,000
31 March 2006	0.32	60,000	-	-	-	60,000
10 April 2006	0.33	186,485	-	-	-	186,485
31 March 2007	0.93	60,000	-	-	-	60,000
31 March 2008	0.45	120,000	-	-	-	120,000
3 October, 2008	0.14	300,000	-	-	-	300,000
31 March 2009	0.11	120,000	-	-	-	120,000
		<u>1,133,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,133,215</u>

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share options as disclosed above, at no time during the six months ended 30 September 2009 was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2009, the following person, other than the interest disclosed above in respect of the directors, had interest in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests in shares and short positions required to be kept under Section 336 of Part XV of the SFO:

Name	Capacity	Number of ordinary shares which interested	in % of total issued shares
Lee Yu Chiang	Beneficial owner	42,140,878	5.37%
Deutsche Bank Aktiengesellschaft	Beneficial owner	62,765,994	7.99%

Save as mentioned above and in the section headed "Directors' Interests in Securities", as at 30 September 2009, the register maintained by the Company pursuant to Section 336 of the SFO recorded no other interests or short positions in shares of the Company.

CORPORATE GOVERNANCE

The Company has met the code provisions of the Code on Corporate Governance Practices ("the Code") as set out in the Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30 September 2009 except as below:

1. Pursuant to code provision A.2.1, the roles of chairman and chief executive officer of an issuer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Lau Sak Hong, Philip is currently the chairman and managing director of the Company. Having considered the current business operation and the size of the Group, the board of directors of the Company is of the view that Mr. Lau acting as both the chairman and managing director of the Company is acceptable and in the best interest of the Company. The Board will review this situation periodically.

2. The Company was incorporated in Bermuda and enacted by private act, the Starlight International Holdings Limited Company Act, 1989 of Bermuda (the "1989 Act"). Pursuant to section 3(e) of the 1989 Act, director holding office as executive chairman or managing director shall not be subject to retirement by rotation at each annual general meeting as provided in the bye-laws of the Company ("the Bye-laws"). As the Company is bound by the provisions of the 1989 Act, the Bye-laws cannot be amended to fully reflect the requirements of the code provision A.4.2 which stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

To enhance good corporate governance practices, Mr. Lau Sak Hong, Philip, the chairman and managing director of the Company will voluntarily retire from his directorship at annual general meeting of the Company at least once every three years in order for the Company to comply with the Code, provided that, being eligible for re-election, he may offer himself for re-election at the annual general meeting.

DIRECTORS' SECURITIES TRANSACTIONS

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, as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, they all confirmed that they have complied with the Model Code throughout the six months period ended 30 September 2009.

AUDIT COMMITTEE

The Company has established an audit committee comprising Messrs. Hon Sheung Tin Peter, Ho Hau Chong Norman and Chan Chak Chung. Terms of reference of the audit committee have been updated in compliance with the Code. The audit committee together with the management of the Company has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the interim report for the six months ended 30 September 2009.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2009, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares.

BOARD OF DIRECTORS

As at the date of this report, the Board of Directors comprises three executive directors, namely Mr. Lau Sak Hong, Philip, Mr. Lau Sak Kai, Anthony, Mr. Lau Sak Yuk, Andy and a non-executive director namely Mr. Hon Sheung Tin, Peter and three independent non-executive directors namely, Mr. Ho Hau Chong, Norman, Mr. Chan Chak Chung and Mr. Chuck Winston Calptor.

By Order of the Board
Lau Sak Hong, Philip
Chairman

Hong Kong, 18 December 2009