



# **ALCO HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 328)

**INTERIM REPORT 2010**

The directors of Alco Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2010, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2010

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30th September</b>	
		2010	2009
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	3	<b>1,707,124</b>	2,219,407
Cost of goods sold	4	<b>(1,501,191)</b>	(1,980,499)
Gross profit		<b>205,933</b>	238,908
Other income		<b>2,089</b>	2,609
Selling expenses	4	<b>(74,256)</b>	(107,711)
Administrative expenses	4	<b>(41,926)</b>	(37,784)
Other operating income/ (expenses)	4	<b>34,242</b>	(4,696)
Exchange (loss)/gain on loans and receivables		<b>(359)</b>	11,203
Operating profit		<b>125,723</b>	102,529
Finance income		<b>3,637</b>	3,052
Finance costs		<b>(509)</b>	(807)
Profit before income tax		<b>128,851</b>	104,774
Income tax expense	5	<b>(10,116)</b>	(11,492)
Profit attributable to equity holders of the Company		<b>118,735</b>	93,282
Dividends	6	<b>56,584</b>	50,100
Earnings per share attributable to equity holders of the Company			
– basic	7	<b>HK21.2 cents</b>	HK16.8 cents
– diluted	7	<b>HK21.2 cents</b>	HK16.8 cents

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September 2010

	Unaudited	
	Six months ended	
	30th September	
	2010	2009
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	118,735	93,282
Other comprehensive income, net of tax:		
Fair value gain on available-for-sale financial assets	–	16,806
Currency translation differences	434	515
	<hr/>	<hr/>
Total comprehensive income attributable to equity holders of the Company	<b>119,169</b>	<b>110,603</b>
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**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30th September 2010

		<b>Unaudited 30th September 2010 HK\$'000</b>	Audited 31st March 2010 HK\$'000
Non-current assets			
Property, plant and equipment		<b>302,282</b>	324,943
Investment properties		<b>75,020</b>	75,020
Leasehold land and land use rights		<b>7,860</b>	11,997
Intangible assets		<b>72,927</b>	76,827
Deferred income tax assets		<b>12,648</b>	7,072
Loans and receivables	8	<b>78,142</b>	78,501
Available-for-sale financial assets	9	<b>136,641</b>	136,641
		<b>685,520</b>	711,001
Current assets			
Inventories		<b>411,823</b>	472,688
Trade and other receivables	10	<b>919,804</b>	535,383
Cash and cash equivalents		<b>759,439</b>	1,039,830
		<b>2,091,066</b>	2,047,901
Current liabilities			
Trade and other payables	11	<b>858,483</b>	819,062
Current income tax liabilities		<b>31,055</b>	57,891
Borrowings	12	<b>76,400</b>	76,400
		<b>965,938</b>	953,353
Net current assets		<b>1,125,128</b>	1,094,548
Total assets less current liabilities		<b>1,810,648</b>	1,805,549
Capital and reserves attributable to equity holders of the Company			
Share capital	13	<b>56,584</b>	55,666
Reserves		<b>1,746,264</b>	1,703,883
Total equity		<b>1,802,848</b>	1,759,549
Non-current liabilities			
Borrowings	12	<b>7,800</b>	46,000
		<b>7,800</b>	46,000
Total equity and non-current liabilities		<b>1,810,648</b>	1,805,549

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2010

### Unaudited

	Share capital	Share premium	Equity compensation reserve	Capital redemption reserve	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2009	55,666	245,011	-	940	(37,606)	1,337,621	1,601,632
Translation differences	-	-	-	-	515	-	515
Profit for the period	-	-	-	-	-	93,282	93,282
Fair value gain on available- for-sale financial assets	-	-	-	-	16,806	-	16,806
Total comprehensive income	-	-	-	-	17,321	93,282	110,603
2009 final dividends	-	-	-	-	-	(77,933)	(77,933)
Total transaction with owners	-	-	-	-	-	(77,933)	(77,933)
At 30th September 2009	<u>55,666</u>	<u>245,011</u>	<u>-</u>	<u>940</u>	<u>(20,285)</u>	<u>1,352,970</u>	<u>1,634,302</u>
At 1st April 2010	55,666	245,011	-	940	51	1,457,881	1,759,549
Translation differences	-	-	-	-	434	-	434
Profit for the period	-	-	-	-	-	118,735	118,735
Total comprehensive income	-	-	-	-	434	118,735	119,169
Shares issued from exercise of share options	918	25,687	-	-	-	-	26,605
Equity compensation	-	-	10,690	-	-	-	10,690
2010 final and special dividends	-	-	-	-	-	(113,165)	(113,165)
Total transaction with owners	918	25,687	10,690	-	-	(113,165)	(75,870)
At 30th September 2010	<u>56,584</u>	<u>270,698</u>	<u>10,690</u>	<u>940</u>	<u>485</u>	<u>1,463,451</u>	<u>1,802,848</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2010

	Unaudited	
	Six months ended	
	30th September	
	2010	2009
	HK\$'000	HK\$'000
Net cash (used in) / generated from operating activities	<b>(155,894)</b>	209,321
Net cash generated from / (used in) investing activities	<b>263</b>	(20,496)
Net cash used in financing activities	<b><u>(124,760)</u></b>	<u>(312,502)</u>
Net decrease in cash and cash equivalents	<b>(280,391)</b>	(123,677)
Cash and cash equivalents at beginning of period	<b><u>1,039,830</u></b>	<u>872,307</u>
Cash and cash equivalents at end of period	<b><u><u>759,439</u></u></b>	<u><u>748,630</u></u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b><u><u>759,439</u></u></b>	<u><u>748,630</u></u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September 2010

### 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 (“HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

These condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31st March 2010.

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 31st March 2010, except the Group has adopted certain HKASs and Hong Kong Financial Reporting Standards (“HKFRS”) which are mandatory for the financial year ending 31st March 2011.

### 2. Changes in accounting policies

The following revised standards and amendments to standards are relevant to the Group and are mandatory for the financial year beginning 1st April 2010.

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standard
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRSs (Amendments)	Improvements to HKFRSs 2009

The adoption of the above amendments to existing standards did not have significant impact to the Group’s financial statements and has not led to any changes in the Group’s accounting policies, except the following impact on the presentation.

## 2. Changes in accounting policies (continued)

The amendment to HKAS 17 “Leases” removes the specific guidance which previously required that land element held under a lease should be classified as an operating lease. It provides new guidance which indicates that entities should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group has made a reassessment of the existing land lease arrangements and certain “Leasehold land and land use rights” have been reclassified to “Property, plant and equipment” and the corresponding “Amortisation of leasehold land and land use rights” has been reclassified to “Depreciation of property, plant and equipment” retrospectively. Comparative information has been restated to reflect this change in accounting policy. The adoption of amendment to HKAS 17 has the following impact on the condensed consolidated interim financial information due to the reclassification as aforesaid:

	<b>30th September</b>	31st March
	<b>2010</b>	2010
	<b>HK\$'000</b>	<i>HK\$'000</i>
Increase in property, plant and equipment	<b>46,163</b>	46,194
Decrease in leasehold land and land use rights	<b>46,163</b>	46,194
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	<i>HK\$'000</i>
Increase in depreciation of property, plant and equipment	<b>31</b>	31
Decrease in amortisation of leasehold land and land use rights	<b>31</b>	31

There is no impact upon the reported income for the current or prior periods.



## 2. Changes in accounting policies (continued)

The following revised standards, amendments to standards and interpretations are mandatory for the financial year beginning 1st April 2010, but are not currently relevant to the Group:

HKAS 32 (Amendment)	Classification of Rights Issue
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction
HKFRS 3 (Revised)	Business Combinations
HKFRS 5 (Amendment)	Non-current Assets held for Sale and Discontinued Operations
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners
HK(IFRIC)-Int 18	Transfers of Assets from Customers

The following new/revised standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1st April 2010 and have not been early adopted by the Group:

HKAS 24 (Revised)	Related Party Disclosures
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets
HKFRS 9	Financial Instruments
HKFRSs (Amendment)	Improvements to HKFRSs 2010
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The Group has already commenced an assessment of the impact of the above new/revised standards, amendments to standards and interpretations, but is not yet in a position to state whether these new/revised standards, amendments to standards and interpretations would have a significant impact to its results of operations and financial position.

### 3. Segment information

#### (a) Segment analysed by products

The Group mainly operates in the People's Republic of China (the "PRC") and Hong Kong and is principally engaged in designing, manufacturing and selling consumer electronic products and plastic products.

Consumer electronic products	–	Design, manufacture and sale of consumer electronic products
Plastic products	–	Manufacture and sale of plastic and packaging products

	Six months ended 30th September							
	2010				2009			
	Consumer electronic products	Plastic products	Elimination	Group	Consumer electronic products	Plastic products	Elimination	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue								
External sales	1,705,708	1,416	–	1,707,124	2,215,403	4,004	–	2,219,407
Inter-segment sales	–	52,764	(52,764)	–	–	66,800	(66,800)	–
	<u>1,705,708</u>	<u>54,180</u>	<u>(52,764)</u>	<u>1,707,124</u>	<u>2,215,403</u>	<u>70,804</u>	<u>(66,800)</u>	<u>2,219,407</u>
Segment results	<u>125,885</u>	<u>(162)</u>		<u>125,723</u>	<u>103,165</u>	<u>(636)</u>		<u>102,529</u>

### 3. Segment information (continued)

(b) Segment analysed by geographical areas

	Turnover	
	Six months ended	
	30th September	
	2010	2009
	HK\$'000	HK\$'000
North America	1,221,864	1,692,885
Europe	229,817	259,519
Asia	223,669	191,208
Others	31,774	75,795
	<u>1,707,124</u>	<u>2,219,407</u>

The analysis of revenue by geographical areas is based on the destination to which the shipments are made.

Primarily all of its assets and capital expenditure for the six months ended 30th September 2010 and 2009 were located and utilised in the PRC and Hong Kong.

### 4. Expenses by nature

Expenses included in cost of goods sold, selling expenses, administrative expenses and other operating income/(expenses) are analysed as follows:

	Six months ended	
	30th September	
	2010	2009
	HK\$'000	HK\$'000
Amortisation of intangible assets	3,900	3,900
Depreciation	31,567	35,123
Gain on disposal of property (Note)	33,508	–
Employee benefit expenses	161,124	167,092
	<u>161,124</u>	<u>167,092</u>

Note:

For the purpose of re-development, the local government of Houjie Town requested the Group to surrender certain land and building in Houjie Town (the "Property") in return for a compensation of approximately HK\$44 million. The Property was previously used to manufacture the polyfoam packaging materials. The gain on disposal of Property was the difference between the compensation and its carrying value as at the date of disposal.

## 5. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the condensed consolidated income statement represents:

	<b>Six months ended 30th September</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Current income tax		
– Hong Kong profits tax	<b>15,692</b>	12,885
Deferred income tax	<b>(5,576)</b>	(1,393)
	<b><u>10,116</u></b>	<u>11,492</u>

## 6. Dividends

	<b>Six months ended 30th September</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Interim dividend, proposed, of HK10 cents (2009: HK9 cents) per ordinary share	<b><u>56,584</u></b>	<u>50,100</u>

At a meeting held on 25th November 2010, the directors declared an interim dividend of HK10 cents (2009: HK9 cents) per share for the six months ended 30th September 2010.

## 7. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Since the exercise prices of the Company's outstanding share options were higher than the average closing price for the period from the dates of granting the share options to 30th September 2010, there was no dilutive effect.

	<b>Six months ended 30th September</b>	
	<b>2010</b>	2009
Profit attributable to equity holders of the Company ( <i>HK\$'000</i> )	<u><b>118,735</b></u>	<u>93,282</u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	<u><b>559,533</b></u>	<u>556,662</u>
Basic and diluted earnings per share ( <i>HK cents</i> )	<u><b>21.2</b></u>	<u>16.8</u>

## 8. Loans and receivables

	<b>30th September 2010</b>	31st March 2010
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Carrying amount as at period end	<u><b>78,142</b></u>	<u>78,501</u>

Loans and receivables represent the Group's investment in the five-year interest-bearing corporate bond (4% per annum) issued by Hydis Technologies Company Limited ("Hydis"), a company incorporated in Korea. They are denominated in Korean Won ("KRW").

The carrying amount of the loans and receivables approximates to their fair value.

The maximum exposure to credit risk at the reporting date is the carrying value of the loans and receivables.

## 9. Available-for-sale financial assets

	<b>30th September 2010 HK\$'000</b>	31st March 2010 HK\$'000
Fair value of unlisted equity securities outside Hong Kong, at period end	<b><u>136,641</u></b>	<u>136,641</u>

The available-for-sale financial assets represent the Group's long term investment in the shares of Hydix. They are denominated in KRW.

## 10. Trade and other receivables

	<b>30th September 2010 HK\$'000</b>	31st March 2010 HK\$'000
Trade receivables	<b>863,017</b>	521,120
Prepayments, deposits and other receivables	<b><u>56,787</u></b>	<u>14,263</u>
	<b><u>919,804</u></b>	<u>535,383</u>

At 30th September 2010, the ageing analysis of trade receivables based on invoice date is as follows:

	<b>30th September 2010 HK\$'000</b>	31st March 2010 HK\$'000
0 – 30 days	<b>556,252</b>	210,335
31 – 60 days	<b>182,410</b>	190,031
61 – 90 days	<b>79,884</b>	83,526
Over 90 days	<b><u>44,471</u></b>	<u>37,228</u>
	<b><u>863,017</u></b>	<u>521,120</u>

## 11. Trade and other payables

	<b>30th September 2010 HK\$'000</b>	31st March 2010 HK\$'000
Trade payables	778,851	729,168
Other payables and accruals	<u>79,632</u>	<u>89,894</u>
	<b><u>858,483</u></b>	<b><u>819,062</u></b>

At 30th September 2010, the ageing analysis of trade payables based on invoice date is as follows:

	<b>30th September 2010 HK\$'000</b>	31st March 2010 HK\$'000
0 – 30 days	721,892	670,269
31 – 60 days	52,533	33,872
61 – 90 days	1,168	21,475
Over 90 days	<u>3,258</u>	<u>3,552</u>
	<b><u>778,851</u></b>	<b><u>729,168</u></b>

## 12. Borrowings

	<b>30th September 2010 HK\$'000</b>	31st March 2010 HK\$'000
Non-current		
Bank borrowings, unsecured ( <i>Note</i> )	<u>7,800</u>	<u>46,000</u>
Current		
Bank borrowings, unsecured ( <i>Note</i> )	<u>76,400</u>	<u>76,400</u>
Total borrowings	<b><u>84,200</u></b>	<b><u>122,400</u></b>

*Note:*

The bank borrowings are term loans which are unsecured and supported by corporate guarantees given by the Company (*Note* 14). The borrowings are denominated in HKD and interest bearing at margin over HIBOR.

## 12. Borrowings (continued)

The maturity of the bank borrowings is as follows:

	<b>30th September 2010 HK\$'000</b>	31st March 2010 HK\$'000
Within one year	<b>76,400</b>	76,400
In the second year	<b>2,400</b>	39,400
In the third to fifth year	<b>5,400</b>	6,600
	<b><u>84,200</u></b>	<b><u>122,400</u></b>

The carrying amounts of the bank borrowings approximate to their fair values.

## 13. Share capital

	<b>Company Ordinary shares</b>	
	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1st April 2010 and 30th September 2010	<b><u>800,000,000</u></b>	<b><u>80,000</u></b>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st April 2009 and 30th September 2009	<b><u>556,661,720</u></b>	<b><u>55,666</u></b>
At 1st April 2010	<b>556,661,720</b>	<b>55,666</b>
Shares issued from exercise of share options	<b><u>9,174,000</u></b>	<b><u>918</u></b>
At 30th September 2010	<b><u>565,835,720</u></b>	<b><u>56,584</u></b>

## 14. Contingent liabilities

The Company provided guarantees in favour of certain banks to secure general banking facilities granted to certain of its subsidiaries (Note 12).



## 15. Commitments

### (a) Capital commitments

	<b>30th September 2010 HK\$'000</b>	31st March 2010 HK\$'000
Moulds, plant and machinery and property contracted but not provided for	<b><u>122,110</u></b>	<u>914</u>

### (b) Operating lease commitments (as lessee)

The future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	<b>30th September 2010 HK\$'000</b>	31st March 2010 HK\$'000
Not later than one year	<b>28,038</b>	10,801
Later than one year and not later than five years	<b>11,924</b>	16,061
Later than five years	<u>–</u>	<u>4,012</u>
	<b><u>39,962</u></b>	<u>30,874</u>

### (c) Operating lease commitments (as lessor)

The future aggregate minimum lease rental receivables under non-cancellable operating leases in respect of land and buildings are as follows:

	<b>30th September 2010 HK\$'000</b>	31st March 2010 HK\$'000
Not later than one year	<b>1,064</b>	1,723
Later than one year and not later than five years	<b><u>85</u></b>	<u>207</u>
	<b><u>1,149</u></b>	<u>1,930</u>

## **DIVIDEND**

The directors have resolved to declare an interim dividend of HK10 cents (2009: HK9 cents) per share for the six months ended 30th September 2010 to the shareholders whose names are on the register of members of the Company on 16th December 2010. The dividend warrants are expected to be despatched on 30th December 2010.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 15th December 2010 to Thursday, 16th December 2010, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 14th December 2010.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Group results**

For the six months ended 30th September 2010, the Group reported profit attributable to shareholders of HK\$118.7 million (2009: HK\$93.3 million) though turnover declined to HK\$1.71 billion (2009: HK\$2.22 billion). Earnings per share were HK21.2 cents (2009: HK16.8 cents).

Consistent with the Group's stable dividend policy, the Board has resolved to declare an interim dividend of HK10 cents (2009: HK9 cents) per share for the six months ended 30th September 2010.

### Business review

In the midst of a still weak economy, the Group was well aware that maintaining a strong financial position is of the utmost importance. The adverse economic conditions in the past two years in North America and Europe has resulted in the collapse of a number of our industry peers and the Group has been very cautious in receiving orders by selecting financially sound customers, enabling it to minimize exposure to credit risk. As a result, turnover has declined compared to the same period last year.

Moreover, the Group aimed at maintaining reasonable profit margin rather than maximizing turnover when selecting orders. This explained why the Group achieved to maintain the gross profit margin at 12.1% (2009: 10.8%) under the difficult market condition. Through product optimization, the Group was also able to streamline the production process thus reducing the labour cost required for assembling products, lower material costs and improve productivity without affecting product performance and quality. Moreover, the ongoing standardisation of parts and components sharing among different models helped promote efficient production, capitalise on economies of scale in terms of procurement, and reduce risk associated with obsolescence while upholding high quality standards. In order to enhance profitability, the Group continued to reinforce workflow management. All these efforts have enabled the Group to keep the workforce at an optimum size and have greater control of overtime expenditure, while maintaining high quality level.

While employing the aforesaid practices to maximize margin, the Group remains fully committed to delivering products that satisfy the needs of consumers by keeping up with the market trends. During the review period, the Group demonstrated these abilities, enjoying increased demand for its portable DVD players and products with value-added features, such as internet connectivity and iPod and iPhone docking capabilities. Meanwhile, the sales of LCD TV products with LED backlight remained stable and popular particularly with the European customers. Besides, with the launch of Blu-ray disk players, the Group has sought to establish an early presence in this product segment in view of the general public's growing acceptance and fondness of this technology. The Group's Blu-ray disk products lineup at this time includes basic players, portable players and home theatre system, with built-in internet connectivity and video streaming capabilities.

In view of the current uncertain economic environment, the Group considers maintaining a strong cash position as critical. Accordingly, the Group has and will continue to cautiously manage its cash position, both by adopting strict credit control policies and minimizing bank borrowings.

### Prospects

Looking forward to the second half of the year, though there are signs of recovery in the US and Europe and their governments are doing their best to stimulate economic activities, there remains uncertainty that can affect consumer confidence. Nevertheless, the management remains cautiously optimistic about the development of consumer electronics market and will utilise its competitive advantages to capitalise on market consolidation.

To strengthen the Group's competitiveness, it will continue to enhance its product portfolio by integrating the latest features, as demonstrated by its iPod and iPhone docking audio and video products. New models with iPad docking feature are also being developed and initial feedback from customers is very encouraging. iPad dock products are expected to contribute to the Group's results early next year. Having now introduced internet access feature into its Blu-ray disk products, the Group is also actively exploring the opportunities in connection with 3D capable Blu-ray disk playback products. In addition, WiFi connectivity is fast becoming almost a necessity in many consumer electronics products and the Group will integrate this feature into our products next year.

Even though the excitement of eBook Reader has been dampened somehow due to the introduction of Apple's iPad and other Tablet Computing products, all of which allow consumers to enjoy eBook contents in ways almost similar to eBook Readers, the Group is still exploring new eBook Reader products as well as eBook related business model, such as the potential establishment of "dedicated eBook website" for eBook contents delivery.

The Group's new manufacturing facility in Dongguan with environmentally friendly features is now under construction and expected to commence production in early 2012. Having established a solid foundation on which to build, the management will continue to prudently examine opportunities that arise, with the goal of realising long-term gains for the Group.

### Liquidity and financial resources

Total equity and equity per share of the Group as at 30th September 2010 were HK\$1,803 million (31st March 2010: HK\$1,760 million) and HK\$3.19 (31st March 2010: HK\$3.16) respectively.

The Group maintains a strong financial position. As at 30th September 2010, we had cash and deposits of HK\$759 million. After deducting bank loans of HK\$84 million, we had net cash of HK\$675 million. The Group has adequate liquidity for future working capital requirements.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Liquidity and financial resources *(continued)*

As considerable shipments were made during the end of the reporting period to meet Christmas orders, as at 30th September 2010, our inventory was HK\$412 million (31st March 2010: HK\$473 million). We take a cautious approach to monitor the inventory level as more overseas customers tend to place rush orders during the period.

As at 30th September 2010, our trade receivables balance was HK\$863 million (31st March 2010: HK\$521 million). As it is our policy to deal with creditworthy customers and to adopt a prudent credit policy, credit risk is kept at minimal.

We had banking facilities of HK\$1,716 million, of which HK\$84 million term loans were utilized. Among the used facilities, HK\$76 million shall be payable in the first year and HK\$8 million shall be payable in the second to fourth years.

Capital expenditure on fixed assets spent was HK\$16 million (2009: HK\$20 million). As at 30th September 2010, we had capital commitments contracted but not provided for in respect of mould, plant and machinery and property amounting to HK\$122,110,000 (31st March 2010: HK\$914,000) of which HK\$121,000,000 was contracted for the acquisition of an industrial property in Fanling, the New Territories. The property will be used for investment purposes for the time being. In longer term, this provides a flexibility to the Group to consolidate its operations there.

Due to the peg-rate system, we have limited exposure to trade-related foreign exchange risk as nearly all of our sales, purchases and borrowings are denominated in United States dollar and Hong Kong dollar. Adhering to the policy of not engaging in currency speculation, there was no gain or loss from speculative activities during the reporting period.

Following the signing of the revised Settlement Agreement on the Clearing of Renminbi business in July 2010, corporations are now able to conduct Renminbi business through the banks in Hong Kong. Taking this opportunity, we have adjusted our bank portfolio by investing in RMB deposit. This aims to provide a natural hedge against the cost impact caused by the potential appreciation of RMB and also to enhance our interest income.

### Employees

As at 30th September 2010, the Group had approximately 7,000 (30th September 2009: 9,100) 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.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

**(a) Long positions in ordinary shares of HK\$0.10 each of the Company**

As at 30th September 2010, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or 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:

	<u>Number of shares held</u>		Equity derivatives – share options	Total	Percentage of the issued share capital of the Company
	Personal interest	Corporate interest			
Mr LEUNG Kai Ching, Kimen	18,950,000	225,911,400 (note)	750,000	245,611,400	43.41%
Mr LEUNG Wai Sing, Wilson	45,390,000	–	750,000	46,140,000	8.15%
Mr KUOK Kun Man, Andrew	1,952,000	–	750,000	2,702,000	0.48%
Mr WONG Po Yan	–	–	500,000	500,000	0.09%
The Hon LI Wah Ming, Fred	260,000	–	250,000	510,000	0.09%
Mr LAU Wang Yip, Derrick	–	–	500,000	500,000	0.09%

*Note:*

These shares were owned by Shunde Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen is the sole shareholder.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION** *(continued)*

**(b) Long positions in underlying shares of the Company**

Other than as disclosed under the heading "Share Option Scheme", at no time during the period 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.

Save as disclosed above, as at 30th September 2010 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 and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 30th September 2010, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name	Capacity in which shares were held	Number of shares held	Equity derivatives – share options	Total	Percentage of the issued share capital of the Company
Shundeans Investments Limited	Beneficial owner	225,911,400 <i>(note i)</i>	–	225,911,400	39.93%
LEUNG Wai Lap, David	Beneficial owner	34,828,190	750,000	35,578,190	6.29%
DJE Investment S.A.	Investment manager	33,830,980 <i>(note ii)</i>	–	33,830,980	5.98%
DJE Kapital AG	Investment manager	33,830,980 <i>(note ii)</i>	–	33,830,980	5.98%
Dr. Jens Alfred Karl Ehrhardt	Investment manager	33,830,980 <i>(note ii)</i>	–	33,830,980	5.98%
Webb David Michael	Beneficial owner	33,767,400	–	33,767,400	5.97%

### Notes:

- (i) These shares were owned by Shundeans Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen is the sole shareholder.
- (ii) These shares were held by DJE Investment S.A. which is controlled by DJE Kapital AG, which in turn is controlled by Dr. Jens Alfred Karl Ehrhardt.

Save as disclosed above, as at 30th September 2010, according to the register of interests required to be kept by the Company under Section 336 of Part XV of the SFO, there was no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, who had any interest or short position in the shares or underlying shares of the Company.



## SHARE OPTION SCHEME

On 21st August 2003, the Company adopted a share option scheme under which it may grant options to eligible persons, including employees and directors of the Group, to subscribe for shares in the Company.

On 11th May 2010 and 27th August 2010, totally 40,810,000 share options were granted to eligible persons. Details of the movements of the share options granted under the share option scheme during the six months period ended 30th September 2010 are as follows:

Name of participants	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				Outstanding as at 30th September 2010
				Outstanding as at 1st April 2010	Granted during the period	Exercised during the period	Lapsed during the period	
<b>Directors</b>								
Mr LEUNG Kai Ching, Kimen	11th May 2010	11th May 2010 to 20th August 2013	2.90	-	1,500,000	750,000	-	750,000
Mr LEUNG Wai Sing, Wilson	11th May 2010	11th May 2010 to 20th August 2013	2.90	-	1,500,000	750,000	-	750,000
Mr KUOK Kun Man, Andrew	11th May 2010	11th May 2010 to 20th August 2013	2.90	-	1,500,000	750,000	-	750,000
Mr WONG Po Yan	11th May 2010	11th May 2010 to 20th August 2013	2.90	-	500,000	-	-	500,000
The Hon LI Wah Ming, Fred	11th May 2010	11th May 2010 to 20th August 2013	2.90	-	500,000	250,000	-	250,000
Mr LAU Wang Yip, Derrick	11th May 2010	11th May 2010 to 20th August 2013	2.90	-	500,000	-	-	500,000
				-	6,000,000	2,500,000	-	3,500,000
<b>Substantial shareholder</b>								
Mr LEUNG Wai Lap, David	11th May 2010	11th May 2010 to 20th August 2013	2.90	-	1,500,000	750,000	-	750,000
				-	1,500,000	750,000	-	750,000
<b>Senior management and employees</b>								
Various	11th May 2010	11th May 2010 to 20th August 2013	2.90	-	33,040,000	5,924,000	-	27,116,000
Various	27th August 2010	27th August 2010 to 20th August 2013	3.08	-	270,000	-	-	270,000
				-	33,310,000	5,924,000	-	27,386,000
				-	40,810,000	9,174,000	-	31,636,000

## SHARE OPTION SCHEME (continued)

The Company has been using the Binomial Options Pricing Model (the “Model”) to value the share options granted. The key parameters used in the Model and the corresponding fair values of the options granted during the period are listed below:

Date of grant	11th May 2010	27th August 2010
Number of share options granted	40,540,000	270,000
Total option value (HK\$)	11,720,656	78,057
Share price at date of grant (HK\$)	2.74	2.83
Exercise price (HK\$)	2.90	3.08
Time to Maturity	3.3 years	3 years
Annualized volatility	36.28%	36.28%
Risk free interest rate	1.15%	1.15%
Interim dividend yield	4.79%	4.79%
Final dividend yield	6.33%	6.33%

The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the Model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

The volatility measured at the standard deviation of continuously compounded share returns is based on historical statistical analysis of daily closing share prices.

## PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30th September 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed shares of the Company.

## CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance so as to enhance clarity and transparency of business activities. The Group has adopted all the code provisions on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules, except for the deviation from Code provision A.4.1.

Under the Code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company are not appointed for a specific term. However, 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.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry to all directors, all the directors confirmed that they had complied with the required standards as set out in the Model Code and its code of conduct regarding directors’ securities transactions with the Company for the six months ended 30th September 2010.

## AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the financial statements of the Group for the six months ended 30th September 2010.

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, S.B.S., J.P. and Mr LAU Wang Yip, Derrick.

## LIST OF DIRECTORS

As at the date of this report, the Board of Directors comprises three executive directors, namely Mr LEUNG Kai Ching, Kimen, Mr LEUNG Wai Sing, Wilson and Mr KUOK Kun Man, Andrew and three independent non-executive directors, namely Mr WONG Po Yan, G.B.M., J.P., the Hon LI Wah Ming, Fred, S.B.S., J.P. and Mr LAU Wang Yip, Derrick.

On behalf of the Board  
**LEUNG Kai Ching, Kimen**  
*Chairman*

Hong Kong, 25th November 2010