

STARLITE

STARLIGHT INTERNATIONAL HOLDINGS LIMITED

升岡國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 485)

FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

FINANCIAL RESULTS

The Board of Directors of Starlight International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the the six months ended 30 September 2007 together with the comparative figures for corresponding period in 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

		01.04.2007 to 30.09.2007 HK\$'000 (Unaudited)	As restated 01.04.2006 to 30.09.2006 HK\$'000 (Unaudited)
	<i>Notes</i>		
Turnover	2	1,197,351	1,458,734
Cost of sales		(865,385)	(1,177,793)
Gross profit		331,966	280,941
Other income	3	11,760	10,978
Distribution costs		(168,886)	(131,446)
Administration expenses		(59,631)	(59,688)
Increase in fair value of derivative financial instruments/financial assets designated at fair value through profit or loss		1,478	549
Decrease in fair value of investments held for trading		(83)	–
Share of profits of associates		1,253	1,089
Finance costs		(10,354)	(5,807)
Profit before taxation		107,503	96,616
Taxation	5	(15,262)	(11,157)
Net profit for the period		92,241	85,459
Attributable to:			
Shareholders of the Company		91,341	81,906
Minority interests		900	3,553
		92,241	85,459
Earnings per share			
– Basic	6	11.6 cents	10.8 cents
– Diluted	6	11.4 cents	10.4 cents
Interim Dividends per share	7	4.8 cents	4.5 cents

* For identification purposes only

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2007

		At 30.9.2007 HK\$'000 (Unaudited)	At 31.3.2007 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		81,121	81,121
Property, plant and equipment	8	310,602	305,842
Prepaid lease payments		4,136	4,136
Product development costs		779	954
Goodwill		25,494	25,494
Interest in associates		9,454	8,200
Available-for-sale investments		24,075	24,075
Deferred tax assets		1,263	1,263
Deposit for acquisition of land use rights		38,420	14,711
		<u>495,344</u>	<u>465,796</u>
Current assets			
Inventories		703,853	451,244
Debtors, deposits and prepayments	9	805,244	343,704
Prepaid lease payments		121	121
Amounts due from related parties		–	17,196
Amounts due from associates		2,940	3,989
Taxation recoverable		12,317	11,659
Investments held for trading		16,547	25,613
Derivative financial instruments		24,909	21,275
Bank balances and cash		106,584	92,401
		<u>1,672,515</u>	<u>967,202</u>
Current liabilities			
Creditors and accrued charges	10	491,920	273,829
Amount due to an associate		2,809	2,809
Derivative financial instruments		262	438
Taxation payable		12,299	4,752
Borrowings – amount due within one year		742,830	329,515
Bank overdrafts		–	1,722
		<u>1,250,120</u>	<u>613,065</u>

	<i>Notes</i>	At 30.9.2007 HK\$'000 (Unaudited)	At 31.3.2007 HK\$'000 (Audited)
Net current assets		422,395	354,137
Total assets less current liabilities		917,739	819,933
Non-current liabilities			
Borrowings – amount due over one year		5,000	–
Deferred tax liabilities		6,623	7,583
		11,623	7,583
Net assets		906,116	812,350
CAPITAL AND RESERVES			
Share capital	11	316,307	315,043
Share premium and reserves		574,423	482,074
Equity attributable to shareholders		890,730	797,117
Share option reserve of a listed subsidiary		66	66
Minority interests		15,320	15,167
Total equity		906,116	812,350

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	Six months ended	
	30.9.2007 HK\$'000 (Unaudited)	30.9.2006 HK\$'000 (Unaudited)
Net Cash used in Operating Activities	(352,585)	(137,568)
Net Cash used in Investing Activities	(62,115)	(60,514)
Net Cash inflow from Financing Activities	<u>430,605</u>	<u>268,169</u>
Net Increase in Cash and Cash Equivalents	15,905	70,087
Cash and Cash Equivalents at 1 April	<u>90,679</u>	<u>79,434</u>
Cash and Cash Equivalents at 30 September	<u><u>106,584</u></u>	<u><u>149,521</u></u>
Analysis of balances of Cash and Cash equivalents		
Bank balances and cash	106,584	153,059
Bank overdrafts	<u>-</u>	<u>(3,538)</u>
	<u><u>106,584</u></u>	<u><u>149,521</u></u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2007.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2007, except that the Group has adopted certain amendments to standards and interpretations which are mandatory for the year ended 31 March 2008. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

The following new standard, amendment to standard and interpretations are mandatory for the year ended 31 March 2008. The Group has adopted these new standard, amendment to standard and interpretations where considered appropriate and relevant to its operations:

– HKAS 1 (Amendment)	Capital Disclosures
– HKFRS 7	Financial Instruments: Disclosures
– HK(IFRIC) – Int 8	Scope of HKFRS 2
– HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
– HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
– HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

The Group has not early adopted the following new standard, amendment to standard and interpretations that have been issued but are not yet effective in these condensed consolidated financial statements:

– HKAS 23 (Revised)	Borrowing Costs
– HKFRS 8	Operating Segments
– HK(IFRIC)-Int 12	Service Concession Arrangements

2. SEGMENT INFORMATION

Business segments

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

Principal activities are as follows:

SIX MONTHS ENDED 30 SEPTEMBER 2007

	Design, manufacture and sale of electronic products <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER	<u>1,197,351</u>	<u>–</u>	<u>–</u>	<u>1,197,351</u>
SEGMENT RESULT	<u>115,542</u>	<u>785</u>	<u>–</u>	<u>116,327</u>
Interest income				277
Share of profits of associates				1,253
Finance costs				(10,354)
Profit before tax				<u>107,503</u>
Taxation				(15,262)
Profit for the period				<u>92,241</u>

SIX MONTHS ENDED 30 SEPTEMBER 2006

	Design, manufacture and sale of electronic products <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>1,458,734</u>	<u>–</u>	<u>–</u>	<u>1,458,734</u>
SEGMENT RESULT	<u>100,041</u>	<u>607</u>	<u>–</u>	<u>100,648</u>
Interest income				686
Share of profits of associates				1,089
Finance costs				(5,807)
Profit before tax				<u>96,616</u>
Taxation				(11,157)
Profit for the period				<u>85,459</u>

3. OTHER INCOME

Six months ended	
30 September	
2007	2006
<i>HK\$'000</i>	<i>HK\$'000</i>

Other income includes the follows:

Dividend income from investments held-for-trading	995	–
Loss on disposal of fixed assets	–	(4)
Unrealised holding loss on investments	–	(2,033)

4. DEPRECIATION AND AMORTISATION

During the period, depreciation and amortization of approximately HK\$28,199,000 (HK\$26,106,000 for the six months ended 30 September 2006) was charged to the consolidated income statement in respect of the Group's property, plant and equipment and product development costs.

5. TAXATION

Six months ended	
30 September	
2007	2006
<i>HK\$'000</i>	<i>HK\$'000</i>

The charge comprises:

Hong Kong Profits Tax		
Current	7,565	4,400
Taxation in other jurisdictions	7,697	6,757
	<hr/>	<hr/>
Taxation attributable to the Company and its subsidiaries	15,262	11,157
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 17.5% (2006:17.5%) of the estimated assessable profit for the period.

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

6. 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	
	2007	2006
Net profit for the period and profit for the purpose of basic and diluted earnings per share	<u>HK\$91,341,000</u>	<u>HK\$81,906,000</u>
Weighted average number of shares for the purpose of basic earnings per share	790,432,436	758,361,559
Effect of dilutive potential ordinary shares for the purpose of dilutive earnings per share – Share option	<u>10,126,751</u>	<u>33,068,091</u>
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	<u>800,559,187</u>	<u>791,429,650</u>

7. INTERIM DIVIDEND

The directors have declared an interim dividend of HK4.80 cents per share for the year ending 31 March 2008 (Year ended 31 March 2007: HK4.50 cents) payable to shareholders of the Company whose names appear in the register of members on 25 January 2008.

8. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net book value at beginning of year	305,842	294,734
Currency realignment	–	2
Additions	32,959	40,254
Disposal	–	(352)
Depreciation	(28,199)	(26,106)
Depreciation write back on disposal	–	228
	<u>310,602</u>	<u>308,760</u>

9. DEBTORS, DEPOSITS AND PREPAYMENTS

At 30 September 2007, debtors, deposits and prepayments included trade debtors of HK\$709,911,000 (31 March 2007: HK\$279,630,000). 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:

	30/9/2007 (Unaudited) <i>HK\$'000</i>	31/3/2007 (Audited) <i>HK\$'000</i>
0 – 30 days	540,050	229,768
31 – 60 days	82,368	11,950
61 – 90 days	21,170	2,072
Over 90 days	66,323	35,840
	709,911	279,630

10. CREDITORS AND ACCRUED CHARGES

At 30 September 2007, creditors and accrued charges included trade creditors of HK\$343,605,000 (31 March 2007: HK\$193,281,000). The aged analysis of trade creditors at the balance sheet date is as follows:

	30/9/2007 (Unaudited) <i>HK\$'000</i>	31/3/2007 (Audited) <i>HK\$'000</i>
0 – 30 days	290,459	146,779
31 – 60 days	33,264	21,159
61 – 90 days	8,307	10,782
Over 90 days	11,575	14,561
	343,605	193,281

11. SHARE CAPITAL

	Number of shares	Issued and Fully paid Share capital <i>HK\$'000</i>
Balance at 1 April 2007	787,607,614	315,043
Issue of shares upon exercise of share options	3,160,000	1,264
Balance at 30 September 2007	790,767,614	316,307

12. CAPITAL COMMITMENTS

	30/9/2007 HK\$'000	31/3/2007 HK\$'000
Capital expenditure contracted for but not provided in the financial statements		
– property, plant and equipment	4,660	7,179
– acquisition of land use rights	25,312	46,134

13. CONTINGENT LIABILITIES

There are no contingent liabilities on both dates 30 September 2007 and 31 March 2007.

14. RELATED PARTY TRANSACTIONS

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

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK4.80 cents per share for the year ending 31 March 2008 (Year ended 31 March 2007: HK4.50 cents) to shareholders on the register of members on 25 January 2008. Dividend warrants will be sent to the shareholders on or about 31 January 2008.

CLOSING OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 21 January 2008 to Friday, 25 January 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the interim dividend, all outstanding transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrars, Tricor Secretaries Limited, **not later than 4:00 p.m. on Friday, 18 January 2008**. The address is 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

BUSINESS REVIEW

Group Results

The Group recorded a turnover of HK\$1.2 billion and a net profit attributable to shareholders of HK\$91.3 million for the six months ended 30 September 2007 compared with a turnover of HK\$1.46 billion and a net profit attributable to shareholders of HK\$81.9 million for the corresponding period in 2006.

Electronics Division

Since awarded the Disney License, the Group has focused in developing and marketing the Disney new product line. We have fulfilled Disney's requirements and we have built a good relationship with Disney. In the coming year, we will be building a wider range of Disney electronic products with increased number of Disney franchise characters.

While Disney has become a growth driver for the Group under the period of review, we found that we have to adjust to the needs of the retailers, particularly in North America to sell the Disney line. In the past, we sold the majority of our products by the method of direct shipments to the retailers without the need of warehousing (direct import). In the current period, we hold inventory at warehouses in US and in Canada and ship to our customers from these warehouses (domestic sale). Approximately 21% of the Group's sales are booked as domestic sales in the current period as compared to 3% in the corresponding period last year. The effect of this change in method of distribution has created a timing delay in booking sales. This is the main reason for our turnover to decrease from HK\$1.46 billion to HK\$1.20 billion, representing a reduction of 18%. We estimated that the real reduction would only be 7% after adjusting for the timing delay factor.

The 7% reduction in turnover was attributed to exiting from the low end opening price point (OPP) products in several product categories including Portable CD players, CD products and DVD players. These OPP products represent low price with basic features and low profit margins. We have planned to replace them with the more trendy products such as digital photo frames and portable DVD players. However, we faced a shortage of small screen panels and an escalation of costs of these components in the 2nd quarter of the year. We were cautious to accept large commitments of orders from our major retailers for fear that we could not make the delivery or we cannot pass on the increased cost to our customers. The reduction in turnover during the current period reflects our cautious approach to an uncertain supply chain. Going forward, we believe we can secure sourcing of these small screen panels and that the retail market can accept the increased costs based on market information.

Our net profit increased from HK\$81.91 million to HK\$91.34 million, representing 12% increase over the corresponding period last year. This reflects our focus and our strategy to migrate to brand name products, to better designs of our products and our ability to keeping up with the change in consumer demands.

Our distribution costs, which include market promotion, royalties, sales commissions, warehousing and freight rose by 28%. The largest increase was in royalties. The increase includes payment of royalty to Disney for the first time in the current period and the settlement with the Toshiba-6C Group regarding the use of the patent technology. Warehousing and transportation costs have also risen due to the increase in distributing products under the domestic sales method.

Administrative expenses are comparable to the corresponding period last year. This reflects our effort to keep our overhead costs under control.

Securities Trading

No active transactions recorded during the period.

Property Development

No transaction recorded during the period.

PROSPECTS

We believe we have positioned our company to be a leader as maker and distributor of consumer electronics. The success of the Disney line has given us the confidence to look for new business with brand names that have worldwide recognition. Despite a slow down in the US economy and a rising Yuan currency, we have returned a higher profit to our shareholders in the current period. We will expand markets outside the US to reduce our concentration in one geographic area. To this end, we have increased our presence in Europe from 22% to 36% in the two periods under comparison.

We expect performance in the second half of this fiscal year will be comparable with the first half of the year. Our marketing team has initiated several new projects and we foresee that these projects will bring new growth to our Group in the near future.

Since acquiring Singing Machine Company, we have taken steps to streamline the company's operation. We expect the company is on the road to recovery and will make contributions to our turnover and profits in the current fiscal year.

FINANCIAL POSITION

Liquidity and Financial Resources

The financial position of the Group remained stable. As at 30 September 2007, cash and deposits and marketable securities amounted to approximately HK\$148 million, as compared to approximately HK\$139 million as at 31 March 2007.

Gearing ratio, calculated as total borrowings to shareholders' fund was 1.42 (31 March 2007: 0.78), and net bank borrowings as a percentage to Shareholders' fund was 0.72 for the period (31 March 2007: 0.30). Current ratio calculated as current assets to current liabilities was 1.34 (31 March 2007: 1.58).

Gearing ratio as at 30 September 2007 was relatively high which was mainly attributable to the increase of short term bank borrowings to finance receivables and inventory. The high borrowing level reflected the seasonal effect during peak season. Out of the total receivable of HK\$710 million, HK\$540 million was less than 30 days. Besides, additional inventory of about HK\$200 million were kept at US warehouse to meet the US Disney domestic sales requirement. At the end of November 2007, most of the sales proceeds were collected and the inventory in US warehouse were sold. The borrowing level has already been reduced to a satisfactory level.

Financing and Capital Structure

The Group finances its operations by a combination of retained earnings and bank borrowings.

As at 30 September 2007 total banking facilities granted to the Group amounted to HK\$1,215 million of which HK\$757 million were utilized. All bank borrowings are denominated in Hong Kong dollars or US dollars at prevailing market interest rate.

Group's transactions were mostly denominated in US dollars and Hong Kong dollars. The exposure to exchange risk was minimal.

Pledge of Assets

At 30 September 2007, the Group pledged certain assets and securities with carrying value of HK\$197,724,000 (Year ended 31 March 2007: HK\$136,058,000) to secure the general credit facilities and the margin accounts with brokers.

STAFF

As at 30 September 2007, the Group had a total staff of 5,634 of which 5,484 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.

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 during the six months period ended 30 September 2007 except as below:

- (1) Pursuant to Code provision A2.1, 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 Group. Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Lau Sak Hong, Philip acting as both the chairman of the Board and the managing director of the Group is acceptable and in the best interest of the Group. 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 A4.2 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, 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 2007.

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 2007.

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

During the six months ended 30 September 2007, 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 announcement, 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, 17 December 2007