

# **STARLITE**

升岡國際有限公司

Starlight International Holdings Ltd

(Incorporated in Bermuda with limited liability)

Stock Code: 485

2010/11  
INTERIM REPORT





# **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  
Lau Chu Lan, Carol

#### **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

### **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

### **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  
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## 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 (collectively referred to as the "Group") for the six months ended 30 September 2010 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

		Six months ended 30 September	
	Notes	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Turnover	3	271,888	389,549
Cost of sales		(237,626)	(317,443)
Gross profit		34,262	72,106
Other income	4	5,253	14,386
Distribution costs		(34,942)	(55,048)
Administrative expenses		(54,447)	(55,619)
Net (decrease) increase in fair value of financial instruments	5	(591)	5,051
Loss on deemed partial disposal of a subsidiary		(101)	–
Finance costs		(2,442)	(5,034)
Share of profits of associates		110	461
Loss before taxation		(52,898)	(23,697)
Taxation	7	(52)	(1,044)
Net loss for the period		(52,950)	(24,741)
Other comprehensive (expense) income			
Exchange difference arising on translation of foreign operations		(477)	3,773
Total comprehensive expenses for the period		(53,427)	(20,968)
Loss for the period attributable to:			
Owners of the Company		(51,957)	(17,675)
Minority interests		(993)	(7,066)
		(52,950)	(24,741)
Total comprehensive expense for the period attributable to:			
Owners of the Company		(52,385)	(14,214)
Minority interests		(1,042)	(6,754)
		(53,427)	(20,968)
(Loss) per share			
– Basic and diluted	8	(5.03) cents	(2.25) cents

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2010

		At 30 September 2010 <i>HK\$'000</i> (Unaudited)	At 31 March 2010 <i>HK\$'000</i> (Audited)
	Notes		
<b>Non-current assets</b>			
Investment properties		145,350	145,350
Property, plant and equipment	10	220,487	237,652
Prepaid lease payments		3,714	3,774
Goodwill		26,366	26,484
Interest in associates		7,995	8,174
Available-for-sale investments		24,040	24,046
Deferred tax assets		3,245	3,245
		<u>431,197</u>	<u>448,725</u>
<b>Current assets</b>			
Inventories		425,944	325,718
Debtors, deposits and prepayments	11	244,913	115,247
Prepaid lease payments		121	121
Amounts due from associates		3,010	3,010
Taxation recoverable		584	584
Investments held for trading		7,775	13,877
Financial assets designated at fair value through profit or loss		2	3
Bank balances and cash		102,762	80,440
		<u>785,111</u>	<u>539,000</u>
<b>Current liabilities</b>			
Creditors and accrued charges	12	248,368	144,779
Amount due to an associate		2,809	2,809
Derivative financial instruments		–	275
Taxation payable		1,130	1,671
Borrowings		320,197	219,389
Bank overdrafts		971	218
		<u>573,475</u>	<u>369,141</u>

		At 30 September 2010 <i>HK\$'000</i> (Unaudited)	At 31 March 2010 <i>HK\$'000</i> (Audited)
Net current assets		<u>211,636</u>	<u>169,859</u>
Total assets less current liabilities		<u>642,833</u>	<u>618,584</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		<u>4,467</u>	<u>4,467</u>
Net assets		<u>638,366</u>	<u>614,117</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	143,415	314,035
Reserves		<u>494,564</u>	<u>298,699</u>
Equity attributable to owners of the Company		637,979	612,734
Share option reserve of a listed subsidiary		471	465
Minority interests		<u>(84)</u>	<u>918</u>
Total equity		<u>638,366</u>	<u>614,117</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (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
At 1 April 2009	314,035	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 expense for the period	-	-	-	-	-	-	3,461	-	-	(17,675)	(14,214)	-	(6,754)	(20,968)
At 30 September 2009	314,035	109,628	37,138	(3,688)	(82)	2,007	7,788	3,556	55,968	124,536	650,886	392	3,451	654,729
At 1 April 2010	314,035	109,628	37,138	(3,688)	(82)	12,045	9,413	3,556	55,968	74,721	612,734	465	918	614,117
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(428)	-	-	-	(428)	-	(49)	(477)
Loss for the period	-	-	-	-	-	-	-	-	-	(51,957)	(51,957)	-	(993)	(52,950)
Total comprehensive expense for the period	-	-	-	-	-	-	(428)	-	-	(51,957)	(52,385)	-	(1,042)	(53,427)
Capital contribution from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	59	59
Deemed partial disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(19)	(19)
Recognition of equity settled share based payments	-	-	-	-	-	-	-	1,040	-	-	1,040	(6)	-	1,046
Issue of shares upon exercise of share options	2,100	2,494	-	-	-	-	-	(588)	-	-	3,996	-	-	3,996
Capital Reorganisation	(235,527)	-	-	-	-	-	-	-	235,527	-	-	-	-	-
Issue of shares upon Open Offer	62,807	9,787	-	-	-	-	-	-	-	-	72,594	-	-	72,594
At 30 September 2010	143,415	121,899	37,138	(3,688)	(82)	12,045	8,985	4,008	291,495	22,764	637,979	471	(84)	638,366



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net Cash used in Operating Activities	(150,075)	(11,886)
Net Cash used in Investing Activities	(3,307)	(9,338)
Net Cash inflow from Financing Activities	<u>174,951</u>	<u>50,567</u>
Net Increase in Cash and Cash Equivalents	21,569	29,343
Cash and Cash Equivalents at beginning of period	<u>80,222</u>	<u>103,572</u>
Cash and Cash Equivalents at end of period	<u>101,791</u>	<u>132,915</u>
Analysis of balances of Cash and Cash equivalents		
Bank balances and cash	102,762	132,938
Bank overdrafts	<u>(971)</u>	<u>(23)</u>
	<u>101,791</u>	<u>132,915</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

### 1. BASIS OF PREPARATION

This unaudited condensed consolidated financial statements for the six months ended 30 September 2010 has been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting".

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current period, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are or have become effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 32 (Amendment)	Classification of rights issues
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 1 (Amendment)	Limited exemptions from comparative HKFRS 7 disclosure for first-time adopters
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners

The adoption of the new and revised HKFRSs has had no material effect on the Group's condensed consolidation financial statements for the current or prior accounting periods.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related party disclosures
HKFRS 1 (Amendment)	Additional exemption for first-time adopters
HKFRS 7 (Amendment)	Disclosures-Transfers of financial assets
HKFRS 9	Financial instruments
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments

### 3. SEGMENT INFORMATION

The Group is organised into two operating divisions, namely design, manufacture and sale of electronic products (representing consumer electronic audio and video equipment, musical instruments and accessories) and securities trading. These divisions are the basis on which the Group reports its segment information.

#### Segment revenue and results

An analysis of the Group's revenue, which represents sales of goods, and results by reportable segments is as follows:

#### SIX MONTHS ENDED 30 SEPTEMBER 2010

	Design, manufacture and sale of electronic products HK\$'000	Securities trading HK\$'000	Consolidated HK\$'000
TURNOVER	271,888	–	271,888
SEGMENT RESULTS	(42,881)	(400)	(43,281)
Interest income			75
Unallocated income			2,428
Unallocated expense			(9,788)
Share of profits of associates			110
Finance costs			(2,442)
Loss before taxation			(52,898)
Taxation			(52)
Loss for the period			(52,950)

SIX MONTHS ENDED 30 SEPTEMBER 2009

	Design, manufacture and sale of electronic products <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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)

4. OTHER INCOME

	Six months ended 30 September	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Other income includes:		
Commission	205	343
Exchange gain, net	400	7,441
Income from investments	109	1,113
Rental income	2,428	2,419
Miscellaneous income	2,111	3,070
	<u>5,253</u>	<u>14,386</u>

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

	Six months ended 30 September	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase in fair value of derivative financial instruments	183	675
Increase in fair value of financial assets designated at fair value through profit or loss	–	374
(Decrease) increase in fair value of investments held for trading	(774)	4,002
	<u>(774)</u>	<u>4,002</u>
	<u>(591)</u>	<u>5,051</u>

6. DEPRECIATION AND AMORTISATION

During the period, depreciation and amortisation of approximately HK\$20,821,000 (HK\$24,639,000 for the six months ended 30 September 2009) was charged to the consolidated financial results in respect of the Group's property, plant and equipment, and prepaid lease payments.

7. TAXATION

	Six months ended 30 September	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax	–	–
Taxation in other jurisdictions	52	1,044
	<u>52</u>	<u>1,044</u>
Taxation attributable to the Company and its subsidiaries	<u>52</u>	<u>1,044</u>

No provision of Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for both periods.

Hong Kong Profits Tax is calculated at 16.5% (2009: 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 PER SHARE

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

	Six months ended 30 September	
	2010	2009
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	<u>HK\$(51,957,000)</u>	<u>HK\$(17,675,000)</u>
Weighted average number of shares for the purpose of basic loss earnings per share	<u>1,033,204,462</u>	<u>785,088,828</u>

The calculation of diluted loss per share for both periods does not assume the exercise of the outstanding share options and warrants as it would result in a decrease in the loss per share.

## 9. INTERIM DIVIDEND

The directors have resolved not to pay an interim dividend for the year ending 31 March 2011 (Year ended 31 March 2010: nil cent per share).

## 10. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
Net book value at beginning of year	237,652	272,565
Currency realignment	1	(149)
Additions	3,595	10,452
Depreciation	<u>(20,761)</u>	<u>(24,406)</u>
	<u>220,487</u>	<u>258,462</u>

## 11. DEBTORS, DEPOSITS AND PREPAYMENTS

At 30 September 2010, debtors, deposits and prepayments includes trade debtors of HK\$158,249,000 (31 March 2010: HK\$66,135,000). 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:

	<b>30 September 2010 (Unaudited) HK\$'000</b>	<b>31 March 2010 (Audited) HK\$'000</b>
0 – 30 days	118,532	37,640
31 – 60 days	7,712	5,802
61 – 90 days	11,046	4,690
Over 90 days	20,959	18,003
	<u>158,249</u>	<u>66,135</u>

## 12. CREDITORS AND ACCRUED CHARGES

At 30 September 2010, creditors and accrued charges includes trade creditors of HK\$147,253,000 (31 March 2010: HK\$92,621,000). The aged analysis of trade creditors at the balance sheet date is as follows:

	<b>30 September 2010 (Unaudited) HK\$'000</b>	<b>31 March 2010 (Audited) HK\$'000</b>
0 – 30 days	100,519	18,684
31 – 60 days	16,567	16,859
61 – 90 days	6,687	2,032
Over 90 days	23,480	55,046
	<u>147,253</u>	<u>92,621</u>

### 13. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary shares		
Authorised:		
At 1 April 2009, 30 September 2009 and 31 March 2010 of HK\$0.40 each	1,250,000,000	500,000
Capital Reorganisation-subdivision of share (note a)	<u>3,750,000,000</u>	<u>–</u>
At 30 September 2010	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
Balance at 1 April 2009, 30 September 2009 and 31 March 2010	785,088,828	314,035
Issue of shares upon exercise of share options	21,000,000	2,100
Issue of shares upon Open Offer (note b)	628,071,062	62,807
Capital Reorganisation (note a)	<u>–</u>	<u>(235,527)</u>
Balance at 30 September 2010	<u>1,434,159,890</u>	<u>143,415</u>

Notes:

- (a) Pursuant to a special resolution passed at the special general meeting of the Company held on 23 June 2010, the par value of each of the existing shares in issue was reduced from HK\$0.40 to HK\$0.10 by the cancellation of HK\$0.30 of the paid up capital on each issued share and each unissued share of HK\$0.40 each is subdivided into 4 subdivided shares of HK\$0.10 each (the "Capital Reorganisation"). Upon completion of the Capital Reorganisation at 5:00 p.m. on 23 June 2010, the authorised share capital of the Company becomes HK\$500,000,000 divided into 5,000,000,000 subdivided shares of HK\$0.10 each, of which 785,088,828 subdivided shares of HK\$0.10 were in issue.
- (b) Pursuant to an ordinary resolution passed at the same special general meeting of the Company referred to in (a) above, the proposed issue of offer shares at a price of HK\$0.12 per offer share on the basis of 4 offer shares for every 5 subdivided shares (the "Open Offer") was approved. The Open Offer was completed on 21 July 2010 and 628,071,062 offer shares were issued.



**14. CAPITAL COMMITMENTS**

	<b>30 September 2010 HK\$'000</b>	<b>31 March 2010 HK\$'000</b>
Contracted for but not provided in the consolidated financial statements in respect of: – capital expenditure for acquisition of property, plant and equipment	<u>760</u>	<u>706</u>

**15. CONTINGENT LIABILITIES**

There are no significant contingent liabilities as of 30 September 2010 and 31 March 2010.

**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

The global economy recovered at a much slower pace than we expected in 2010. We are disappointed to report that the Group recorded a loss during this interim period.

Although we have secured the Polaroid brand for our TV and DVD products in April 2010, we missed the timing to capture the benefits of sales as most US business is decided early in the calendar year for the spring and summer programs. The Group recorded sales revenue of HK\$272 million, a decrease of 30% from HK\$390 million in 2009. We lost 25% of our TV/DVD sales to brand name manufacturers as we were late to launch our Polaroid line of TV/DVD products. We lost 5% of our youth line due to a lower demand of this category.

The Group recorded a net loss attributable to the shareholders of the Group of HK\$52 million as compared with HK\$18 million in 2009. Gross profit margin decreased from 18.5% in 2009 to 12.6% in the current period. Although our unit sell price and our variable unit cost were similar to 2009, the fixed unit cost rose significantly due to a decline in the overall sales volume. The steady appreciation of the RMB also contributed to the increase of our cost structure.

We reduced our distribution expense from 14% of sales in 2009 to 12.8% of sales in the current period. We streamlined our logistic and warehouse operations to achieve this result. Our administrative expense, majority of which are fixed and non-discretionary in nature, was kept to a level similar to 2009. Finance costs reduced by 51% due to a lower level of borrowing.

The global investment market was volatile in the first half year of 2010. The securities trading division recorded a loss of HK\$591,000 (2009: profit of HK\$5,051,000).

## PROSPECTS

In November, 2010, the Group reached a new milestone with Polaroid. Effective January, 2011, we will have the exclusive access to market and sell the entire digital imaging products line of Polaroid. Polaroid instant camera is a world renowned product. This is an exciting opportunity to upgrade and broaden our product range, improve our competitiveness in the market place and increase our revenue base.

The digital imaging products line consists of digital instant camera with built in printer, the traditional instant camera, digital video camera, digital photo frames, stand-a-alone instant digital printer, and film paper. We expect this new line will contribute strange growth to our sales turnover in fiscal 2012. We are confident to benefit from Polaroid's sound marketing strategy to compete in the digital camera market. Through Polaroid, we will have access to the strong technology partners of Polaroid to bring new features and technology to our camera products.

We plan to add the camera line to the Polaroid TV and DVD line to offer a one-vendor solution to our retailer customers. We expect to upgrade our existing TV and DVD line to include LED TV and blu-ray DVD players to recapture our market share.

The short term outlook of the second half of fiscal 2011 is a gradual recovery of our top line and bottom line. We expect our sales revenue will improve by the first quarter sales of our camera products. Our average gross profit margin will also be raised by a better profit contribution from the camera line.

## **FINANCIAL POSITION**

### **Liquidity and financial resources**

On 30 September 2010 the Group had cash, deposits and marketable securities of HK\$111 million (31 March 2010: HK\$94 million). Net bank borrowings was 34% of shareholders' equity (31 March 2010: 23%). 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 2010 was HK\$426 million less than the same period in 2009. We will monitor our inventory closely in the next half of the fiscal year.

Trade receivable was HK\$158 million at 30 September 2010 (31 March 2010: HK\$66 million). The increase reflects the seasonality of the Group's trade pattern and we expect receivable will be reduced to the March 2010 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 2010, the Group's total borrowings is about HK\$320 million (31 March 2010: HK\$219 million), of which the whole amount is repayable within one year. All bank borrowings were denominated in Hong Kong dollars or US dollars at prevailing market rate.

The Group's transactions were mostly denominated in US dollars and HK dollars. The exposure to exchange risk was insignificant.

## **STAFF**

As at 30 September 2010, the Group had a total staff of 1,800 of which 1,700 were employed in the PRC for the Group's manufacturing business.

The Group provides employee benefits such as health 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 2010, 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 directors	Long position/ short position	Capacity	Number of shares held	Approximate percentage of shareholding as at 30.9.2010
<i>Executive directors:</i>				
Lau Sak Hong, Philip	Long position	Beneficial owner	184,681,452	12.88%
		Interest of controlled corporation (note a)	5,697,497	0.40%
		Interest of controlled corporation (note b)	18,180,747	1.27%
		Held by trust (note c)	304,324,576	21.22%
			<u>512,884,272</u>	<u>35.77%</u>
Lau Sak Kai, Anthony	Long position	Beneficial owner	69,648,904	4.86%
		Interest of controlled corporation (note a)	5,697,497	0.40%
		Interest of controlled corporation (note b)	18,180,747	1.27%
			<u>93,527,148</u>	<u>6.53%</u>
Lau Sak Yuk, Andy	Long position	Beneficial owner	67,513,401	4.71%
		Interest of controlled corporation (note a)	5,697,497	0.40%
		Interest of controlled corporation (note b)	18,180,747	1.27%
			<u>91,391,645</u>	<u>6.38%</u>
Lau Chu Lan, Carol	Long Position	Beneficial owner	<u>384,483</u>	<u>0.03%</u>
<i>Non-executive director:</i>				
Hon Sheung Tin, Peter	Long position	Beneficial owner	<u>372,181</u>	<u>0.03%</u>
<i>Independent non-executive director:</i>				
Chuck Winston Calptor	Long position	Beneficial owner	<u>1,386,000</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 2010, 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 1.4.2010	Exercised during the period	Outstanding as at 30.9.2010
5.1.2006	0.1903	56,126,400	(21,000,000)	35,126,400
13.11.2006	0.3100	9,354,400	–	9,354,400
4.1.2007	0.3549	1,028,984	–	1,028,984
1.2.2007	0.3677	187,088	–	187,088
7.3.2007	0.4126	14,031,600	–	14,031,600
		<u>80,728,472</u>	<u>(21,000,000)</u>	<u>59,728,472</u>

Notes:

- The above share options were granted for an exercise period of five years from the date of grant of the options.
- No share options were granted to the directors of the Company pursuant to the Old Scheme.
- As a result of the Capital Reorganisation and the Open Offer, the exercise price and number of the share options granted have been adjusted.

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 share options		
		Outstanding as at 1.4.2010	Granted during the period	Outstanding as at 30.9.2010
23.1.2008	0.2280	701,580	–	701,580
28.1.2008	0.2053	1,618,311	–	1,618,311
15.10.2008	0.0855	2,338,600	–	2,338,600
12.8.2010	0.1880	–	2,500,000	2,500,000
31.8.2010	0.1880	–	12,000,000	12,000,000
		<u>4,658,491</u>	<u>14,500,000</u>	<u>19,158,491</u>

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

Notes:

- (a) No share options were exercised, lapsed or cancelled during the period.
- (b) As a result of the Capital Reorganisation and the Open Offer, the exercise price and number of the share options granted have been adjusted.

The fair value of the options was determined at the date of grant using the Black-Scholes option pricing model, taken into account the terms and conditions upon which the share options were granted.

The following assumptions were used to calculate the fair values of share options granted.

	Grant date	
	12.8.2010	31.8.2010
Weighted average share price	HK\$0.162	HK\$0.170
Exercise price	HK\$0.188	HK\$0.188
Expected life of options	3 years	3 years
Expected volatility	55.71%	57.57%
Expected dividend yield	0%	0%
Risk free rate	0.5%	0.5%
Estimated fair value of option at grant date	HK\$0.071	HK\$0.072
Closing share price immediately before date of grant	HK\$0.188	HK\$0.187

Notes:

- (a) The volatility measured at the standard deviation of expected share price returns is based on a statistical analysis of daily share prices over certain periods immediately preceding the grant date.
- (b) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in the Company set out above.
- (c) As the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

**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 30.9.2010
		Outstanding as at 1.4.2010	Granted during the period	Exercised during the period	Forfeited during the period	
31 December 2002	9.00	5,500	-	-	(1,500)	4,000
19 December 2003	1.97	5,710	-	-	(830)	4,880
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	57,000	-	-	(23,000)	34,000
31 March 2006	0.32	60,000	-	-	-	60,000
10 April 2006	0.33	52,000	-	-	(10,000)	42,000
31 March 2007	0.93	60,000	-	-	-	60,000
31 March 2008	0.45	120,000	-	-	-	120,000
31 March 2009	0.11	120,000	-	-	-	120,000
31 March 2010	0.03	60,000	-	-	-	60,000
		646,710	-	-	(35,330)	611,380



## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share options as disclosed above, at no time during the six months ended 30 September 2010 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 2010, other than the interest disclosed above in respect of the directors, no shareholder 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.

## 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 2010 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 2010.

## **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 internal control and financial reporting matters including review of the interim report for the six months ended 30 September 2010.

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

During the six months ended 30 September 2010, 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 four executive directors, namely Mr. Lau Sak Hong, Philip, Mr. Lau Sak Kai, Anthony, Mr. Lau Sak Yuk, Andy, Ms. Lau Chu Lan, Carol 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  
**Starlight International Holdings Limited**  
**Lau Sak Hong, Philip**  
*Chairman*

Hong Kong, 26 November 2010