STARLITE
HOLDINGS LIMITED
星光集團有限公司*
(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

STOCK CODE 股份代號: 403

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ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2019

INTERIM RESULTS (UNAUDITED)

The Directors of Starlite Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together the "Group") for the six months ended 30th September, 2019, together with the unaudited comparative figures for the corresponding period in the year 2018, as follows:

Condensed Consolidated Income Statement
For the six months ended 30th September, 2019

	Note	Unaudited Six months ended 30th September, 2019	2018
		HK$'000	HK$'000
Revenue	4	**695,409**	839,356
Cost of sales		**(553,282)**	(707,043)
Gross profit		**142,127**	132,313
Other gains – net	6	**10,467**	16,633
Selling and distribution costs		**(37,224)**	(45,281)
General and administrative expenses		**(84,429)**	(91,933)
Net impairment losses on financial assets		**(3,588)**	(4,223)
Operating profit	7	**27,353**	7,509

** For identification purpose*

Condensed Consolidated Income Statement (Continued)
For the six months ended 30th September, 2019

	Note	**Unaudited Six months ended 30th September, 2019**	2018
		HK$'000	HK$'000
Finance income		**284**	371
Finance costs		**(4,783)**	(5,257)
Finance costs – net	8	**(4,499)**	(4,886)
Profit before income tax		**22,854**	2,623
Income tax expense	9	**(6,580)**	(10,063)
Profit/(loss) for the period, attributable to the owners of the Company		**16,274**	(7,440)
Earnings/(losses) per share attributable to the owners of the Company during the period			
(expressed in HK cents per share)	10		
- Basic		**3.10**	(1.42)
- Diluted		**3.10**	(1.42)
Dividends	11	**-**	-

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30th September, 2019

	Unaudited Six months ended 30th September,	
	2019	2018
	HK$'000	HK$'000
Profit/(loss) for the period	**16,274**	(7,440)
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
(Decrease)/increase in fair value of financial assets at fair value through other comprehensive income	**(259)**	31
Currency translation differences	**(19,971)**	(34,738)
Other comprehensive loss for the period, net of tax	**(20,230)**	(34,707)
Total comprehensive loss for the period, attributable to the owners of the Company	**(3,956)**	(42,147)

Consolidated Statement of Financial Position

As at 30th September, 2019

	Note	**Unaudited As at 30th September, 2019 HK$'000**	Audited As at 31st March, 2019 HK$'000
ASSETS			
Non-current assets			
Land use rights		**-**	20,491
Property, plant and equipment		**309,845**	337,117
Right-of-use assets		**23,666**	-
Prepayments for non-current assets		**3,855**	2,149
Deferred income tax assets		**2,652**	4,152
Financial assets at fair value through other comprehensive income		**1,746**	2,005
Financial assets at fair value through profit or loss		**13,332**	13,137
		355,096	379,051
Current assets			
Inventories		**118,951**	127,278
Trade and bill receivables	12	**299,881**	214,666
Prepayments and deposits		**21,733**	29,278
Tax recoverable		**-**	85
Bank deposits with maturity over 3 months from date of deposits		**201**	15,950
Cash and cash equivalents		**206,743**	249,982
		647,509	637,239
Total assets		**1,002,605**	1,016,290
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**52,514**	52,514
Reserves	14	**412,141**	416,097
Total equity		**464,655**	468,611
LIABILITIES			
Non-current liabilities			
Borrowings		**19,881**	-
Deferred revenue		**710**	861
Deferred income tax liabilities		**5,400**	6,422
Lease liabilities		**1,233**	-
		27,224	7,283
Current liabilities			
Trade and bill payables	13	**161,512**	128,894
Contract liabilities		**3,984**	1,765
Current income tax liabilities		**29,562**	26,416
Borrowings		**140,712**	214,091
Lease liabilities		**3,268**	-
Accruals and other payables		**171,485**	169,015
Deferred revenue		**203**	215
		510,726	540,396
Total liabilities		**537,950**	547,679
Total equity and liabilities		**1,002,605**	1,016,290

Notes:

1. Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30th September, 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The unaudited condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 31st March, 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. Accounting policies

The accounting policies applied to this unaudited condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31st March, 2019 as described in those annual financial statements except for the adoption of new and amended standards and interpretations effective for the reporting period beginning on or after 1st April, 2019. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards and interpretation adopted by the Group

New and amended standards and interpretation, which are mandatory for the first time for the financial period beginning 1st April, 2019 and currently relevant to the Group, are as follows:

Annual improvements project	Annual Improvements to HKFRSs 2015-2017 Cycle
HKAS 19 (Amendment)	Employee Benefits
HKAS 28 (Amendment)	Investments in Associates and Joint ventures
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
IFRIC – Int 23	Uncertainty over Income Tax Treatments

A number of new or amended standards and interpretation became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting HKFRS 16 "Leases".

The impact of the adoption of HKFRS 16 "Lease" and the new accounting policies are disclosed in Note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2. Accounting policies (Continued)

(a) New and amended standards and interpretation adopted by the Group (Continued)

A number of new standards, amendments to standards and interpretation have been issued but are not effective for the financial year beginning 1st April, 2019 and have not been early adopted by the Group in preparing the condensed consolidated interim financial information. None of these is expected to have a significant effect on the condensed consolidated interim financial information of the Group based on the preliminary assessment made by management.

3. Changes in accounting policies

The note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's condensed consolidated interim financial information and discloses the new accounting policies that have been applied from 1st April, 2019 in Note 3(a) below.

The Group has adopted HKFRS 16 retrospectively from 1st April, 2019, but has not restated comparatives for the 2019 reporting period, as permitted under specific transitional provisions in the standard. The reclassifications and the adjustments arisng from the new leasing rules are therefore recognised in the opening condensed consolidated statement of financial position on 1st April, 2019.

(a) Adjustments recognised on adoption of HKFRS 16

In accordance with the transitional provision under HKFRS 16, the Group has applied the simplified transition approach, and all right-of-use assets were measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses). Comparative figures for the 2019 financial period have not been restated.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17, "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1st April, 2019.

3. Changes in accounting policies (Continued)

(a) Adjustments recognised on adoption of HKFRS 16 (Continued)

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1st April, 2019 was 7.06%.

	2019
	HK$'000
Operating lease commitments disclosed as at 31st March, 2019	5,526
Discounted using the lessee's incremental borrowing rate at the date of initial application	(214)
Less: short-term leases recognised on a straight-line basis as expense	(3,927)
Lease liabilities recognised as at 1st April, 2019	1,385
Of which are:	
— Current lease liabilities	1,243
— Non-current lease liabilities	142
	1,385

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the condensed consolidated interim statement of financial position as at 31st March, 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Land use rights previously presented as a separate item on the consolidated statement of financial position are grouped as part of right-of-use assets with effect from 1st April, 2019.

3. Changes in accounting policies (Continued)

(a) Adjustments recognised on adoption of HKFRS 16 (Continued)

The recognised right-of-use assets relate to the following types of assets:

	As at 30th September, 2019 HK$'000	As at 1st April, 2019 HK$'000
Building	4,572	1,653
Land use rights	19,094	20,491
	23,666	22,144

The change in accounting policies affected the following items in the condensed consolidated interim statement of financial position on 1st April, 2019:

Condensed consolidated statement of financial position (Extract)	At 31st March, 2019 As originally presented HK$'000	Effect of the adoption of HKFRS 16 HK$'000	At 1st April, 2019 HK$'000
Non-current assets			
Land use rights	20,491	(20,491)	-
Right-of-use assets	-	22,144	22,144
Current liabilities			
Lease liabilities	-	1,243	1,243
Non-current liabilities			
Lease liabilities	-	142	142

4. Revenue

Revenues is analysed as follows :

	Unaudited Six months ended 30th September,	
	2019	2018
	HK$'000	HK$'000
Sales of packaging materials, labels, and paper products, including environmentally friendly paper products	**683,129**	822,229
Others	**12,280**	17,127
	695,409	839,356

5. Segment information

The chief operating decision-maker (the "CODM") has been identified as the Chairman/Chief Executive Officer of the Company. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The CODM of the Company reviews the Group's internal reporting in order to assess performance and allocate resources. Management has reported the results of the operating segments based on these reports.

The CODM of the Company considers the business from geographical perspective, i.e. determined by the location of major factory plants including Southern China, Eastern China and South East Asia, and assesses performance based on revenue, operating profit/(loss), profit/(loss) for the period, capital expenditure, assets and liabilities.

(i) The segment results for the six months ended 30th September, 2019 and 2018 are as follows:

	Southern China	**Eastern China**	**South East Asia**	**Group**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Six months ended 30th September, 2019 (Unaudited)				
Segment revenue	548,180	135,684	79,982	763,846
Inter-segment revenue	(2,880)	(65,557)	-	(68,437)
Revenue from external customers at a point in time	545,300	70,127	79,982	695,409
Operating profit/(loss)	25,714	3,944	(2,305)	27,353
Finance income	177	87	20	284
Finance costs	(3,813)	(786)	(184)	(4,783)
Income tax expense	(5,221)	(1,252)	(107)	(6,580)
Profit/(loss) for the period	16,857	1,993	(2,576)	16,274
Other information :				
Additions to property, plant and equipment	8,528	4,202	1,057	13,787
Depreciation and amortisation for the period	14,365	7,159	6,435	27,959
Capital expenditure	10,063	4,450	980	15,493

5. Segment information (Continued)

(i) The segment results for the six months ended 30th September, 2019 and 2018 are as follows: (Continued)

	Southern China	Eastern China	South East Asia	Group
	HK$'000	HK$'000	HK$'000	HK$'000
Six months ended 30th September, 2018 (Unaudited)				
Segment revenue	685,405	148,611	73,541	907,557
Inter-segment revenue	(9,151)	(59,050)	-	(68,201)
Revenue from external customers	676,254	89,561	73,541	839,356
Operating profit/(loss)	17,561	(9,513)	(539)	7,509
Finance income	234	114	23	371
Finance costs	(4,477)	(780)	-	(5,257)
Income tax expense	(10,063)	-	-	(10,063)
Profit/(loss) for the period	3,255	(10,179)	(516)	(7,440)
Other information :				
Additions to property, plant and equipment	10,066	13,155	786	24,007
Depreciation and amortisation for the period	16,689	7,273	4,329	28,291
Capital expenditure	9,103	11,239	647	20,989

5. Segment information (Continued)

(ii) An analysis of the Group's assets and liabilities by segments as at 30th September, 2019 and 31st March, 2019 is as follows:-

	Southern China	Eastern China	South East Asia	Group
	HK$'000	HK$'000	HK$'000	HK$'000
As at 30th September, 2019 (Unaudited)				
Segment assets	677,297	167,908	157,400	1,002,605
Segment liabilities	392,755	120,070	25,125	537,950

	Southern China	Eastern China	South East Asia	Group
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31st March, 2019				
Segment assets	663,927	181,906	170,457	1,016,290
Segment liabilities	415,508	110,494	21,677	547,679

6. Other gains - net

	Unaudited Six months ended 30th September,	
	2019	2018
	HK$'000	HK$'000
Other gains/(losses) – net		
Net exchange gains	**6,624**	12,801
Net loss on disposal of property, plant and equipment	**(874)**	(1,113)
Net fair value gains on financial assets at fair value through profit or loss	**195**	-
Others	**4,522**	4,945
	10,467	16,633

7. Operating profit

The following items have been charged to the operating profit during the period:

	Unaudited Six months ended 30th September,	
	2019	2018
	HK$'000	HK$'000
Employees costs (including directors' emoluments)	**199,929**	260,028
Depreciation of right-of-use assets	**2,229**	-
Depreciation of property, plant and equipment and amortisation of land use rights	**25,730**	28,291

8. Finance costs – net

	Unaudited Six months ended 30th September,	
	2019	2018
	HK$'000	HK$'000
Finance costs		
Interest expenses on bank borrowings	**4,583**	5,257
Interest expenses on lease liabilities	**169**	-
Provision for unwinding discount	**31**	-
	4,783	5,257
Finance income		
Interest income from bank deposits	**(284)**	(371)
	4,499	4,886

9. Income tax expense

The Company is exempted from taxation in Bermuda until 2035. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes.

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong.

Subsidiaries established and operated in the Mainland China are subject to the PRC Corporate Income Tax at rate of 25% during the period (2018: 25%).

The subsidiaries established in Singapore and Malaysia are subject to Singapore Corporate Income Tax at a rate of 17% (2018: 17%) and Malaysia Corporate Income Tax at a rate of 24% (2018 : 24%) respectively.

	Unaudited Six months ended 30th September,	
	2019	2018
	HK$'000	HK$'000
Current income tax expense		
- Hong Kong profits tax	**945**	3,930
- Mainland China Corporate Income Tax	**5,243**	6,133
- Singapore Corporate Income Tax	**-**	-
- Malaysia Corporate Income Tax	**-**	-
	6,188	10,063
Deferred income tax	**392**	-
	6,580	10,063

10. Earnings/(losses) per share

Basic

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30th September,	
	2019	2018
Profit/(loss) attributable to owners of the Company (HK$'000)	**16,274**	(7,440)
Weighted average number of ordinary shares in issue ('000)	**525,135**	525,135
Basic earnings/(losses) per share (HK cents)	**3.10**	(1.42)

Diluted

Diluted earnings/(losses) per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. For the period ended 30th September, 2018 and 30th September, 2019, diluted earnings/(losses) per share equals basic earnings/(losses) per share as there were no dilutive potential shares.

11. Dividends

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30th September, 2019 (Six months ended 30th September, 2018 : Nil).

12. Trade and bill receivables

	Unaudited As at 30th September, 2019 HK$'000	Audited As at 31st March, 2019 HK$'000
Trade receivables	**317,470**	229,988
Less: Loss allowance	**(17,589)**	(15,322)
Trade receivables - net	**299,881**	214,666
Bill receivables	**-**	-
Trade and bill receivables	**299,881**	214,666

The Group grants to its customers credit terms generally ranging from 30 to 120 days. The ageing analysis of trade and bill receivables by invoice date is as follows :

	Unaudited As at 30th September, 2019 HK$'000	Audited As at 31st March, 2019 HK$'000
1 to 90 days	**273,714**	173,445
91 to 180 days	**18,951**	38,053
181 to 365 days	**11,790**	10,252
Over 365 days	**13,015**	8,238
	317,470	229,988
Less: Loss allowance	**(17,589)**	(15,322)
	299,881	214,666

13. Trade and bill payables

The ageing analysis of trade and bill payables by invoice date is as follows:

	Unaudited As at 30th September, 2019	Audited As at 31st March, 2019
	HK$'000	HK$'000
1 to 90 days	**150,473**	117,043
91 to 180 days	**8,326**	8,344
181 to 365 days	**50**	709
Over 365 days	**2,663**	2,798
	161,512	128,894

14. Reserves

Movements were:

	Share premium HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Investment revaluation reserve HK$'000	Financial assets at fair value through other comprehensive income revaluation reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
<u>Group</u>								
As at 1st April, 2019	127,796	1,792	15,812	-	1,269	42,637	226,791	416,097
Comprehensive income								
Profit attributable to the owners of the Company	-	-	-	-	-	-	16,274	16,274
Other comprehensive income								
- Decrease in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(259)	-	-	(259)
- Currency translation differences	-	-	-	-	-	(19,971)	-	(19,971)
Total comprehensive loss for the period	-	-	-	-	(259)	(19,971)	16,274	(3,956)
As at 30th September, 2019 (Unaudited)	127,796	1,792	15,812	-	1,010	22,666	243,065	412,141
As at 1st April, 2018	127,796	1,792	13,459	-	1,154	69,024	267,069	480,294
Comprehensive income								
Loss attributable to the owners of the Company	-	-	-	-	-	-	(7,440)	(7,440)
Other comprehensive income								
- Increase in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	31	-	-	31
- Currency translation differences	-	-	-	-	-	(34,738)	-	(34,738)
Total comprehensive loss for the period	-	-	-	-	31	(34,738)	(7,440)	(42,147)
As at 30th September, 2018 (Unaudited)	127,796	1,792	13,459	-	1,185	34,286	259,629	438,147

RESULTS

The Group posted a profit of approximately HK$16 million for the six months ended 30th September 2019, compared to loss of approximately HK$7.4 million in the same period last year, achieving economic benefits against market trends. The Group recorded about HK$695 million in revenue, 17% lower than that of the same period last year.

There are three main reasons for the Group's turnaround: (i) a comprehensive implementation of lean production, in particular 5S, value chains and automation have all played their roles in broadening revenue sources and reduce expenditures of the Group; (ii) encouraging management to work closely with frontline workers to help the latter to understand costs, keep abreast of market trends closely and foster closer relationships with customers; (iii) the combined effect of reduction in China's value-added tax and five mandatory insurance funds and the housing fund, with the depreciation of Renminbi.

Our four plants in China attained good results in suppressing costs. As a result, Shenzhen plant recorded a turnaround, and Guangzhou plant and Shaoguan plant maintained profitability. Similarly, Suzhou plant also recorded a turnaround, but certain key customers postponed some of their orders due to sluggish markets, affecting the business recovery in our Eastern China region.

The cost of paper in ASEAN region increased continuously, and could not be passed on to customers timely, which led to widening of losses in our operations in Singapore and Malaysia.

US-China trade conflicts continued, which adversely affected sentiments of consumers in the global market, and lackluster traditional markets further strengthened our determination to expand markets in China. Despite that a company as big as our Group in terms of size always attract criticism and competitors, we firmly believe that with our quality and integrity, the market will eventually welcome Starlite.

The Group adopted versatile measures to revitalize our resources integration mechanism in face of a fast-changing and complex environment. For instance, we increased the investment in our original brand Team Green, accelerated the automation and intellectual process of Larsemann, and information system optimization will be undertaken in no time. To complement the healthy development of the Company, the Group will make the best use of all the resources available and will deploy all its efforts. Details are set out in "Business Review and Prospects" section.

Interim Dividend

In order to retain resources for the Group's development, the Board has resolved not to pay an interim dividend for the six months ended 30th September, 2019 (30th September, 2018 : Nil).

Business Review and Prospects

Hong Kong / Mainland China Operations

Overview

During the period under review, the trade war between China and the United States, the Brexit impasse of the United Kingdom and the slowdown of the global economic growth as a consequence of years of quantitative easing monetary policy led to depressing consumer sentiment and confidence in major economies. Unnerved by negative factors such as uncertainty in world trade tariffs and unstable foreign currency rates, customers generally tend to adopt a conservative ordering policy. To cope with the challenge of an increasingly severe environment, the Group continued to optimize marketing policy while strengthening coordination with quality customer and investing in the development of customers of high potential. In consequence, the Group saw a short-term slowdown in revenue growth but still maintained a considerable profit margin.

At the same time, the Group successfully kept operational costs under effective control by proactively integrating resources and production capacity of all plants, continuously optimizing operational process and strengthening material sourcing and inventory management. During the period, costs of main raw materials dropped while labour costs were kept under control due to automation, refined improvement and implementation of Amoeba management practice and so forth.

The Shaoguan plant, which recorded a modest profit, reformed management to resolve order backlog issues so that transportation costs fell sharply. The Guangzhou plant maintained competitiveness with sustained increase in staff efficiency. The Shenzhen plant turned loss into profit because of production material control and increased labour productivity. Overall, profitability of the southern China operation improved even its revenue fell.

The eastern China operation also recorded a modest profit. Some customers from the technology sector delayed their projects due to market conditions, affecting the region's operation plan. The Southeast Asia operation recorded a slight increase in loss and its marginal profit was affected because of fierce competition in the packaging and printing market in the region and rise in paper costs.

Facing an uncertain external environment, the Group actively adopted measures to enhance customer relationship management and optimized plants' assets deployment, in addition to continuously promoting automation to assist all of its plants to raise efficiency and reduce reliance on manpower.

Southern China Operation

For the six months ended 30th September, 2019, the Group's southern China operation posted a slight increase in profit. Given the China-US trade conflict and European geopolitical situation, many customers became cautious about the economic outlook, and subsequently orders from some markets, such as children books, greeting cards and traditional packaging, shrank slightly. In face of short-term economic turbulence, the three plants in southern China implemented various effective cost reduction measures which encompassed centralized procurement, development of new materials, vitalizing supply chain resources, optimization of advanced automation process, streamlining organization structure and integration of functional departments. The Amoeba management concept introduced in late 2018 contributed towards raising the team's overall digitalized management level. The southern China operation has revitalized assets efficiency through resources consolidation.

The Group's eco-friendly innovative brand JIGZLE® recorded an increase in sales in the first six months of the year with development of new product lines and expansion of sales network. Two outlets opened in Shanghai. The team also participated in trade shows to further explore new business opportunities and enhance brand promotion such as Taobao Creation 2019, Hangzhou Cultural and Creative Industry Expo, CBME China Pregnancy and Infant Exhibition, LIFESTYLE EXPO TOKYO、China Commodity Fair (Russia) and etc.

Eastern China operation

During the period, the revenue of the eastern China operation dropped but still managed to record profit. External tense economic situation and growing downward pressure on China's economy led to rising risk aversion sentiment among customers who resorted to a more prudential sales strategy, thus exerting pressure on the eastern China operation's business growth. Revenue from special packaging and printing business dropped because of negative marketing sentiments, while the business of greeting cards and domestic sales remained steady.

The management team in the region strives to streamline operation not only to proactively expand domestic markets to capitalize on the opportunities of the rapidly growing consumables packaging market in recent years but also to reduce consumption and enhance efficiency through merging jobs with functions and strengthening the sourcing process. It is set to develop as a key printing and innovation base in the Yangtze River Delta .

During the period, the innovative production base of the Group's own brand JIGZLE® officially commenced operation to provide full support to the brand's business expansion in Greater China.

Southeast Asia Business

The Southeast Asia operation recorded an increase in revenue but an increase in loss during the period. Receiving strong support in the form of transfer of technology, equipment and process from four factories in China, the Group's factories in this region effectively reduced labour and outsourcing costs, but the surge in raw material costs in the region imposed a negative impact on the profitability of the Group's Southeast Asian operation.

US-China trade war resulted that a number of customers relocated their production lines from China to other regions in Asia. A number of internationally renowned customers assessed the possibility of taking orders originally earmarked for Greater China to the Group's plant in Southeast Asia, which was determined to expand production capacity and increase use of automated equipment to meet customers' growing demand. The management anticipated the Southeast Asia operation would become the Group's new growth engine.

Prospects

In the World Economic Outlook report released in October 2019, the International Monetary Fund (IMF) reduced for a fifth time its projection of global economic growth rate from 3.2% as of July to only 3%, attributable to the extensive slow growth among major economies as a result of trade conflicts, which will be the weakest global economic growth rate in this decade. IMF also adjusted its projection of the global economic growth rate for 2020 downwards from 3.5% to 3.4%.

The management is proactively undertaking numerous measures to seek sources of revenue while cutting expenses and encourage collaboration between both the management and the frontline workers in light of global economic slowdown and uncertain economic recovery. The Group will further consolidate the functions of different business units and enhance customer services. In addition, resources of all plants were consolidated to revitalize the Group's assets portfolio to raise overall operation efficiency.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's sources of funding include cash generated from the Group's operations and banking facilities provided to the Group by banks mainly in Hong Kong and Mainland China. As at 30th September, 2019, the Group's cash and bank balances and short-term bank deposits amounted to approximately HK$207 million.

During the period under review, the interest expense of the Group amounted to approximately HK$4.8 million compared to approximately HK$5.3 million recorded in the same period of 2018.

As at 30th September, 2019, the Group had a working capital surplus of approximately HK$137 million compared to a working capital surplus of approximately HK$227 million as at 30th September, 2018. The Group was in net cash position as at 30th September, 2019 and 2018. The Group will continue to adopt prudent policies to maintain a healthy financial position.

CHARGE ON ASSETS

As at 30th September, 2019, certain assets of the Group with an aggregate book carrying value of approximately HK$23 million (30th September, 2018: HK$23 million) were pledged to secure the banking facilities of the Group.

EXCHANGE RATE EXPOSURE

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollars, US dollars, Chinese Renminbi, Malaysian Ringgit, Singapore dollars or Euro. The exchange rate of US dollars/ Hong Kong dollars is relatively stable due to the current peg system in Hong Kong. On the other hand, the existing Renminbi denominated sales revenue helps to reduce the Group's commitments of Renminbi-denominated operating expenses in China. Transaction values involving Euro were primarily related to the Group's purchase of machinery.

HUMAN RESOURCES DEVELOPMENT

Currently the Group has approximately 4,300 employees. The Group maintains good relations with its employees, providing them competitive packages and incentive schemes as well as various training programmes. The Group has maintained a share option scheme under which share options can be granted to certain employees including executive directors and non-executive directors of the Company (excluding independent non-executive directors) as incentive for their contribution to the Group. The Group provides various training and development programmes to staff on an ongoing basis. The Group will explore the possibility of launching other special training programmes with universities in Mainland China and education institutions abroad to further enhance its staff quality.

AUDIT COMMITTEE

The Audit Committee is composed of all the three Independent Non-Executive Directors of the Company. The Audit Committee has reviewed with management the accounting policies adopted by the Group and discussed auditing, risk management and internal control system, and financial reporting matters, including the review of unaudited interim financial statements for the six months ended 30th September, 2019.

REMUNERATION COMMITTEE

The Remuneration Committee was set up with the responsibility of recommending to the Board the remuneration policy of all the Directors and the senior management. The Remuneration Committee composed of all the three Independent Non-Executive Directors of the Company.

NOMINATION COMMITTEE

The Nomination Committee is composed of the Chairman of the Board, one Non-Executive Director and the three Independent Non-Executive Directors of the Company. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board regarding any proposed changes.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the Code Provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") throughout the six months ended 30th September, 2019 except for the deviations as mentioned below.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Officer and Mr. Lam Kwong Yu currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person would allow the Company to be more effective and efficient in developing long-term business strategies and execution of business plans. The Board believes that the balance of power and authority is adequately ensured by the operating of the Board which comprises experienced and high caliber individuals with a sufficient number thereof being Non-Executive Directors.

Code Provision A.2.7 stipulates that the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors. As Mr. Lam Kwong Yu, the Chairman of the Company, is also an Executive Director of the Company, this code provision is not applicable.

Code Provision A.4.1 stipulates that Non-Executive Directors should be appointed for a specific term, subject to re-election. Mr. Cheung Chi Shing, Charles and Mr. Tai Tzu Shi, Angus have been re-designated as Non-Executive Directors of the Company with effect from 1st April, 2019 for a term of one year until 31st March, 2020. The remaining Non-Executive Directors (including Independent Non-Executive Directors) of the Company have not been appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company.

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Kwok Lam-Kwong, Larry, *SBS, JP* and Ms. Yeung Chui were unable to attend the Annual General Meeting of the Company held on 19th August, 2019 as they were engaged in other prior business commitments.

COMPLIANCE WITH MODEL CODE

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 for securities transactions by the Directors.

All Directors have confirmed that they have complied with the required standard of dealings and code of conduct regarding securities dealings by directors as set out in the Model Code for the six months ended 30th September, 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk under "Latest Listed Company Information" and on the website of the Company at http://www.hkstarlite.com. The interim report for the six months ended 30th September, 2019 will be dispatched to the shareholders and published on the above websites in due course.

On behalf of the Board
Starlite Holdings Limited
Lam Kwong Yu
Chairman

Hong Kong, 25th November, 2019

As at the date of this announcement, the Executive Directors of the Company are Mr. Lam Kwong Yu, Mr. Tin Shing and Mr. Poon Kwok Ching, Non-Executive Directors are Ms. Yeung Chui, Mr. Tai Tzu Shi, Angus and Mr. Cheung Chi Shing, Charles and the Independent Non-Executive Directors are Mr. Chan Yue Kwong, Michael, Mr. Kwok Lam Kwong, Larry, SBS, JP and Mr. Tam King Ching, Kenny.