



# STARLIGHT INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 485)

## FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

### FINANCIAL RESULTS

The Board of Directors of Starlight International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statement of the Company and its subsidiaries (the “Group”) for the period ended 30 September 2006 together with the comparative figures for 2005 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

		01.04.2006 to 30.09.2006 HK\$'000 (Unaudited)	01.04.2005 to 30.09.2005 HK\$'000 (Unaudited)
	<i>Notes</i>		
Turnover	2	1,479,301	836,532
Cost of sales		(1,197,811)	(721,129)
Gross profit		281,490	115,403
Other income	3	10,978	13,508
Distribution costs		(131,446)	(33,282)
Administration expenses		(59,688)	(39,235)
Share of profits/(loss) of associates		1,089	(3)
Finance costs		(5,807)	(2,144)
Profit before taxation		96,616	54,247
Taxation	5	(11,157)	(2,751)
Net profit for the period		85,459	51,496
Attributable to:			
Shareholders of the Company		81,906	51,029
Minority interests		3,553	467
		85,459	51,496
Earnings per share			
– Basic	6	10.8 cents	6.7 cents
– Diluted	6	10.4 cents	6.5 cents
Interim Dividend per share	7	4.5 cents	3.0 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AT 30 SEPTEMBER 2006**

		At 30.9.2006 HK\$'000 (Unaudited)	At 31.3.2006 HK\$'000 (Audited)
	<i>Notes</i>		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties		76,500	76,500
Property, plant and equipment	8	308,760	294,734
Prepaid lease payments		4,257	4,257
Product development costs		1,300	1,300
Goodwill		40,674	9,149
Interest in associates		9,791	1,701
Available-for-sale investments		24,099	24,099
Deferred tax assets		1,929	1,929
Deposit for acquisition of subsidiaries		–	15,537
		<b>467,310</b>	<b>429,206</b>
<b>Current assets</b>			
Inventories		544,149	376,034
Properties for sale		1,453	1,453
Debtors, deposits and prepayments	9	766,706	293,323
Prepaid lease payments		121	121
Amounts due from associates		2,800	2,940
Taxation recoverable		2,490	2,089
Available-for-sale investments		2,489	150
Investments held for trading		26,566	27,767
Derivative financial instruments		20,895	4,659
Bank balances and cash		153,059	81,745
		<b>1,520,728</b>	<b>790,281</b>
<b>Current liabilities</b>			
Creditors and accrued charges	10	636,636	252,391
Amount due to an associate		2,809	2,809
Derivative financial instruments		601	454
Taxation payable		31,094	4,478
Borrowings – amount due within one year		515,175	220,792
Bank overdrafts		3,538	2,311
		<b>1,189,853</b>	<b>483,235</b>
<b>Net current assets</b>		<b>330,875</b>	<b>307,046</b>
<b>Total assets less current liabilities</b>		<b>798,185</b>	<b>736,252</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		4,488	7,558
		<b>793,697</b>	<b>728,694</b>

<b>Capital and reserves</b>			
Share capital	11	303,128	304,352
Share premium and reserves		483,208	422,825
<b>Equity attributable to shareholders</b>		<b>786,336</b>	<b>727,177</b>
<b>Minority interests</b>		<b>7,361</b>	<b>1,517</b>
<b>Total equity</b>		<b>793,697</b>	<b>728,694</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	<b>Six months ended</b>	
	<b>30.9.2006</b>	<b>30.9.2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Net Cash used in Operating Activities	(137,568)	(124,215)
Net Cash used in Investing Activities	(60,514)	(21,482)
Net Cash inflow from Financing Activities	268,169	184,615
Net Increase in Cash and Cash Equivalents	70,087	38,918
Cash and Cash Equivalents at 1 April	79,434	57,551
Cash and Cash Equivalents at 30 September	149,521	96,469
Analysis of balances of Cash and Cash equivalents		
Bank balances and cash	153,059	97,270
Bank overdrafts	(3,538)	(801)
	149,521	96,469

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

### 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 2006.

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 2006, except that the Group has adopted certain amendments to standards and interpretations which are effective for accounting periods commencing on or after 1 January 2006.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below.

In the current period, the Group adopted the following amendments to standards and interpretations which are effective for accounting periods beginning on or after 1 January 2006 and which are relevant to its operations. The adoption of these amendments to standards and interpretations had no material effect on the results and financial position for the current or prior accounting period as prepared and presented. Accordingly, no prior year adjustment has been required.

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts

HKFRS – Int 4

Determining whether an Arrangement contains a Lease

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 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

## 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 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>
TURNOVER	1,458,734	20,567	–	1,479,301
SEGMENT RESULT	100,041	607	–	100,648
Interest income				686
Share of profit of associates				1,089
Finance costs				(5,807)
Profit before tax				96,616
Taxation				(11,157)
Profit for the period				85,459

#### Six months ended 30 September 2005

	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	826,208	10,324	–	836,532
SEGMENT RESULT	55,958	1,088	(143)	56,903
Interest income				236
Unallocated corporate expenses				(745)
Share of loss of associates				(3)
Finance costs				(2,144)
Profit before tax				54,247
Taxation				(2,751)
Profit for the period				51,496

### 3. OTHER INCOME

Six months ended 30 September	
2006	2005
HK\$'000	HK\$'000

Other income includes the follows:

Loss on disposal of fixed assets	(4)	(2,468)
Unrealised holding (loss)/gain on investments	(2,033)	758
Impairment loss recognised in respect of investment securities	–	(52)

### 4. DEPRECIATION AND AMORTISATION

During the period, depreciation and amortization of approximately HK\$26,106,000 (HK\$18,504,000 for the six months ended 30 September 2005) 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	
2006	2005
HK\$'000	HK\$'000

The charge comprises:

Hong Kong Profits Tax		
Current	4,400	1,505
Taxation in other jurisdictions	6,757	1,246

Taxation attributable to the Company and its subsidiaries	<u>11,157</u>	<u>2,751</u>
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Hong Kong Profits Tax is calculated at 17.5% (2005:17.5%) 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	
2006	2005

Net profit for the period and profit for the purpose of basic and diluted earnings per share	<u>HK\$81,906,000</u>	<u>HK\$51,029,000</u>
Weighted average number of shares for the purpose of basic earnings per share	758,361,559	759,626,011
Effect of dilutive potential ordinary shares for the purpose of dilutive earnings per share – Share option	<u>33,068,091</u>	<u>31,767,657</u>
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	<u>791,429,650</u>	<u>791,393,668</u>

### 7. INTERIM DIVIDEND

The directors have declared an interim dividend of HK4.50 cents per share for the year ending 31 March 2007 (Year ended 31 March 2006: HK3.00 cents) payable to the shareholders of the Company whose names appear in the register of members on 19 January 2007.

## 8. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Net book value at beginning of year	294,734	297,157
Transfer to prepaid lease on reclassifications	–	(5,094)
Currency realignment	2	2
Additions	40,254	28,020
Disposal	(352)	(42,306)
Depreciation	(26,106)	(18,331)
Depreciation write back on disposal	228	33,810
	<b>308,760</b>	<b>293,258</b>

## 9. DEBTORS, DEPOSITS AND PREPAYMENTS

At 30 September 2006, debtors, deposits and prepayments included trade debtors of HK\$702,405,000 (31 March 2006: HK\$252,264,000). 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:

	30/9/2006 (Unaudited) HK\$'000	31/3/2006 (Audited) HK\$'000
0 – 30 days	569,700	194,355
31 – 60 days	63,157	21,267
61 – 90 days	31,641	10,560
Over 90 days	37,907	26,082
	<b>702,405</b>	<b>252,264</b>

## 10. CREDITORS AND ACCRUED CHARGES

At 30 September 2006, creditors and accrued charges included trade creditors of HK\$389,575,000 (31 March 2006: HK\$211,357,000). The aged analysis of trade creditors at the balance date is as follows:

	30/9/2006 (Unaudited) HK\$'000	31/3/2006 (Audited) HK\$'000
0 – 30 days	336,026	94,875
31 – 60 days	34,768	44,773
61 – 90 days	13,781	23,796
Over 90 days	5,000	47,913
	<b>389,575</b>	<b>211,357</b>

## 11. SHARE CAPITAL

	Number of shares	Issued and Fully paid Share capital HK\$'000
Balance at 1 April 2006	760,880,614	304,352
Repurchase of shares	(3,060,000)	(1,224)
Balance at 30 September 2006	<b>757,820,614</b>	<b>303,128</b>

The Company repurchased its own shares on the Stock Exchange as follows:

Month	Number of Shares	Price per share		Aggregate Consideration HK\$
		Lowest HK\$	Highest HK\$	
May 2006	765,000	1.11	1.13	856,650
June 2006	2,295,000	1.11	1.16	2,621,850
	<u>3,060,000</u>			<u>3,478,500</u>

## 12. CAPITAL COMMITMENTS

	30/9/2006 HK\$'000	31/3/2006 HK\$'000
Capital expenditure contracted for but not provided in the financial statements		
– property, plant and equipment	<u>3,941</u>	<u>3,104</u>
Capital expenditure contracted for but not provided in the financial statements		
– acquisition of subsidiaries	<u>–</u>	<u>7,769</u>

## 13. CONTINGENT LIABILITIES

As at 30 September 2006 the Group had contingent liabilities for bills discounted with recourse of nil (31 March 2006: HK\$ Nil).

## 14. RELATED PARTY TRANSACTIONS

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

## CLOSING OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 16 January 2007 to Friday, 19 January 2007, 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, Secretaries Limited, **not later than 4:00 p.m. on Monday, 15 January 2007**. The address is 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

Dividend warrants will be dispatched to shareholders on Thursday, 25 January 2007.

## BUSINESS REVIEW

### Group Results

The Board of directors have pleasure to report that the Group achieved a very encouraging interim results, both in turnover and profit attributable to shareholders during the period.

For the six months ended 30 September 2006, the Group recorded a turnover of HK\$1.48 billion, against HK\$837 million for the corresponding period last year, an increase of 77%. Profit attributable to shareholders increased by 60.5% to HK\$81,906,000 compared to HK\$51,029,000 for the corresponding period last year.

### Electronics Division

During the period under review, The Group's core business, Electronics Division, recorded sales of HK\$1.46 billion, against HK\$826 million for the corresponding period last year, an increase of 77%. The factors attributed to the substantial increase in sales include:

- Strong demand of video products which include portable TFT DVD players, TV DVD combo units;
- Replacing low value audio products with high value added MP3 products;

- Introduction of a new “Youth Electronics” products line to the youth market;
- Increase our profile as a major manufacturer and the success of our strategy of selling directly to key buyers in North America and in Europe;
- Contribution from Singing Machine Company, Inc. our newly acquired subsidiary in the United States for sales of HK\$111 million.

The Electronics Division returned segment profit before interest, taxation and minority interest of HK\$100,041,000 to shareholders during this six months, an increase of 78.8% compared with HK\$55,958,000 for the same period last year. The higher profit was a result of:

- Strong sales performance
- Replacing OEM business, which had a lower profit margin with higher profit margin products such as video and youth electronics.
- Selling direct to the key customers which enabled us to achieve a better gross margin by eliminating middle persons.
- Consolidating pro-rated net profit after tax from Singing Machine Company, Inc for an amount of HK\$3.3 million.

Distribution costs, which include payments of royalties, sales commissions, warehousing and freight increased significantly compared with the corresponding period in last year. As a percentage of sales, distribution costs increased from 3.9% to 8.9%. The main increase was due to the concentration in video sales, which require payments of license fees and royalties to patent holders. By selling direct to key customers, we incurred warehousing costs to provide back up to our customers’ “just-in-time” purchasing policy.

Administrative expenses increased by approximately 20% (excluding HK\$12.6 million for Singing Machine Company, Inc., its accounts were the first time to be consolidated) which were mainly incurred to strengthen the marketing team.

### **Securities Trading**

The Division recorded a turnover of HK\$20.6 million and a segment contribution of 0.6 million during the period.

### **Property Development**

No transaction recorded during the period.

### **PROSPECTS**

The Board of directors is optimistic and expects strong performance to continue in the second half of the fiscal year. We believe demands for video products will continue to be strong. Under license, we are launching to make and distribute the Disney products beginning delivery in January 2007. Major retailers in the United States and Canada have committed to purchase many of the items in the new line up, which comprise of four of Disney’s most popular franchises. At the January 2007 Consumer Electronics Show in Las Vegas, we have planned to launch two entire new lines of products. These are kitchen electronics and digital photo frames. We have already received very positive feedback from our key customers in these series of audio and video products and we have available capacity to make delivery in January, 2007. We are confident that we will continue to build our business with our current customers and open new accounts and markets in the near future.

## FINANCIAL POSITION

### Liquidity and Financial Resources

The financial position of the Group remained stable. As at 30 September 2006 cash and deposits and marketable securities amounted to approximately HK\$200,520,000, as compared to approximately HK\$114,171,000 at 31 March 2006.

Gearing ratio, calculated as total bank borrowings to shareholders' fund was 0.66 (31 March 2006: 0.31), and net bank borrowings as a percentage to Shareholders' fund was 0.46 for the period (31 March 2006: 0.19). Current ratio calculated as current assets to current liabilities was 1.28 (31 March 2006: 1.64).

The increase in bank borrowings as at 30 September 2006 was caused by seasonal effect. September is the beginning of peak season and thus accounts receivable increased substantially. Financial position will greatly improve after the collection of the sales proceeds.

### Financing and Capital Structure

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

As at 30 September 2006 total banking facilities granted to the Group amounted to HK\$638 million of which HK\$536 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

As at 30 September 2006, the Group pledged certain assets and securities with carrying value of HK\$57,583,000 (Year ended 31 March 2006: HK\$123,391,000) to secure the general credit facilities and the margin accounts with brokers.

### STAFF

As at 30 September 2006, the Group had a total staff of 5,766 of which 5,619 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.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period, 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\$	
May 2006	765,000	1.11	1.13	856,650
June 2006	2,295,000	1.11	1.16	2,621,850
	<u>3,060,000</u>			<u>3,478,500</u>

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.

## **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 2006 except as disclosed below.

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 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.

## **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 2006.

## **AUDIT COMMITTEE**

The Company has established an audit committee comprising Messrs. Peter Hon Sheung Tin, Norman Ho Hau Chong and Chan Chak Chung. 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 2006.

## **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, 19 December 2006

“Please also refer to the published version of this announcement in The Standard.”