

Interim Report
2008/09



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

Peter Lee Yip Wah

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
Hang Seng Bank Limited
Industrial and Commercial Bank of
China (Asia) Limited

SOLICITOR

Hon & Company

SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG

Tricor Secretaries Limited

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL OFFICE

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INTERIM RESULTS

The Board of Directors of Starlight International Holdings Limited (the "Company") announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the the six months ended 30 September 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Notes	Six months ended 30 September	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Turnover	3	767,424	1,197,351
Cost of sales		<u>(595,380)</u>	<u>(865,385)</u>
Gross profit		172,044	331,966
Other income	4	8,113	11,760
Distribution costs		(97,116)	(167,316)
Administrative expenses		(59,979)	(61,187)
Net (decrease) increase in fair value of financial instruments	5	(5,655)	1,395
Share of profits of associates		1,175	1,253
Finance costs		<u>(10,988)</u>	<u>(10,368)</u>
Profit before taxation		7,594	107,503
Taxation	7	<u>(724)</u>	<u>(15,262)</u>
Net profit for the period		<u>6,870</u>	<u>92,241</u>
Attributable to:			
Shareholders of the Company		10,359	91,341
Minority interests		<u>(3,489)</u>	<u>900</u>
		<u>6,870</u>	<u>92,241</u>
Earnings per share			
– Basic	8	<u>1.31 cents</u>	<u>11.6 cents</u>
– Diluted	8	<u>1.25 cents</u>	<u>11.4 cents</u>
Interim Dividend per share	9	<u>Nil cents</u>	<u>4.8 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2008

	Notes	At 30.9.2008 HK\$'000 (Unaudited)	At 31.3.2008 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		108,652	108,652
Property, plant and equipment	10	294,757	298,575
Prepaid lease payments		64,369	65,062
Product development costs		433	607
Goodwill		26,301	27,671
Interest in associates		9,747	8,573
Available-for-sale investments		24,045	24,052
Deferred tax assets		7,542	7,542
		<u>535,846</u>	<u>540,734</u>
Current assets			
Inventories		600,185	543,606
Debtors, deposits and prepayments	11	527,754	269,025
Prepaid lease payments		1,386	1,386
Amounts due from associates		2,941	3,989
Taxation recoverable		5,262	9,852
Investments held for trading		10,634	20,381
Derivative financial instruments		–	120
Financial assets designated at fair value through profit or loss		2,554	8,149
Bank balances and cash		72,999	77,068
		<u>1,223,715</u>	<u>933,576</u>
Current liabilities			
Creditors and accrued charges	12	373,456	176,212
Amount due to an associate		2,809	2,809
Derivative financial instruments		941	518
Taxation payable		17,327	16,603
Borrowings – amount due within one year		522,726	430,160
Bank overdrafts		114	8,171
		<u>917,373</u>	<u>634,473</u>

	<i>Notes</i>	At 30.9.2008 HK\$'000 (Unaudited)	At 31.3.2008 HK\$'000 (Audited)
Net current assets		<u>306,342</u>	<u>299,103</u>
Total assets less current liabilities		<u>842,188</u>	<u>839,837</u>
Non-current liabilities			
Borrowings – amount due over one year		34,890	34,890
Deferred tax liabilities		<u>5,171</u>	<u>5,171</u>
		<u>40,061</u>	<u>40,061</u>
Net assets		<u>802,127</u>	<u>799,776</u>
CAPITAL AND RESERVES			
Share capital	13	315,253	316,151
Share premium and reserves		<u>472,443</u>	<u>465,588</u>
Equity attributable to shareholders		<u>787,696</u>	<u>781,739</u>
Share option reserve of a listed subsidiary		253	253
Minority interests		<u>14,178</u>	<u>17,784</u>
Total equity		<u>802,127</u>	<u>799,776</u>

CONDENSED STATEMENT OF CHANGES IN EQUITY

	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 shareholders of the Company HK\$'000	Share option reserve of a listed subsidiary HK\$'000	Minority interests HK\$'000	Total HK\$'000
The Group														
At 31 March 2007	315,043	100,393	37,138	(3,688)	(59)	2,007	9,726	3,765	51,786	281,006	797,117	66	15,167	812,350
Capital contribution from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(2,326)	(2,326)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(1,030)	-	-	-	(1,030)	-	1,579	549
Issue of shares upon exercise of share options	1,264	2,038	-	-	-	-	-	-	-	-	3,302	-	-	3,302
Profit for the period	-	-	-	-	-	-	-	-	-	91,341	91,341	-	900	92,241
At 30 September 2007	316,307	102,431	37,138	(3,688)	(59)	2,007	8,696	3,765	51,786	372,347	890,730	66	15,320	906,116
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	2,183	2,183
Capital contribution from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	626	626
Deemed partial disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(285)	(285)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	883	-	-	-	883	-	-	883
Decrease in fair value of available-for-sale investments	-	-	-	-	(23)	-	-	-	-	-	(23)	-	-	(23)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	125	-	-	125	187	-	312
Issue of shares upon exercise of share options	-	337	-	-	-	-	-	(337)	-	-	-	-	-	-
Issue of shares as scrip dividend	1,910	6,860	-	-	-	-	-	-	-	(8,770)	-	-	-	-
Repurchase of shares	(2,066)	-	-	-	-	-	-	-	2,066	(7,704)	(7,704)	-	-	(7,704)
Dividends paid	-	-	-	-	-	-	-	-	-	(56,846)	(56,846)	-	-	(56,846)
Profit for the period	-	-	-	-	-	-	-	-	-	(45,426)	(45,426)	-	(60)	(45,486)
At 31 March 2008	316,151	109,628	37,138	(3,688)	(82)	2,007	9,579	3,553	53,652	253,601	781,739	253	17,784	799,776
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	282	282
Capital contribution from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	88	88
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(3,693)	-	-	-	(3,693)	-	(487)	(4,180)
Repurchase of shares	(898)	-	-	-	-	-	-	-	898	(709)	(709)	-	-	(709)
Profit for the period	-	-	-	-	-	-	-	-	-	10,359	10,359	-	(3,489)	6,870
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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Six months ended	
	30.9.2008 HK\$'000 (Unaudited)	30.9.2007 HK\$'000 (Unaudited)
Net Cash used in Operating Activities	(56,500)	(352,585)
Net Cash used in Investing Activities	(23,309)	(62,115)
Net Cash inflow from Financing Activities	83,797	430,605
	<hr/>	<hr/>
Net Increase in Cash and Cash Equivalents	3,988	15,905
Cash and Cash Equivalents at beginning of period	68,897	90,679
	<hr/>	<hr/>
Cash and Cash Equivalents at end of period	72,885	106,584
	<hr/>	<hr/>
Analysis of balances of Cash and Cash equivalents		
Bank balances and cash	72,999	106,584
Bank overdrafts	(114)	-
	<hr/>	<hr/>
	72,885	106,584
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2008 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

2. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of and as described in the annual financial statements for the year ended 31 March 2008.

The following interpretations are mandatory for the financial year beginning 1 April 2008 but are not currently relevant for the Group:

HK(IFRIC) – Int 12	‘Service Concession Arrangements’
HK(IFRIC) – Int 14	‘HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction’

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 April 2008 and have not been adopted by the Group:

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 1 (Revised)	‘Presentation of Financial Statements’
HKAS 23 (Revised)	‘Borrowing Cost’
HKAS 27 (Revised)	‘Consolidated and Separate Financial Statements’
HKAS 32 and HKAS 1 (Amendment)	‘Puttable Financial Instruments and Obligations Arising on Liquidation’
HKAS 39 and HKFRS 7 (Amendment)	‘Reclassification of Financial Assets’
HKFRS 2 (Amendment)	‘Share-based Payment Vesting Conditions and Cancellations’
HKFRS 1 and HKAS 27 (Revised)	‘Cost of an Investment in a Subsidiary, Joint Controlled Entity or Associate’
HKFRS 3 (Revised)	‘Business Combinations’
HKFRS 8	‘Operating Segments’

3. SEGMENT INFORMATION

Business segments

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 2008

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

SIX MONTHS ENDED 30 SEPTEMBER 2007

	Design, manufacture and sale of electronic products HK\$'000	Securities trading HK\$'000	Consolidated HK\$'000
TURNOVER	<u>1,197,351</u>	<u>–</u>	<u>1,197,351</u>
SEGMENT RESULT	<u>115,556</u>	<u>785</u>	<u>116,341</u>
Interest income			277
Share of profits of associates			1,253
Finance costs			<u>(10,368)</u>
Profit before tax			107,503
Taxation			<u>(15,262)</u>
Profit for the period			<u>92,241</u>

4. OTHER INCOME

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Other income includes the following:		
Commission	1,191	3,126
Exchange gain, net	596	2,649
Income from investments	1,173	1,407
Rental income	2,334	1,717
Miscellaneous income	2,819	2,861
	<u>8,113</u>	<u>11,760</u>

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

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Increase in fair value of derivative financial instruments	417	-
(Decrease) increase in fair value of financial assets designated at fair value through profit or loss	(669)	1,478
Decrease in fair value of investments held for trading	(5,403)	(83)
	<u>(5,655)</u>	<u>1,395</u>

6. DEPRECIATION AND AMORTISATION

During the period, depreciation and amortization of approximately HK\$27,267,000 (HK\$28,199,000 for the six months ended 30 September 2007) was charged to the consolidated income statement in respect of the Group's property, plant and equipment, prepaid lease payments and product development costs.

7. TAXATION

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current	1,081	7,565
Taxation (recovery) in other jurisdictions	(357)	7,697
Taxation attributable to the Company and its subsidiaries	<u>724</u>	<u>15,262</u>

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the period.

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

8. EARNINGS PER SHARE

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

	Six months ended 30 September 2008		2007
Net profit for the period and profit for the purpose of basic and diluted earnings per share	<u>HK\$10,359,000</u>	<u>HK\$91,341,000</u>	
Weighted average number of shares for the purpose of basic earnings per share	789,241,999	790,432,436	
Effect of dilutive potential ordinary shares for the purpose of dilutive earnings per share – Share option	<u>42,410,925</u>	<u>10,126,751</u>	
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	<u>831,652,924</u>	<u>800,559,187</u>	

9. INTERIM DIVIDEND

The directors have resolved not to pay an interim dividend for the year ending 31 March 2009 (Year ended 31 March 2008: HK4.80 cents per share).

10. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 September 2008		2007
	HK\$'000	HK\$'000	HK\$'000
Net book value at beginning of year	298,575	305,842	
Currency realignment	(64)	–	
Additions	22,647	32,959	
Depreciation	<u>(26,401)</u>	<u>(28,199)</u>	
	<u>294,757</u>	<u>310,602</u>	

11. DEBTORS, DEPOSITS AND PREPAYMENTS

At 30 September 2008, debtors, deposits and prepayments includes trade debtors of HK\$448,539,000 (31 March 2008: HK\$192,803,000). 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:

	30/9/2008 (Unaudited) HK\$'000	31/3/2008 (Audited) HK\$'000
0 – 30 days	381,776	103,982
31 – 60 days	24,022	38,261
61 – 90 days	3,014	17,269
Over 90 days	<u>39,727</u>	<u>33,291</u>
	<u>448,539</u>	<u>192,803</u>

12. CREDITORS AND ACCRUED CHARGES

At 30 September 2008, creditors and accrued charges includes trade creditors of HK\$265,696,000 (31 March 2008: HK\$101,584,000). The aged analysis of trade creditors at the balance sheet date is as follows:

	30/9/2008 (Unaudited) HK\$'000	31/3/2008 (Audited) HK\$'000
0 – 30 days	210,982	70,671
31 – 60 days	21,713	17,887
61 – 90 days	13,452	5,500
Over 90 days	19,549	7,526
	<u>265,696</u>	<u>101,584</u>

13. SHARE CAPITAL

	Number of shares	Issued and Fully paid Share capital HK\$'000
Balance at 1 April 2008	790,378,828	316,151
Repurchase of shares	(2,245,000)	(898)
Balance at 30 September 2008	<u>788,133,828</u>	<u>315,253</u>

14. CAPITAL COMMITMENTS

	30/9/2008 HK\$'000	31/3/2008 HK\$'000
Contracted for but not provided in the consolidated financial statements in respect of: – capital expenditure for acquisition of property, plant and equipment	<u>3,728</u>	<u>4,067</u>

15. CONTINGENT LIABILITIES

There are no contingent liabilities on both dates 30 September 2008 and 31 March 2008.

16. RELATED PARTY TRANSACTIONS

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

17. COMPARATIVE FIGURES

Certain figures in the 2007/2008 interim financial statements have been reclassified to conform with the basis of presentation used in the current period.

BUSINESS REVIEW AND GROUP RESULTS

Electronic division

The first six months of the current fiscal year has proven to be a historically challenging time throughout the world. As a major manufacturer, we unfortunately have not been able to avoid the effects of the current economic turmoil. Our turnover decreased by 36% or \$430M in the first six months of the current fiscal year compared with the last fiscal year. The primary cause of this decrease was a result of the financial instability which was triggered by the subprime mortgage in the United States in February 2008. Consequently, the credit market became tight and retailers took a conservative approach to purchasing goods from factories in the PRC. Most of our major customers in US and in Europe have curtailed their purchase programs or delayed shipments. Our decrease in turnover can also be attributed to the Group taking more cautionary measures to reduce selling to customers that did not have a strong credit rating to avoid potential bad debt losses. Although the reduction occurred across our major product categories, video products suffered the highest losses. Since the last fiscal year, we have begun phasing out opening price point (OPP) DVD products and we intend to replace them with higher-end products such as digital photo frames, iPod related products and portable DVD players. Due to declining consumer demands and other factors, we have only been able to replace some of the losses.

At the beginning of the fiscal year, small TFT screen panels and LCD panels' prices began to fall. We were hopeful that we could increase our sales in this category. However, the decline in panel prices did not provide any benefit to us, but rather contributed to a reduction in our gross profit margin. The primary reason for this is that panel prices were dropping faster than the lead time to deliver. By the time we received delivery, prices had fallen again and we were legally obligated to pay the higher cost at the original purchase order date. In order to retain our customers, we were forced to absorb the differences. From August onwards panel prices fell rapidly. Some of our major customers were demanding rebates immediately to reduce their inventory costs and the goods on order.

Our gross profit margin dropped by an average of 5%. Despite the unusual drop in small TFT screen prices, higher oil prices resulted in increased raw material costs in plastic resins. In addition, the costs of operating in PRC have increased as the new labor law in China has generally raised the average wage we paid to our workers and the Chinese RMB appreciated steadily. In a climate of declining consumer demands, we were unable to pass on the higher costs to our customers.

In spite of the above, we are pleased to report that our selling and distribution costs were reduced by 42% for the first six months of the current fiscal year as compared to the same period last year. Our administrative costs, which consist of mostly fixed overhead costs, had a moderate decrease of 1% in this fiscal period. Our finance costs incurred a 6% increase primarily due to a higher portion of our sales coming from domestic sales out of warehouses in both the US and Canada. In domestic sales, we finance inventory and accounts receivable, resulting in a longer sale cycle. As the economy worsens in the US, we see this trend as continuing as retailers are reluctant to purchase by container loads out of our factory.

Net profit attributable to shareholders reduced by 89% to \$10M. While we are disappointed by the result, we must review this performance in the light of recent turmoil. Within our control, we have reduced selling, distribution and administrative expenses. We have taken steps to reduce our carrying of inventory compared with the same period last year and we have reduced our bank borrowing significantly since the last fiscal year.

Securities trading

The Group recorded a segment result of a loss of HK\$5.4 million for the period.

PROSPECTS

All current economic forecasts point to a recession in the US and potentially around the globe. We are cautious about our prospect for the next 12 months and we have planned accordingly. With the current condition of falling component prices and lower operating costs in the PRC, we see opportunity to target some of our products and market them aggressively. We expect that growth in karaoke and musical instruments will continue in this fiscal year. Through our subsidiary, The Singing Machine Company, Inc., we plan to launch a new on-line store to sell karaoke machines, musical instruments, accessories, and downloadable music during the next half of the fiscal year. We anticipate this distribution method will have much higher gross margin.

We are working with Disney to create a new product lineup for spring 2009. We are enthusiastic that this will lift our sales. We have experienced some success in creating a new line of youth electronics with a major discount retailer in the US. We are planning an extension on this line to include the pre-school age group karaoke and musical instruments and these we expect to be available in the fall of 2009.

We have taken steps to cut our work force in the PRC and we plan to operate with a leaner overhead during these worsened economic conditions. Management is confident we have a viable strategy in place to combat the current adverse economic environment.

FINANCIAL POSITION

Liquidity and financial resources

On 30 September 2008 the Group had cash, deposits and marketable securities of \$86 million (31 March 2008: \$106 million). Net bank borrowings was 70% of shareholders' equity (31 March 2008: 45%). Cash was used to primarily finance the increase in inventory and account receivable leading up to the holiday selling season. The Group's net bank borrowings were substantially reduced as of November 2008 when cash was collected from the account receivable. As management is cautious about the current economic condition, inventory at 30 September 2008 was \$103 million less than the same period in 2007. We will monitor our inventory closely in the next half of the fiscal year.

Trade receivable was \$448 million at 30 September 2008 (31 March 2008: \$193 million). The increase reflects the seasonality of the Group's trade pattern and we expect receivable will be reduced to the March 2008 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 2008 our banking facilities amounted to HK\$1,478 million of which \$620 million was utilized (31 March 2008: HK\$475 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 2008, the Group had a total staff of 4,555 of which 4,446 were employed in the PRC for the Group's manufacturing and distribution 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 2008, 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	95,693,029	12.14%
		Interest of controlled corporation (note a)	3,165,277	0.40%
		Interest of controlled corporation (note b)	10,100,415	1.28%
		Held by trust (note c)	169,069,209	21.45%
			<u>278,027,930</u>	<u>35.27%</u>
Lau Sak Kai, Anthony	Long position	Beneficial owner	38,493,836	4.88%
		Interest of controlled corporation (note a)	3,165,277	0.40%
		Interest of controlled corporation (note b)	10,100,415	1.28%
			<u>51,759,528</u>	<u>6.56%</u>
Lau Sak Yuk, Andy	Long position	Beneficial owner	37,137,445	4.71%
		Interest of controlled corporation (note a)	3,165,277	0.40%
		Interest of controlled corporation (note b)	10,100,415	1.28%
			<u>50,403,137</u>	<u>6.39%</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 2008, 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 during the year 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 1.4.2008	Exercised during the year	Outstanding as at 30.9.2008
10.10.2003	0.86	3,000,000	–	3,000,000
02.11.2004	0.814	500,000	–	500,000
05.01.2006	0.89	12,000,000	–	12,000,000
13.11.2006	1.45	2,000,000	–	2,000,000
04.01.2007	1.66	220,000	–	220,000
01.02.2007	1.72	40,000	–	40,000
07.03.2007	1.93	3,000,000	–	3,000,000
		<u>20,760,000</u>	<u>–</u>	<u>20,760,000</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 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 option shares outstanding at 1.4.2008	Number of option shares exercised during the period	Number of option shares at 30.9.2008
23.01.2008	1.042	150,000	–	150,000
28.01.2008	0.960	346,000	–	346,000
		<u>496,000</u>	<u>–</u>	<u>496,000</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 exercised, lapsed or cancelled during the period.

Share options of The Singing Machine Company, Inc. ("SMC"), a 52.52% 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	Number of share options				Outstanding as at 30.9.2008
		Outstanding as at 1.4.2008	Granted during the period	Exercised during the period	Forfeited during the period	
5 September 2000	2.04	36,150	-	-	(30,600)	5,550
11 September 2002	11.09	30,000	-	-	(30,000)	-
31 December 2002	9.00	89,140	-	-	(70,140)	19,000
7 March 2003	5.60	30,000	-	-	(30,000)	-
18 April 2003	7.20	10,000	-	-	(10,000)	-
19 December 2003	1.97	35,540	-	-	(21,860)	13,680
6 February 2004	1.54	46,500	-	-	(40,000)	6,500
26 February 2004	1.36	20,000	-	-	-	20,000
29 March 2004	1.20	20,000	-	-	-	20,000
26 April 2004	1.05	12,000	-	-	(12,000)	-
29 November 2004	0.75	60,000	-	-	(20,000)	40,000
1 December 2004	0.77	20,000	-	-	-	20,000
9 May 2005	0.60	182,000	-	-	(70,000)	112,000
6 June 2005	0.76	30,000	-	-	-	30,000
20 January 2006	0.34	30,000	-	-	(30,000)	-
31 March 2006	0.32	80,000	-	-	-	80,000
10 April 2006	0.33	336,485	-	-	(170,000)	166,485
31 March 2007	0.93	80,000	-	-	(20,000)	60,000
31 March 2008	0.45	120,000	-	-	-	120,000
		<u>1,267,815</u>	<u>-</u>	<u>-</u>	<u>(554,600)</u>	<u>713,215</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 2008 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 2008, 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 in which interested	% of total issued shares
Lee Yu Chiang	Person having a security interest	42,140,878	5.33%
Deutsche Bank Aktiengesellschaft	Investment manager	79,013,494	10.02%

Save as mentioned above and in the section headed "Directors' Interests in Securities", as at 30 September 2008, 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 2008 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. Philip Lau Sak Hong 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. Philip Lau Sak Hong, the chairman and managing director of the Company has voluntarily retired 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 2008.

AUDIT COMMITTEE

The Company has established an audit committee comprising Messrs. Peter Hon Sheung Tin, Norman Ho Hau Chong 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 2008.

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

During the six months ended 30 September 2008, the Company repurchased its shares on the Stock Exchange as follows:

Month	Number of Shares	Price per share		Aggregate Consideration HK\$
		Lowest HK\$	Highest HK\$	
September 2008	2,245,000	0.31	0.33	708,962.50

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase was debited to accumulated profits. An amount equivalent to the nominal value of the shares cancelled was transferred from accumulated profits to the capital redemption reserve.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

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. Winston Calptor Chuck.

By Order of the Board
Lau Sak Hong, Philip
Chairman

Hong Kong, 19 December 2008