



ALCO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 328)

INTERIM REPORT 2011

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 2011, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2011

		Unaudited	
		Six months ended	
		30th September	
		2011	2010
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Revenue	3	1,457,574	1,707,124
Cost of goods sold	4	(1,268,536)	(1,501,191)
Gross profit		189,038	205,933
Other (loss)/income	4	(11)	35,597
Selling expenses	4	(52,927)	(74,256)
Administrative expenses	4	(41,011)	(41,926)
Other operating (expenses)/income	4	(1,366)	734
Exchange loss on loans and receivables		(5,479)	(359)
Operating profit		88,244	125,723
Finance income		6,757	3,637
Finance costs		(355)	(509)
Profit before income tax		94,646	128,851
Income tax expense	5	(7,563)	(10,116)
Profit attributable to equity holders of the Company		87,083	118,735
Earnings per share attributable to equity holders of the Company			
– basic	6	HK15.0 cents	HK21.2 cents
– diluted	6	HK15.0 cents	HK21.2 cents
Dividends	7	52,208	57,669

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September 2011

		Unaudited	
		Six months ended	
		30th September	
		2011	2010
	Note	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company		<u>87,083</u>	<u>118,735</u>
Other comprehensive (loss)/income, net of tax:			
Exchange loss on available-for-sale financial assets	9	(9,905)	–
Currency translation differences		<u>368</u>	<u>434</u>
Other comprehensive (loss)/income, net of tax		<u>(9,537)</u>	<u>434</u>
Total comprehensive income attributable to equity holders of the Company		<u><u>77,546</u></u>	<u><u>119,169</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2011

		Unaudited 30th September 2011 HK\$'000	Audited 31st March 2011 HK\$'000
Non-current assets			
Property, plant and equipment		237,716	252,813
Investment properties		106,388	312,388
Leasehold land and land use rights		7,754	7,821
Intangible assets		65,526	69,426
Deferred income tax assets		23,133	18,826
Loans and receivables	8	100,822	97,884
Available-for-sale financial assets	9	126,784	136,689
		668,123	895,847
Current assets			
Inventories		553,609	429,187
Trade and other receivables	10	1,105,264	714,757
Cash and cash equivalents		526,086	902,404
		2,184,959	2,046,348
Current liabilities			
Trade and other payables	11	942,439	878,433
Current income tax liabilities		20,915	14,551
Borrowings	12	–	49,771
		963,354	942,755
Net current assets		1,221,605	1,103,593
Total assets less current liabilities		1,889,728	1,999,440
Capital and reserves attributable to equity holders of the Company			
Share capital	13	58,009	57,780
Reserves		1,831,719	1,875,424
Total equity		1,889,728	1,933,204
Non-current liabilities			
Borrowings	12	–	66,236
		–	66,236
Total equity and non-current liabilities		1,889,728	1,999,440

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2011

	Unaudited						
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange reserve HK\$'000	Staff compensation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st April 2010	55,666	245,011	940	51	-	1,457,881	1,759,549
Comprehensive income							
Profit for the period	-	-	-	-	-	118,735	118,735
Other comprehensive income							
Currency translation differences	-	-	-	434	-	-	434
Total comprehensive income	-	-	-	434	-	118,735	119,169
Transactions with owners							
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 transactions with owners	918	25,687	-	-	10,690	(113,165)	(75,870)
At 30th September 2010	<u>56,584</u>	<u>270,698</u>	<u>940</u>	<u>485</u>	<u>10,690</u>	<u>1,463,451</u>	<u>1,802,848</u>
At 1st April 2011	<u>57,780</u>	<u>304,230</u>	<u>940</u>	<u>13</u>	<u>11,783</u>	<u>1,558,458</u>	<u>1,933,204</u>
Comprehensive income							
Profit for the period	-	-	-	-	-	87,083	87,083
Other comprehensive income/(loss)							
Currency translation differences	-	-	-	368	-	-	368
Exchange loss on available-for-sale financial assets	-	-	-	(9,905)	-	-	(9,905)
Total comprehensive income/(loss)	-	-	-	(9,537)	-	87,083	77,546
Transactions with owners							
Shares issued from							
exercise of share options	229	6,370	-	-	-	-	6,599
2011 final and special dividends	-	-	-	-	-	(127,621)	(127,621)
Total transactions with owners	229	6,370	-	-	-	(127,621)	(121,022)
At 30th September 2011	<u>58,009</u>	<u>310,600</u>	<u>940</u>	<u>(9,524)</u>	<u>11,783</u>	<u>1,517,920</u>	<u>1,889,728</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2011

	Unaudited	
	Six months ended	
	30th September	
	2011	2010
	HK\$'000	HK\$'000
Net cash used in operating activities	(327,583)	(155,894)
Net cash generated from investing activities	188,243	263
Net cash used in financing activities	(236,978)	(124,760)
Net decrease in cash and cash equivalents	(376,318)	(280,391)
Cash and cash equivalents at beginning of period	902,404	1,039,830
Cash and cash equivalents at end of period	<u>526,086</u>	<u>759,439</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<u>526,086</u>	<u>759,439</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September 2011

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 2011.

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 2011, except the Group has adopted certain HKASs and Hong Kong Financial Reporting Standards (“HKFRS”) which are mandatory for the financial year beginning 1st April 2011.

2. Changes in accounting policies

The following revised standards, amendments to standards and interpretations are relevant to the Group and are mandatory for the financial year beginning 1st April 2011.

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

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

2. Changes in accounting policies (continued)

The following new/revised standards and amendments to standards have been issued but are not yet effective for the financial year beginning 1st April 2011 and have not been early adopted by the Group:

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets ¹
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
HKAS 1 (Revised)	Presentation of Financial Statements ³
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (2011)	Employee Benefits ⁴
HKAS 27 (2011)	Separate Financial Statements ⁴
HKAS 28 (2011)	Investments in Associates and Joint Ventures ⁴

¹ Effective for annual periods beginning on or after 1st July 2011

² Effective for annual periods beginning on or after 1st January 2012

³ Effective for annual periods beginning on or after 1st July 2012

⁴ Effective for annual periods beginning on or after 1st January 2013

The Group has already commenced an assessment of the impact of the above new/revised standards and amendments to standards, but is not yet in a position to state whether these new/revised standards and amendments to standards 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							
	2011				2010			
	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	1,457,396	178	–	1,457,574	1,705,708	1,416	–	1,707,124
Inter-segment sales	–	57,556	(57,556)	–	–	52,764	(52,764)	–
	<u>1,457,396</u>	<u>57,734</u>	<u>(57,556)</u>	<u>1,457,574</u>	<u>1,705,708</u>	<u>54,180</u>	<u>(52,764)</u>	<u>1,707,124</u>
Segment results	<u>88,253</u>	<u>(9)</u>		<u>88,244</u>	<u>125,885</u>	<u>(162)</u>		<u>125,723</u>

(b) Segment analysed by geographical areas

	Revenue	
	Six months ended 30th September	
	2011	2010
	HK\$'000	HK\$'000
North America	1,177,581	1,221,864
Europe	139,774	229,817
Asia	132,857	223,669
Others	7,362	31,774
	<u>1,457,574</u>	<u>1,707,124</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 2011 and 2010 were located and utilised in the PRC and Hong Kong.

4. Expenses by nature

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

	Six months ended 30th September	
	2011	2010
	HK\$'000	HK\$'000
Amortisation of intangible assets	3,900	3,900
Depreciation	26,515	31,567
Compensation gain of disposal of land & buildings (<i>Note</i>)	–	33,508
Employee benefit expenses	<u>154,864</u>	<u>161,124</u>

Note:

For the purpose of re-development, the local government of Houjie Town requested the Group to surrender a piece of land and building in Houjie Town formerly used by the Group as a polyfoam factory (the "Property") in return for a consideration of approximately HK\$44 million. The compensation gain on disposal of the Property was the difference between the consideration 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% (2010: 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:

	Six months ended 30th September	
	2011	2010
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	11,859	15,692
Deferred income tax	<u>(4,296)</u>	<u>(5,576)</u>
	<u>7,563</u>	<u>10,116</u>

6. Earnings per share

Basic

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.

	Six months ended 30th September	
	2011	2010
Profit attributable to equity holders of the Company (<i>HK\$'000</i>)	87,083	118,735
Weighted average number of ordinary shares in issue	579,201,152	559,533,261
Basic earnings per share (<i>HK cents</i>)	15.0	21.2

Diluted

Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the summation of the weighted average number of ordinary shares in issue during the period and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

	Six months ended 30th September	
	2011	2010
Profit attributable to equity holders of the Company (<i>HK\$'000</i>)	87,083	118,735
Weighted average number of ordinary shares in issue	579,201,152	559,533,261
Dilutive effect on share options	1,869,255	—
Weighted average number of ordinary shares for the calculation of diluted earnings per share	581,070,407	559,533,261
Diluted earnings per share (<i>HK cents</i>)	15.0	21.2

7. Dividends

	Six months ended 30th September	
	2011	2010
	HK\$'000	HK\$'000
Interim dividend, declared, of HK9 cents (2010: HK10 cents) per ordinary share	52,208	57,669

At a meeting held on 29th November 2011, the directors declared an interim dividend of HK9 cents (2010: HK10 cents) per share for the six months ended 30th September 2011.

8. Loans and receivables

	30th September 2011	31st March 2011
	HK\$'000	HK\$'000
Corporate bonds (<i>Note a</i>)	87,512	93,112
Government bonds (<i>Note b</i>)	13,310	4,772
Carrying amount at period end	100,822	97,884

Note:

- (a) The corporate bonds represent the Group's investment in Korean Won ("KRW") denominated corporate bond issued by a Korea incorporated company Hydix Technologies Company Limited ("Hydis") and Renminbi ("RMB") denominated corporate bond issued by China Development Bank Corporation.
- (b) The government bond is issued by the Ministry of Finance PRC and is denominated in RMB.

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

	30th September 2011 HK\$'000	31st March 2011 HK\$'000
Fair value of unlisted equity securities outside Hong Kong at beginning of the period	136,689	136,641
Exchange (loss)/gain for the period	(9,905)	48
Fair value of unlisted equity securities outside Hong Kong at period end	<u>126,784</u>	<u>136,689</u>

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

10. Trade and other receivables

	30th September 2011 HK\$'000	31st March 2011 HK\$'000
Trade receivables	1,076,982	701,800
Prepayments, deposits and other receivables	28,282	12,957
	<u>1,105,264</u>	<u>714,757</u>

At 30th September 2011, the ageing analysis of trade receivables based on shipping terms is as follows:

	30th September 2011 HK\$'000	31st March 2011 HK\$'000
0 – 30 days	326,000	203,845
31 – 60 days	212,480	147,935
61 – 90 days	160,018	120,316
Over 90 days	378,484	229,704
	<u>1,076,982</u>	<u>701,800</u>

Customers are generally granted with credit terms between 30 and 135 days. As at 30th September 2011, trade receivables of HK\$90,889,000 are considered past due by less than 30 days if measured strictly against the credit terms offered. The overdue sum is not considered as impaired since all of the overdue sum has been settled by the early of November 2011.

11. Trade and other payables

	30th September 2011 HK\$'000	31st March 2011 HK\$'000
Trade payables	871,386	793,542
Other payables and accruals	71,053	84,891
	<u>942,439</u>	<u>878,433</u>

At 30th September 2011, the ageing analysis of trade payables based on invoice date is as follows:

	30th September 2011 HK\$'000	31st March 2011 HK\$'000
0 – 30 days	759,424	718,290
31 – 60 days	98,764	51,474
61 – 90 days	10,390	20,219
Over 90 days	2,808	3,559
	<u>871,386</u>	<u>793,542</u>

12. Borrowings

	30th September 2011 HK\$'000	31st March 2011 HK\$'000
Non-current		
Bank borrowing, secured (<i>Note a</i>)	–	59,636
Bank borrowings, unsecured (<i>Note b</i>)	–	6,600
	<u>–</u>	<u>66,236</u>
Current		
Bank borrowing, secured (<i>Note a</i>)	–	10,371
Bank borrowings, unsecured (<i>Note b</i>)	–	39,400
	<u>–</u>	<u>49,771</u>
Total borrowings	<u><u>–</u></u>	<u><u>116,007</u></u>

Note:

- (a) As at 31st March 2011, the bank borrowing was secured by an investment property of the Group.
- (b) The bank borrowings were unsecured and were supported by corporate guarantees given by the Company (Note 14). As at 31st March 2011, the borrowings were denominated in HKD and interest bearing at a margin over HIBOR.

The maturity of bank borrowings is as follows:

	30th September 2011 HK\$'000	31st March 2011 HK\$'000
Within one year	–	49,771
In the second year	–	12,771
In the third to fifth year	–	35,315
Over five years	–	18,150
	<u>–</u>	<u>116,007</u>

The carrying amounts of the borrowings as at 31st March 2011 approximated to their fair values and were denominated in HKD.

13. Share capital

	Company Ordinary Shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1st April 2011 and 30th September 2011	800,000,000	80,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st April 2010	556,661,720	55,666
Exercise of share options	9,174,000	918
At 30th September 2010	565,835,720	56,584
At 1st April 2011	577,802,720	57,780
Exercise of share options	2,291,000	229
At 30th September 2011	580,093,720	58,009

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

	30th September 2011 HK\$'000	31st March 2011 HK\$'000
Moulds, plant and machinery contracted but not provided for	<u>917</u>	<u>1,521</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:

	30th September 2011 HK\$'000	31st March 2011 HK\$'000
Not later than one year	16,472	19,603
Later than one year and not later than five years	<u>97</u>	<u>285</u>
	<u>16,569</u>	<u>19,888</u>

(c) Operating lease commitments (as lessor)

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

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

	30th September 2011 HK\$'000	31st March 2011 HK\$'000
Not later than one year	3,592	2,202
Later than one year and not later than five years	<u>390</u>	<u>1,320</u>
	<u>3,982</u>	<u>3,522</u>

DIVIDEND

The directors have resolved to declare an interim dividend of HK9 cents (2010: HK10 cents) per share for the six months ended 30th September 2011 to the shareholders whose names are on the register of members of the Company on 15th December 2011. The dividend warrants are expected to be despatched on 29th December 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 14th December 2011 to Thursday, 15th December 2011, 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, 13th December 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Results

For the six months ended 30th September 2011, the Group reported turnover of approximately HK\$1.5 billion (2010: HK\$1.7 billion). Profit attributable to shareholders was HK\$87.1 million (2010: HK\$118.7 million). Excluding a compensation gain of \$34 million realised last year through the surrender of certain land and buildings in Houjie Town, net profit for the reporting period would have slightly increased. Earnings per share were HK15.0 cents (2010: HK21.2 cents).

The Board has resolved to declare an interim dividend payment of HK9 cents (2010: HK10 cents) per share for the six months ended 30th September 2011.

Business Review

With North America and Europe continuing to experience economic volatility, this has directly dampened consumer confidence and purchasing sentiment. The poor conditions that have affected the Group's key markets expectedly impaired sales while management's commitment to strictly screening orders and insistence on conducting business with companies that are financially sound also contributed to the decline. On the upside is a gross profit margin that has remained relatively stable, standing at 13% (2010: 12%), which remains of greater importance to the Group.

Once again, the management's strategy of delivering a product mix that observes current trends; selecting orders that are consistent with profit margin objectives; and ongoing implementation of inventory and production controls, all proved paramount for helping maintain competitiveness and robust financial health. With credit being tightened all over the world, and especially in Hong Kong and Mainland China during recent months, the Group's financial health and indeed its financial strength will take on particular significance.

In respect of the Group's product mix, LCD TVs, upscale audio products with docking and Bluetooth features, home cinema/home theatre systems, soundbar products, and DVD/Blu-ray players mainly made for OEM customers have continued to provide major sources of revenue. During the review period, Blu-ray players realised an increase in demand, thus substantiating management's shrewdness in exploring this area of technology and subsequently becoming an early entrant in the Blu-ray market. With iPhone and iPad products continuing to enjoy strong uptake, the Group has leveraged this trend by developing a greater number of docking related visual and particularly audio products. In addition to home cinema/home theatre systems, soundbar systems are becoming increasingly popular among many consumers who own AV entertainment systems. The Group has taken advantage of this trend by developing new soundbar products which have been shipped during the period under review.

On the cost control front, the management continued to employ practices including product optimisation, standardisation of parts and streamlining of production processes to maintain competitiveness, which do not hinder quality and functionality that are the hallmarks of the Group's products. With steady incremental rises in the cost of labour resulting from the labour regulations in China, more and more automation and starting from a small scale, robotization are being implemented by the Group to combat ever rising direct labour costs.

Due to tight financing caused by the credit crisis, the Group's strong cash position represents a solid foundation on which to build a business. The management is ever vigilant of risks associated with bad debts and product obsolescence, and closely monitors inventory levels and account receivables with the aim of preserving high liquidity.

Prospects

Volatility resulting from high unemployment and soaring debt is expected to continue impeding the recovery of the North American and European markets. Nevertheless, with strong ties with retailers in both regions and an attractive and constantly refined line-up of products, the management remains cautiously optimistic about the Group's ability to maintain its business in the remaining year, spurred on by an underlying demand for smart electronics.

To ensure growth is sustained over the long term, the Group will continue to leverage its R&D expertise to develop exciting new products desired by consumers. The Group has been actively exploring the application of 3D technologies for application in TVs, to Blu-ray players, and to mobile Blu-ray players. Having also investigated the viability of developing wireless video streaming players using WiFi technology, the Group has introduced such devices on the market during the period. Wireless video streaming is also being introduced across the Group's line up of home cinema/home theatre products and soundbar models, all of which will be key revenue and profit drivers in 2012. Aside from such developments, the Group will seek to introduce still more docking enabled audio and video products, some of which will incorporate wireless Airplay technology as they will represent an ever more important constituent of its portfolio.

Besides introducing new products to enrich the Group's existing line-up, the management will carefully explore entering new markets to increase revenue sources. Having participated in exhibitions that extend beyond the Group's present domain, including South America, the management will carefully weigh the various options available.

As the Group further refines its product mix and enhances production capabilities, including greater production flexibility, the management will also scrupulously monitor cash flow, ever mindful of maintaining a strong cash position, which is of utmost importance in these financially turbulent times. Through the strength of products, production and prudent financial administration, the management remains cautiously optimistic about perpetuating the Group's steady growth over the long term.

Liquidity and financial resources

Total equity and equity per share of the Group as at 30th September 2011 were HK\$1,890 million (31st March 2011: HK\$1,933 million) and HK\$3.26 (31st March 2011: HK\$3.35) respectively.

The Group maintains a strong financial position. As at 30th September 2011, we had cash and deposits of HK\$526 million and were debt-free. In order to secure committed long-term funding requirement for our new plant and working capital, the Group had taken advantage of low interest rate environment to obtain a committed four-year term loans and revolving loans in August 2011, totally HK\$380 million. Together with this arrangement, we had undrawn banking facilities of HK\$1,636 million as at 30th September 2011.

As at 30th September 2011, our inventory was HK\$554 million (31st March 2011: HK\$429 million). We take a cautious approach to monitor the inventory level especially during this environment with uncertainty.

As at 30th September 2011, our trade receivables balance was HK\$1,077 million (31st March 2011: HK\$702 million). As it is our policy to deal with creditworthy customers and to adopt a prudent credit policy, credit risk is kept at minimal.

Capital expenditure on fixed assets spent was HK\$12 million (2010: HK\$16 million). As at 30th September 2011, we had capital commitments contracted but not provided for in respect of mould and plant and machinery amounting to HK\$917,000 (31st March 2011: HK\$1,521,000).

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

To naturally hedge against the cost impact caused by the potential appreciation of RMB, the Group has diversified its cash portfolio by investing in RMB denominated deposits and bonds. As at 30th September 2011, the amount totalled RMB339 million.

Employees

As at 30th September 2011, the Group had approximately 5,400 (30th September 2010: 7,000) 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.

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 2011, 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 Issuers (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	20,150,000	225,911,400 (Note i)	750,000	246,811,400	42.55%
Mr LEUNG Wai Sing, Wilson	45,390,000	–	750,000	46,140,000	7.95%
Mr KUOK Kun Man, Andrew	752,000	–	750,000	1,502,000	0.26%
Mr WONG Po Yan (Note ii)	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:

- (i) These shares were owned 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.
- (ii) Mr WONG Po Yan has resigned from the board of directors with effect from 7th November 2011.

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 2011, other than one ordinary share each in certain of 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 2011, 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	No. of shares held – long position	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	38.94%
Webb David Michael	Beneficial owner	40,397,400	–	40,397,400	6.96%
LEUNG Wai Lap, David	Beneficial owner	34,828,190	750,000	35,578,190	6.13%
DJE Investment S.A.	Investment manager	33,830,980 <i>(note ii)</i>	–	33,830,980	5.83%
DJE Kapital AG	Investment manager	33,830,980 <i>(note ii)</i>	–	33,830,980	5.83%
Dr. Jens Alfred Karl Ehrhardt	Investment manager	33,830,980 <i>(note ii)</i>	–	33,830,980	5.83%

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 2011, 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 of the Company.

As at 30th September 2011, 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 ended 30th September 2011 are as follows:

Name of participants	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				
				Outstanding as at 1st April 2011	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30th September 2011
Directors								
Mr. LEUNG Kai Ching, Kimen	11th May 2010	11th May 2010 to 20th August 2013	2.90	750,000	-	-	-	750,000
Mr. LEUNG Wai Sing, Wilson	11th May 2010	11th May 2010 to 20th August 2013	2.90	750,000	-	-	-	750,000
Mr. KUOK Kun Man, Andrew	11th May 2010	11th May 2010 to 20th August 2013	2.90	750,000	-	-	-	750,000
Mr. WONG Po Yan (Note)	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	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
				3,500,000	-	(500,000)	-	3,000,000
Substantial shareholder								
Mr. LEUNG Wai Lap, David	11th May 2010	11th May 2010 to 20th August 2013	2.90	750,000	-	-	-	750,000
				750,000	-	-	-	750,000
Senior management and employees								
Various	11th May 2010	11th May 2010 to 20th August 2013	2.90	15,230,000	-	(1,756,000)	(460,000)	13,014,000
Various	27th August 2010	27th August 2010 to 20th August 2013	3.08	135,000	-	(35,000)	-	100,000
				15,365,000	-	(1,791,000)	(460,000)	13,114,000
				19,615,000	-	(2,291,000)	(460,000)	16,864,000

Note:

Mr WONG Po Yan has resigned from the board of directors with effect from 7th November 2011.

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 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
Annualised 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 2011, 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 the 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 2011.

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 2011.

On 7th November 2011, Mr WONG Po Yan resigned and Mr LEE Tak Chi was appointed a member of the audit committee.

The audit committee comprises three independent non-executive directors of the Company, namely the Hon LI Wah Ming, Fred, s.B.S., J.P., Mr LAU Wang Yip, Derrick and Mr LEE Tak Chi.

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 the Hon LI Wah Ming, Fred, s.B.S., J.P., Mr LAU Wang Yip, Derrick and Mr LEE Tak Chi.

By order of the Board
Alco Holdings Limited
LEUNG Kai Ching, Kimen
Chairman

Hong Kong, 29th November 2011