

STARBOW HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM REPORT 2002

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tang Yiu Wing

Miss. Au Mei Ki, Maggie

Independent Non-executive Directors

Mr. Ng King Wah

Mr. So Hon Cheung, Stephen

AUDIT COMMITTEE

Mr. Ng King Wah

Mr. So Hon Cheung, Stephen

COMPANY SECRETARY

Mr. Tang Yiu Wing

AUDITORS

Messrs HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

6th Floor, Wheelock House

20 Pedder Street

Central

Hong Kong

SOLICITORS

Peter K.S. Chan & Co.

20th Floor

Tung Hip Commercial Building

244-248 Des Voeux Road

Central

Hong Kong

REGISTERED OFFICE

Cedar House

41 Cedar Avenue

Hamilton HM 12

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5th Floor, WKK Building

414 Kwun Tong Road

Kwun Tong

Kowloon

Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank

PRINCIPAL REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited

Rosebank Centre

14 Bermudiana Road

Pembroke

Bermuda

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Tengis Limited

4th Floor, Hutchison House

10 Harcourt Road

Central

Hong Kong

MANAGEMENT COMMENTARY

The Board of Directors of Starbow Holdings Limited ("the Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, "the Group") for the six months ended 30 September 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The unaudited net loss of the Group for the six months ended 30 September 2002 amounted to approximately HK\$17,600,000 which was HK\$11,200,000 less than that of the corresponding period of last year. The improved operating result was largely due to the absence in the current period of an exceptional loss on disposal of other investments in listed securities of approximately HK\$10,200,000 in the comparative period of 2001. Otherwise, the operating result for the current period was only slightly better than that of the corresponding period in 2001.

The major business of the Group is the design, development, and sale of consumer electronic products and software for leisure and entertainment purposes to customers in Hong Kong. Given the prevailing economic environment in Hong Kong, the Group's turnover and business activities were adversely affected or slowed down during the period under review. In fact, the businesses of wireless gaming accessories and HI-CL pollution-free foamed products failed to generate any turnover during this interim period.

FUTURE BUSINESS PROSPECTS AND PLANS

The various business projects undertaken by the Group over the previous years have not performed up to expectations, resulting in heavy losses and deteriorating cash flows to the Group. For the time being, the Board is critically reviewing all the existing business operations, analysing their respective potentials and prospects, rationalising or disposing of some of these operations in order to reduce loss. Furthermore, the Board is looking for new investments that will generate good return to the Group. With this objective in mind, the Group attempted to acquire a 30% interest in a company engaged in communications related business in June 2002. However, both the Group and the vendor of the business failed to complete this deal in October 2002. Despite this set-back, the Board continues to search for new projects that will bring in good profits to the Group.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

Owing to the continual losses incurred by the Group, the Group experienced shortage of working capital to run its operations. During the period under review, the Company borrowed from an independent third party a short-term loan of HK\$5,000,000 repayable by the end of 2002.

The Board has also tried to bring in new profitable business to the Group in order to improve its profitability and cash flows, but, owing to the prevailing adverse economic conditions, we are unable to make much progress.

The Group paid a deposit amounting to HK\$15,000,000 for the acquisition of the entire equity interest in a company engaged in trading of mobile phones and related accessories and, by a supplemental agreement with the vendor, extended the completion date to 30 September 2002. The acquisition has not been completed on that date as the target company failed to reduce its indebtedness to a level acceptable to the Group and is being sued by its creditors. The Board is negotiating with the vendor for the recovery of this deposit.

To alleviate the tight liquidity position faced by the Group, in November 2002, the Company raised approximately HK\$1,100,000 by issuing 74,600,000 new shares to an independent third party under a general mandate granted by the shareholders at the last annual general meeting held on 28 August 2002.

In early December 2002, the Company announced a proposed open offer on the basis of nine offer shares for every existing share held to all shareholders with their registered address, as shown on the register of members, in Hong Kong. On completion of this proposed open offer, the Group will be able to raise net proceeds of approximately HK\$38,300,000. The Group will apply HK\$20,000,000 to repay loan and liabilities and HK\$18,300,000 for the future development of the Group's investment with an objective to improve the income level and the working capital of the Group.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS/DISPOSALS

During the interim reporting period, the Group did not make any significant investment, material acquisition and disposal.

EMPLOYEES

The Group employed approximately 27 staff in Hong Kong and approximately 169 staff in the PRC at the interim reporting date.

Total staff cost (excluding directors' emoluments) amounted to approximately HK\$3,539,000 for the period under review. The Group's remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on annual basis based on performance appraisals and other relevant factors.

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2002, the directors and their associates had the following beneficial interests in the issued share capital of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance");—

Name of director	Number of Ordinary shares	
	Personal Interests	Corporate Interests
Mr. Tang Yiu Wing (<i>Note 1</i>)	—	15,661,000

Note:

- (1) Mr. Tang Yiu Wing held 15,661,000 shares of the Company through Allied Great Limited, a company wholly owned by him.

Save as disclosed above, none of the directors or their associates had any interests in the issued share capital of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the Employees' Share Option Scheme of the Company adopted on 21 September 1993, the following share options to subscribe for shares in the Company were granted to the following director of the Company:—

Name of Director	Number of share options		Outstanding at
	1st lot (Note 1)	2nd lot (Note 2)	30.09.2002 (Note 3)
Mr. Ng Kai Shing	25,046,000	114,834,000	—

Note:

1. These share options were granted on 24 November 1999, and are exercisable at a price of HK\$0.056 per share during the period from 1 June 2000 to 24 November 2002.
2. These share options were granted on 9 June 2000, and are exercisable at a price of HK\$0.029 per share during the period from 1 January 2001 to 9 June 2003.
3. The share options of this director lapsed following his resignation as a director of the Company on 22 May 2002.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors or any of their associates to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 September 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholder had an interest of 10% or more in the issued share capital of the Company:

Shareholder	No. of ordinary shares held
Wise China Limited (Note a)	60,000,000

Note:

- (a) Wise China Limited is wholly-owned by Mr. Lee Chi Man, Raymond.

Save as disclosed above, no other parties were recorded in the register as having an interest of 10% or more in the issued share capital of the Company as at 30 September 2002.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002 (2001: Nil).

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

During the six months ended 30 September 2002, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited

AUDIT COMMITTEE

The Audit Committee has reviewed with management the appropriateness and consistent application of significant accounting principles and policies adopted by the Group, and discussed judgemental issues, accounting estimates, adequacy of disclosures and internal consistency of the interim financial report for the six months ended 30 September 2002.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2002

		Six months ended 30 September	
		2002	2001
		(unaudited)	(unaudited)
	Note	HK\$'000	HK\$'000
Turnover	2	13,986	16,094
Cost of sales		(10,766)	(13,533)
Gross profit		3,220	2,561
Other revenue		228	81
Other income		57	85
Net unrealized holding gain of other investments		–	6
Loss on disposal of other investments		–	(10,239)
Amortization of intangible assets	8	(6,744)	(5,396)
Distribution costs		(83)	(224)
Administrative and operating expenses		(14,267)	(15,929)
Loss from operations	3	(17,589)	(29,055)
Finance Costs		(24)	(130)
Loss from ordinary activities before taxation	2	(17,613)	(29,185)
Taxation	5	–	–
Loss from ordinary activities after taxation		(17,613)	(29,185)
Minority interests		(32)	338
Net Loss for the period		(17,645)	(28,847)
Loss per share			
Basic	7	(4.73) cents	(8.93) cents

All of the Group's operations are classed as continuing.

A statement of recognized gains and losses is not presented as the Group has no other gains and losses apart from the net loss for the six months ended 30 September 2002.

The accompanying notes form part of this interim report.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2002

		30 September 2002 (unaudited) HK\$'000	31 March 2002 (audited) HK\$'000
	Note		
Non-current assets			
Intangible assets	8	43,710	50,454
Tangible fixed assets	9	48,638	54,018
		92,348	104,472
Current assets			
Inventories		2,698	2,583
Trade and other receivables	10	30,634	29,241
Cash and cash equivalents		342	1,404
		33,674	33,228
Less: Current liabilities			
Obligation under hire-purchase contracts		373	250
Trade and other payables	11	39,130	37,165
Unsecured loans		6,980	1,980
Amount due to directors	12	1,483	2,858
		47,966	42,253
Net current liabilities		(14,292)	(9,025)
Total assets less current liabilities		78,056	95,447
Less: Non-current liabilities			
Obligation under hire-purchase contracts		451	229
Less: Minority interest		50	18
Net assets		77,555	95,200
Capital and reserves			
Share capital	13	3,732	74,639
Reserves	14	73,823	20,561
Shareholders' funds		77,555	95,200

The accompanying notes form part of this interim report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2002

	Six months ended 30 September	
	2002	2001
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(6,893)	(13,115)
Returns on investments and servicing of finance		
Interest received	–	31
Interest paid	(4)	(130)
Hire-purchase interest	(21)	–
Net cash outflow from returns on investments and servicing of finance	(25)	(99)
Investing activities		
Payments to acquire tangible fixed assets	(544)	(623)
Proceeds from disposal of tangible fixed assets	1,547	602
Proceeds from disposal of other investments	–	14,281
Acquisition of subsidiaries	–	(1,786)
Increase in other loans	5,000	–
Net cash inflow from investing activities	6,003	12,474
Net cash outflow before financing	(915)	(740)
Financing		
Repayment of hire-purchase contracts	(147)	(4)
Net cash outflow from financing	(147)	(4)
Decrease in cash and cash equivalents	(1,062)	(744)
Cash and cash equivalents at 1 April 2002/2001	1,404	1,384
Cash and cash equivalents at 30 September 2002/2001	342	640
Analysis of cash and cash equivalents		
Bank balances and cash	342	640

The accompanying notes form part of this interim report.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2002

1. ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The condensed financial statements have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2002.

2. SEGMENT INFORMATION

Business Segments

	Turnover Six months ended 30 September		Loss from ordinary activities before taxation Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
By Principal Activities:				
Sub-contracting services	3,224	1,089	(3,338)	(2,669)
Audio and visual products and components	277	41	(2,184)	(4,445)
Trading of computers and related accessories	10,485	14,964	(1,733)	(2,401)
	13,986	16,094	(7,255)	(9,515)
Other Group expenses			(10,358)	(19,670)
			(17,613)	(29,185)

Geographical Segments

Hong Kong and Mainland China	13,986	16,094	(17,613)	(29,185)
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3. LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Depreciation of owned tangible fixed assets	2,432	4,194
Depreciation of tangible fixed assets held under hire-purchase contracts	98	—
Amortization of intangible assets	6,744	5,396

4. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$2,611,000 for the six months ended 30 September 2002 (30 September 2001: a loss of HK\$3,565,000).

5. TAXATION

No provision for Hong Kong profits tax or overseas taxation has been made as the Company and its subsidiaries incurred taxation losses for the period (30 September 2001: Nil).

No provision for deferred taxation has been made as the Group and the Company had net deferred tax assets which the directors consider unlikely to reverse in the foreseeable future (30 September 2001: Nil).

6. INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 September 2002 (30 September 2001: Nil).

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$17,645,000 (30 September 2001: HK\$28,847,000) and on the weighted average of 373,196,853 (30 September 2001: 323,196,020, after adjusting for the consolidation of 20 shares into 1) shares in issue during the period.

No diluted loss per share is presented for the period ended 30 September 2002 as all the outstanding share options and warrants lapsed before 31 May 2002 and for the corresponding period as the exercises of share options and warrants of the Company were anti-dilutive.

8. INTANGIBLE ASSETS

	Goodwill HK\$'000
At Cost:	
At 1 April 2002	70,075
Additions	—
At 30 September 2002	70,075
Amortization:	
At 1 April 2002	19,621
Charge for the period	6,744
At 30 September 2002	26,365
Net book value:	
At 30 September 2002	43,710
At 31 March 2002	50,454

9. TANGIBLE FIXED ASSETS

	Land & buildings HK\$'000	Plant, machinery, equipment & moulds HK\$'000	Furniture & fixtures HK\$'000	Motor Vehicles HK\$'000	Leasehold improve- ments HK\$'000	Total HK\$'000
At cost:						
At 1 April 2002	9,250	105,028	15,551	2,553	3,277	135,659
Additions	—	158	2	385	—	545
Disposals	—	(13,635)	(6,812)	(331)	—	(20,778)
At 30 September 2002	9,250	91,551	8,741	2,607	3,277	115,426
Accumulated depreciation:						
At 1 April 2002	694	67,361	12,664	676	246	81,641
Charge for the period	231	1,901	218	98	82	2,530
On disposals written back	—	(10,704)	(6,530)	(149)	—	(17,383)
At 30 September 2002	925	58,558	6,352	625	328	66,788
Net book value:						
At 30 September 2002	8,325	32,993	2,389	1,982	2,949	48,638
At 31 March 2002	8,556	37,667	2,887	1,877	3,031	54,018

At 30 September 2002, the cost of the Group's land and buildings is held as follows:—

	HK\$'000
Held in the People's Republic of China under long lease	899
Held in the People's Republic of China under medium-term lease	8,351
	<u>9,250</u>

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and their ageing analysis as at 30 September 2002 is as follows:–

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
0 - 60 days	1,294	741
61 - 90 days	6	45
> 90 days	2,823	826
	4,123	1,612

Credit is offered to customers following financial assessment and based on established payment record. Credit limits are set for individual customers and these are exceeded only with the approval of senior officials of the Group. Senior staff of the Group monitor trade debts and follow up collections periodically. General credit terms are payment by the end of the month following the month in which sales took place.

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors and their ageing analysis as at 30 September 2002 is as follows:–

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
0 - 60 days	2,157	2,565
61 - 90 days	161	109
> 90 days	1,360	683
	3,678	3,357

12. AMOUNTS DUE TO DIRECTORS

The amounts due are unsecured, interest-free and repayable on demand.

13. SHARE CAPITAL

	Number of shares		Total value	
	30 September	31 March	30 September	31 March
	2002	2002	2002	2002
	('000)	('000)	(HK'000)	(HK'000)
Authorised:				
Ordinary shares of HK\$0.01 each				
At beginning of period/year	30,000,000	30,000,000	300,000	300,000
Capital Reduction (<i>Note a</i>)	—	—	(285,000)	—
Share Consolidation (<i>Note a</i>)	(28,500,000)	—	—	—
Capital Reorganization (<i>Note a</i>)	28,500,000	—	285,000	—
At end of period/year	30,000,000	30,000,000	300,000	300,000
Issued and fully paid:				
Ordinary shares of HK\$0.01 each				
At beginning of period/year	7,463,937	6,263,937	74,639	62,639
Capital Reduction (<i>Note a</i>)	—	—	(70,907)	—
Share Consolidation (<i>Note a</i>)	(7,090,740)	—	—	—
New issue of shares (<i>Note b</i>)	—	1,200,000	—	12,000
At end of period/year	373,197	7,463,937	3,732	74,639

Changes in share capital

Notes:

- a. Pursuant to the resolutions passed at a special general meeting held on 14 August 2002, it was resolved that:—
 - (i) the reduction of the nominal value of all the issued shares of the Company from HK\$0.01 each to HK\$0.0005 each by cancelling HK\$0.0095 paid up capital on each issued share ("the Capital Reduction") be accepted and approved. The amount cancelled arising from the Capital Reduction will be credited to the contributed surplus account of the Company and will be applied to set off against the accumulated losses of the Company;
 - (ii) after the Capital Reduction becomes effective, every 20 issued shares of HK\$0.0005 each of the Company be consolidated into 1 consolidated share of HK\$0.01 ("the Share Consolidation"); and
 - (iii) the authorized share capital of the Company, after the Capital Reduction and the Share Consolidation become effective, be increased to HK\$300,000,000 (collectively "the Capital Reorganization").

- b. Pursuant to the sale and purchase agreement dated 11 August 2001 entered into between Wise China Limited as Vendor, Ecopro Hi-Tech Limited, a wholly-owned subsidiary of the Company, as Purchaser and the Company in relation to the purchase of 80% of the issued share capital in Bits Tech Inc., the Company agreed to allot and issue 1,200,000,000 new shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.014 per share to Wise China Limited credited as fully paid as part consideration thereof. The transaction was completed on 30 August 2001.

Share options

There were no share options outstanding as at 30 September 2002.

14. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2002	270,845	861	110,578	(361,723)	20,561
Credit arising from					
Capital Reduction (<i>Note 13</i>)	—	—	—	70,907	70,907
Net loss for the period	—	—	—	(17,645)	(17,645)
At 30 September 2002	270,845	861	110,578	(308,461)	73,823

15. CONTINGENT LIABILITIES

As at 30 September 2002, there were contingent liabilities in respect of the following:

- i. During the year ended 31 March 2001, Merway Limited, a wholly-owned subsidiary of the Company, brought legal actions against a customer claiming a sum of HK\$1,050,000 in relation to sub-contracting charges due to Merway Limited by the customer pursuant to a sub-contracting agreement between the Company and the customer. The customer filed a defence in response to the claim, and filed a counterclaim against the Company for alleged breach of contract. As a result, claims for damages and loss of profits in aggregate of HK\$20,000,000 together with interests and costs have been brought against the Company. The Company has sought appropriate legal advice and is going to vigorously pursue its original claim against the customer and defend the counterclaim brought by the customer. As at the date of this report, the proceedings are still ongoing. After taking into consideration the advice of the Group's legal counsel, the directors consider the outcome of the proceedings will not have material adverse financial effect on the Group.

- ii. The Company is also a defendant in a law suit brought by a supplier during the year ended 31 March 1998 claiming approximately HK\$1,962,000 together with interest and costs relating to a guarantee in respect of a credit facility granted to RCR Electronics Manufacturing Limited, a former subsidiary of the Company. The Company filed a defence in March 1999 in response to the claim and since then, the supplier has taken no further action against the Company. Since the outcome of the litigation could not be determined with reasonable certainty at this stage, no provision has been made in the financial statements.
- iii. Civil action number 5637 of 2002. Wong Yat Fan (王一帆), a shareholder of the Company is a Plaintiff in a legal action against the Company claiming from the Company a sum of HK\$399,000 being his purported loss of 9.5 million old shares of his entire shareholding of 10 million old shares bought in May and June 2002 resulting from the consolidation of 20 old shares into 1 new share by the Company as approved by its shareholders at a special general meeting held on 14 August 2002.

16. OPERATING LEASE COMMITMENTS

At as 30 September 2002, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Within one year	1,244	1,451
In the second to fifth years inclusive	878	421
	2,122	1,872

17. POST BALANCE SHEET EVENTS

- a. In October 2002, the Group (as the purchaser), by mutual agreement with Harbour City International Limited (as the Vendor), terminated the agreement for sale and purchase of 30% equity interest in Faithful Technologies Limited which is engaged in communications related business.
- b. In November 2002, the Company completed the issue of 74.6 million new shares to an independent third party under the general mandate passed at the Company's annual general meeting held on 28 August 2002 to raise approximately HK\$1.1 million to repay outstanding liabilities and remuneration of employees of the Group.
- c. In December 2002, the Company proposed to raise approximately HK\$40.3 million, before expenses, by an open offer of about 4,030 million offer shares on the basis of nine offer shares for every existing share held. The offer shares, when allotted and fully paid, will rank pari passu with the existing shares in all respects. An underwriting agreement for the entire offer shares was entered into on 2 December 2002. It is estimated that the proposed open offer (subject to fulfillment of certain conditions) will be completed by end January 2003. The net proceeds of the open offer will be used for the repayment of the Group's loan and liabilities, future development of the Group's investment with an objective to improve the income level of the Group, and the working capital of the Group.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

19. APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 23 December 2002.

By Order of the Board

Tang Yiu Wing

Chairman

Hong Kong, 23 December 2002