

The directors submit their report together with the audited accounts for the year ended 31st March 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the design, manufacture and sale of consumer audio-visual, telecommunication and plastic products.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 18.

The directors have declared an interim dividend of HK5.0 cents per share, totalling HK\$27,832,000, which was paid on 25th January 2005.

The directors recommend the payment of a final dividend of HK12.0 cents per ordinary share and a special dividend of HK4.0 cents per ordinary share, totalling HK\$89,173,000.

LIQUIDITY AND FINANCIAL RESOURCES

The cash position of the Group remained very strong. As at 31st March 2005, our cash on hand and deposits totaled at HK\$858 million. After deducting the interest bearing debts of HK\$207 million, we had net surplus cash of HK\$651 million, as compared with last year's HK\$319 million. The increase in net surplus cash was from profit generated from operations and the lower capital expenditure incurred during the year.

At the continuous effort of the Group to control its working capital, despite the increase in turnover, the inventory level as at 31st March 2005 decreased from HK\$597 million to HK\$550 million and the average inventory turnover dropped from 68 days to 63 days. The average trade receivables turnover also decreased from 48 days to 40 days.

We finance our operations by drawing from a combination of resources including retained profits, trust receipt banking facilities and committed long term bank loan. As at 31st March 2005, the Group had been granted banking facilities of HK\$1,924 million, of which HK\$207 million were used. Among the used facilities, HK\$167 million are repayable within one year and the remaining HK\$40 million are repayable within five years.

To meet the working capital requirements of manufacturing high-value products, especially larger screen TFT-LCD related items, we arranged a 3-year syndicated term loan of HK\$350 million as standby facilities. The securing of the loan not only enhanced the Group's financial position, but also demonstrated our bankers' strong confidence in Alco. No drawing had been made on the loan as at 31st March 2005.

Capital expenditure on fixed assets spent during the year was HK\$90 million (2004: HK\$82 million), mainly on enhancing our various advanced production facilities. At 31st March 2005, we had capital commitments contracted but not provided for in respect of moulds, plant and machinery amounting to HK\$7 million (2004: HK\$2 million).

Our foreign exchange exposure is well managed and as nearly all of our sales, purchases and borrowings are denominated in US dollar and HK dollar, we have natural hedges against currency risks and it is our policy not to engage in speculative activities.

As at 31st March 2005, shareholders' funds amounted to HK\$1,278 million, representing an increase of 16% as compared with HK\$1,101 million last year. The increased amount mainly constituted profit for the year and the proceeds of HK\$24 million from the issue of new shares through the exercise of warrants. As at 31st March 2005, outstanding warrants numbered at 5,185,951.

EMPLOYEES

As at 31st March 2005, we had approximately 14,000 employees in Hong Kong and the PRC. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. We also provide other benefits including medical insurance, provident fund and education subsidies to all eligible staff.

MAJOR SUPPLIERS AND CUSTOMERS

The purchases and sales attributable to the Group's major suppliers and customers expressed as a percentage of total purchases and sales of the Group for the year ended 31st March 2005 are as follows:

Purchases	
the largest supplier	25%
five largest suppliers combined	44%
Sales	
the largest customer	25%
five largest customers combined	68%

None of the directors, their associates or shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest at any time during the year in the major suppliers or customers noted above.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 21 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 11 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes of the Group are set out on page 57.

SHARE CAPITAL AND BONUS WARRANTS

Details of the movements in the share capital and bonus warrants of the Company are set out in note 20 to the accounts.

BANK LOANS AND OTHER BORROWINGS

An analysis of the Group's bank loans and other borrowings at 31st March 2005 is set out below:

	Trust receipt loans		Obligations under finance leases		Bank loans	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	89,050	152,638	206	2,813	77,619	57,143
In the second year	–	–	–	206	32,500	34,286
In the third to fifth year	–	–	–	–	7,500	20,000
	89,050	152,638	206	3,019	117,619	111,429

PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITY

Details of the Company's principal subsidiaries and jointly controlled entity at 31st March 2005 are set out in notes 32 and 14 to the accounts respectively.

RETIREMENT BENEFIT SCHEMES

Details of the Company's retirement benefit schemes are set out in note 24 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st March 2005 amounted to HK\$46,748,000 (2004: HK\$46,220,000), comprising retained profits and contributed surplus.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 58.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The directors during the year were:

Mr LEUNG Kai Ching, Kimen
Mr LEUNG Wai Sing, Wilson
Mr KUOK Kun Man, Andrew
Mr WONG Po Yan, G.B.M., J.P. *
The Hon LI Wah Ming, Fred, J.P. *
Mr LAU Wang Yip, Derrick *

* *Independent non-executive directors*

In accordance with clause 87(1) of the Company's Bye-laws, Mr WONG Po Yan and the Hon LI Wah Ming, Fred will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

On 1st April 2004, each of the executive directors entered into a service contract with the Company for a term of 3 years and shall continue until terminated by either party giving to the other not less than 6 months notice in writing.

The independent non-executive directors do not have any service contracts with the Company or its subsidiaries.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 7 and 8.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st March 2005, the interests and short positions of the directors in the shares of the Company, as recorded in the register required to be kept by the Company under Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

	Long positions in shares of the Company			Total
	Personal interest	Corporate interest	Family interest	
Mr LEUNG Kai Ching, Kimen	18,200,000	38,891,600 (note a)	187,019,800 (note b)	244,111,400
Mr LEUNG Wai Sing, Wilson	44,640,000	–	187,019,800 (note b)	231,659,800
Mr KUOK Kun Man, Andrew	1,202,000	–	–	1,202,000

Notes:

- (a) These shares were owned by Shundeian Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen is the sole shareholder.
- (b) These shares were owned by Kimen Leung UT Limited, a company incorporated in the British Virgin Islands as the trustee of The Kimen Leung Unit Trust which is beneficially owned by The Kimen Leung Family Trust. Mr LEUNG Wai Sing, Wilson and other family members of Mr LEUNG Kai Ching, Kimen are the beneficiaries of The Kimen Leung Family Trust which is a discretionary trust.

Save as disclosed above, as at 31st March 2005, other than one ordinary share each in the Hong Kong incorporated subsidiaries of the Company held in trust for the Group by Mr LEUNG Kai Ching, Kimen, none of the directors 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 recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the heading "Share Option Scheme", at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executives or their spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31st March 2005, the interests and short positions of those persons (other than the Directors) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Capacity in which shares were held	Long positions in shares	Approximate shareholding percentage
Shundean Investments Limited	Beneficial owner	225,911,400 (note a)	40.53%
HSBC International Trustee Limited	Trustee	187,835,800 (note b)	33.70%
Kimen Leung UT Limited	Trustee	187,019,800 (notes a & b)	33.56%
J.P. Morgan Chase & Co.	Investment manager	33,080,000	5.94%
Leung Wai Lap David	Beneficial owner	32,972,190	5.92%
Webb David Michael	Beneficial owner	28,129,400	5.05%

Notes:

- (a) Among the referenced shares, 38,891,600 ordinary shares were held by Shundean Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen is the sole shareholder; and 187,019,800 ordinary shares were held by Kimen Leung UT Limited, a company incorporated in the British Virgin Islands as the trustee of The Kimen Leung Unit Trust which is beneficially owned by The Kimen Leung Family Trust. Mr LEUNG Wai Sing, Wilson and other family members of Mr LEUNG Kai Ching, Kimen are the beneficiaries of The Kimen Leung Family Trust which is a discretionary trust.
- (b) Among the referenced shares, 187,019,800 ordinary shares were held for Kimen Leung UT Limited, which were related to the same block of shares held by Kimen Leung UT Limited.

Save as disclosed above, as at 31st March 2005, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no person, other than the Directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, who had any interest or short position in the shares or underlying shares of the Company.

SHARE OPTION SCHEME

On the special general meeting which was held on 21st August 2003, shareholders of the Company approved the termination of the share option scheme adopted by the Company on 6th November 1992 which expired on 5th November 2002 and approved the adoption of a new share option scheme (the "Scheme"). The Scheme is valid and effective for a period of ten years from the date of adoption.

Pursuant to the Scheme, the Company may grant options to directors and employees of the Company or any of its subsidiaries, for the purpose of providing incentives, to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options granted and yet to be exercised under all share option schemes shall not exceed 30% of the issued share of the Company from time to time.

The number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not exceed 10% of the issued shares of the Company on the date of adoption.

The total number of options granted to an individual grantee in any 12-month period must not exceed 1% of the issued shares of the Company.

The period within which the shares must be taken up under an option is any period as determined by the Board, which shall not be more than 10 years from date of grant or the expiry date of the Scheme, whichever is earlier.

The subscription price of the share options shall not be less than the higher of (i) the closing price of the shares on The Stock Exchange of Hong Kong Limited on the date of grant, (ii) the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

An option grantee shall pay HK\$5 to the Company for the acceptance of an option.

No share options have been granted by the Company since the adoption of the Scheme.

CONNECTED TRANSACTIONS

On 18th October 2004, Alco Investments (B.V.I.) Limited ("Alco Investments"), a wholly-owned subsidiary of the Company, acquired 6,000 shares, representing 20% of the issued share capital of Alco Plastic Products Limited ("Alco Plastic") for a cash consideration of HK\$15,500,000 from Mr LAU Kwok Wai, a director of Alco Plastic. Upon completion, the percentage shareholding of Alco Investments in Alco Plastic increased from 80% to 100%. Negative goodwill arising from acquisition of additional interest in Alco Plastic amounted to HK\$5,223,000.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied with the Code of Best Practice during the year except that independent non-executive directors are not appointed for a specific term as recommended under Appendix 14 of the Listing Rules. According to the Bye-laws of the Company, independent non-executive directors of the Company will retire by rotation every year and their appointments will be reviewed when they are due for re-election. In the opinion of the Company, this meets the same objective as the Code of Best Practice.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the accounts of the Group for the year ended 31st March 2005.

The audit committee comprises three independent non-executive directors of the Company, namely Mr WONG Po Yan, G.B.M., J.P., the Hon LI Wah Ming, Fred, J.P. and Mr LAU Wang Yip, Derrick.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LEUNG Kai Ching, Kimen
Chairman

Hong Kong, 18th July 2005