



# **ALCO HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 328)

**INTERIM REPORT 2012**

The directors of Alco Holdings Limited (the “Company”) announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2012, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2012

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30th September</b>	
		2012	2011
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Revenue	3	<b>974,453</b>	1,457,574
Cost of goods sold	4	<b>(889,350)</b>	(1,268,536)
Gross profit		<b>85,103</b>	189,038
Other income/(loss)	4	<b>2,172</b>	(11)
Selling expenses	4	<b>(43,694)</b>	(52,927)
Administrative expenses	4	<b>(34,048)</b>	(41,011)
Other operating expenses	4	<b>(9,594)</b>	(1,366)
Exchange gain/(loss) on loans and receivables		<b>1,203</b>	(5,479)
Impairment of available-for-sale financial assets		<b>(24,000)</b>	–
Operating (loss)/profit		<b>(22,858)</b>	88,244
Finance income		<b>8,696</b>	6,757
Finance costs		<b>(1,922)</b>	(355)
(Loss)/profit before income tax		<b>(16,084)</b>	94,646
Income tax credit/(expense)	5	<b>12,729</b>	(7,563)
(Loss)/profit attributable to equity holders of the Company		<b>(3,355)</b>	87,083
(Loss)/earnings per share attributable to equity holders of the Company			
– basic	6	<b>(HK0.6 cents)</b>	HK15.0 cents
– diluted	6	<b>(HK0.6 cents)</b>	HK15.0 cents
Dividends	7	<b>17,403</b>	52,208

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September 2012

	Unaudited	
	Six months ended	
	30th September	
	2012	2011
	HK\$'000	HK\$'000
(Loss)/profit attributable to equity holders of the Company	<u>(3,355)</u>	<u>87,083</u>
Other comprehensive income/(loss), net of tax:		
Exchange loss on available-for-sale financial assets	–	(9,905)
Transferred from owner-occupied property to investment property carried at fair value	<b>50,482</b>	–
Currency translation differences	<u>(44)</u>	<u>368</u>
Other comprehensive income/(loss), net of tax:	<u><b>50,438</b></u>	<u>(9,537)</u>
Total comprehensive income attributable to equity holders of the Company	<u><b>47,083</b></u>	<u>77,546</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30th September 2012

		<b>Unaudited 30th September 2012 HK\$'000</b>	Audited 31st March 2012 HK\$'000
Non-current assets			
Property, plant and equipment		<b>174,341</b>	220,113
Investment properties		<b>203,000</b>	123,900
Leasehold land and land use rights		<b>7,491</b>	7,658
Intangible assets		<b>44,531</b>	51,289
Deferred income tax assets		<b>20,234</b>	19,301
Loans and receivables	8	<b>106,901</b>	104,184
Available-for-sale financial assets	9	<b>88,090</b>	112,090
		<b>644,588</b>	638,535
Current assets			
Inventories		<b>472,049</b>	459,295
Trade and other receivables	10	<b>759,679</b>	654,336
Current income tax assets		<b>5,792</b>	–
Cash and cash equivalents		<b>950,199</b>	1,014,928
		<b>2,187,719</b>	2,128,559
Current liabilities			
Trade and other payables	11	<b>763,261</b>	718,408
Current income tax liabilities		<b>–</b>	9,137
Borrowings	12	<b>30,000</b>	–
		<b>793,261</b>	727,545
Net current assets		<b>1,394,458</b>	1,401,014
Total assets less current liabilities		<b>2,039,046</b>	2,039,549
Capital and reserves attributable to equity holders of the Company			
Share capital	13	<b>58,009</b>	58,009
Reserves		<b>1,809,812</b>	1,780,132
Total equity		<b>1,867,821</b>	1,838,141
Non-current liabilities			
Borrowings	12	<b>170,000</b>	200,000
Deferred income tax liabilities		<b>1,225</b>	1,408
		<b>171,225</b>	201,408
Total equity and non-current liabilities		<b>2,039,046</b>	2,039,549

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2012

	Unaudited							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange reserve HK\$'000	Staff compensation reserve HK\$'000	Revaluation surplus HK\$'000	Retained earnings HK\$'000	
At 1st April 2011	57,780	304,230	940	13	11,783	-	1,558,458	1,933,204
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>-</u>	<u>1,517,920</u>	<u>1,889,728</u>
At 1st April 2012	<u>58,009</u>	<u>310,651</u>	<u>940</u>	<u>(657)</u>	<u>11,783</u>	<u>-</u>	<u>1,457,415</u>	<u>1,838,141</u>
Comprehensive loss								
Loss for the period	-	-	-	-	-	-	(3,355)	(3,355)
Others comprehensive income/(loss)								
Currency translation differences	-	-	-	(44)	-	-	-	(44)
Transferred from owner-occupied property to investment property carried at fair value	-	-	-	-	-	50,482	-	50,482
Total comprehensive income/(loss)	-	-	-	(44)	-	50,482	(3,355)	47,083
Transaction with owners								
2012 final dividend	-	-	-	-	-	-	(17,403)	(17,403)
Total transaction with owners	-	-	-	-	-	-	(17,403)	(17,403)
At 30th September 2012	<u>58,009</u>	<u>310,651</u>	<u>940</u>	<u>(701)</u>	<u>11,783</u>	<u>50,482</u>	<u>1,436,657</u>	<u>1,867,821</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2012

	Unaudited	
	Six months ended	
	30th September	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	<b>(43,678)</b>	(327,583)
Net cash (used in)/generated from investing activities	<b>(3,648)</b>	188,243
Net cash used in financing activities	<b>(17,403)</b>	(236,978)
Net decrease in cash and cash equivalents	<b>(64,729)</b>	(376,318)
Cash and cash equivalents at beginning of period	<b>1,014,928</b>	902,404
Cash and cash equivalents at end of period	<b>950,199</b>	526,086
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>950,199</b>	526,086

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September 2012

### 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 2012.

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 2012, except the Group has adopted certain HKASs and Hong Kong Financial Reporting Standards (“HKFRS”) which are mandatory for the financial year beginning 1st April 2012.

### 2. Changes in accounting policies

The following amendments to existing standards are relevant to the Group and are mandatory for the financial year beginning 1st April 2012.

HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets

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.

## 2. Changes in accounting policies (continued)

The following new/revised standards, amendments to standards and interpretation have been published but are not yet effective for the financial year beginning 1st April 2012 and have not been early adopted by the Group:

HKFRS 7 (Amendment)	Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
HKFRS (Amendments)	Improvements to HKFRS issued in 2011 <sup>2</sup>
HKAS 1 (Amendment)	Presentation of Items of Other Comprehensive Income <sup>1</sup>
HKAS 19 (2011)	Employee Benefits <sup>2</sup>
HKAS 27 (2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (2011)	Investments in Associates and Joint Ventures <sup>2</sup>
HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities <sup>3</sup>
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

<sup>1</sup> *Effective for annual periods beginning on or after 1st July 2012*

<sup>2</sup> *Effective for annual periods beginning on or after 1st January 2013*

<sup>3</sup> *Effective for annual periods beginning on or after 1st January 2014*

<sup>4</sup> *Effective for annual periods beginning on or after 1st January 2015*

The Group has already commenced an assessment of the impact of the above new/revised standards, amendments to standards and interpretation, but is not yet in a position to state whether these new/revised standards, amendments to standards and interpretation 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							
	2012				2011			
	Consumer electronic products HK\$'000	Plastic products HK\$'000	Elimination HK\$'000	Group HK\$'000	Consumer electronic products HK\$'000	Plastic products HK\$'000	Elimination HK\$'000	Group HK\$'000
Segment revenue								
External sales	971,936	2,517	–	974,453	1,457,396	178	–	1,457,574
Inter-segment sales	–	52,952	(52,952)	–	–	57,556	(57,556)	–
	<u>971,936</u>	<u>55,469</u>	<u>(52,952)</u>	<u>974,453</u>	<u>1,457,396</u>	<u>57,734</u>	<u>(57,556)</u>	<u>1,457,574</u>
Segment results	<u>(22,726)</u>	<u>(132)</u>		<u>(22,858)</u>	<u>88,253</u>	<u>(9)</u>		<u>88,244</u>

#### (b) Segment analysed by geographical areas

	Revenue	
	Six months ended 30th September	
	2012 HK\$'000	2011 HK\$'000
North America	786,337	1,177,581
Europe	57,084	139,774
Asia	127,479	132,857
Others	3,553	7,362
	<u>974,453</u>	<u>1,457,574</u>

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

Primarily all of the assets and capital expenditure for the six months ended 30th September 2012 and 2011 were located and utilised in the PRC or Hong Kong.

#### 4. Expenses by nature

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

	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2012</b>	2011
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Amortisation of intangible assets	<b>6,758</b>	3,900
Depreciation	<b>22,507</b>	26,515
Termination benefits	<b>12,270</b>	329
Employee benefit expenses	<b>118,795</b>	154,535

#### 5. Income tax credit/expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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 credited/(charged) to the condensed consolidated income statement represents:

	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2012</b>	2011
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	<b>(1,156)</b>	(11,859)
– Over provision in prior years	<b>12,769</b>	–
Deferred income tax	<b>1,116</b>	4,296
	<b>12,729</b>	(7,563)

## 6. Loss/earnings per share

### Basic

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

	<b>Six months ended 30th September</b>	
	<b>2012</b>	2011
(Loss)/profit attributable to equity holders of the Company ( <i>HK\$'000</i> )	<b><u>(3,355)</u></b>	<u>87,083</u>
Weighted average number of ordinary shares in issue	<b><u>580,093,720</u></b>	<u>579,201,152</u>
Basic (loss)/earnings per share ( <i>HK cents</i> )	<b><u>(0.6)</u></b>	<u>15.0</u>

### Diluted

Diluted loss/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. For the six months ended 30th September 2012, the conversion of all dilutive share options outstanding would have an anti-dilutive effect on the loss per share.

	<b>Six months ended 30th September</b>	
	<b>2012</b>	2011
(Loss)/profit attributable to equity holders of the Company ( <i>HK\$'000</i> )	<b><u>(3,355)</u></b>	<u>87,083</u>
Weighted average number of ordinary shares in issue	<b><u>580,093,720</u></b>	<u>579,201,152</u>
Dilutive effect on share options	<u>–</u>	<u>1,869,255</u>
Weighted average number of ordinary shares for the calculation of diluted loss/earnings per share	<b><u>580,093,720</u></b>	<u>581,070,407</u>
Diluted (loss)/earnings per share ( <i>HK cents</i> )	<b><u>(0.6)</u></b>	<u>15.0</u>

## 7. Dividends

	Six months ended 30th September	
	2012	2011
	HK\$'000	HK\$'000
Interim dividend, declared, of HK3 cents (2011: HK9 cents) per ordinary share	<b>17,403</b>	52,208

At a meeting held on 27th November 2012, the directors declared an interim dividend of HK3 cents (2011: HK9 cents) per share for the six months ended 30th September 2012.

## 8. Loans and receivables

	30th September 2012	31st March 2012
	HK\$'000	HK\$'000
Corporate bonds ( <i>Note a</i> )	<b>91,968</b>	90,656
Government bonds ( <i>Note b</i> )	<b>14,933</b>	13,528
Carrying amount as at the end of the period	<b>106,901</b>	104,184

*Notes:*

- (a) The corporate bonds represent the Group's investments 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 bonds are issued by the Ministry of Finance PRC and are 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

	<b>30th September 2012 HK\$'000</b>	31st March 2012 HK\$'000
Fair value of unlisted equity securities outside Hong Kong as at the beginning of the period	<b>112,090</b>	136,689
Impairment loss recognised in consolidated statement of comprehensive income	–	(1,598)
Impairment loss recognised in consolidated income statement	<b>(24,000)</b>	(23,001)
Fair value of unlisted equity securities outside Hong Kong as at the end of the period	<b><u>88,090</u></b>	<b><u>112,090</u></b>

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

## 10. Trade and other receivables

	<b>30th September 2012 HK\$'000</b>	31st March 2012 HK\$'000
Trade receivables	<b>728,357</b>	623,240
Prepayments, deposits and other receivables	<b>31,322</b>	31,096
	<b><u>759,679</u></b>	<b><u>654,336</u></b>

At 30th September 2012, the ageing analysis of trade receivables based on shipping terms is as follows:

	<b>30th September 2012 HK\$'000</b>	31st March 2012 HK\$'000
0 – 30 days	<b>208,397</b>	131,331
31 – 60 days	<b>146,378</b>	113,936
61 – 90 days	<b>131,160</b>	142,816
Over 90 days	<b>242,422</b>	235,157
	<b><u>728,357</u></b>	<b><u>623,240</u></b>

As at 30th September 2012, trade receivables of HK\$37,857,000 (31st March 2012: HK\$33,121,000) were 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 in October 2012.

## 11. Trade and other payables

	<b>30th September 2012 HK\$'000</b>	31st March 2012 HK\$'000
Trade payables	<b>699,803</b>	650,227
Other payables and accruals	<b>63,458</b>	68,181
	<b><u>763,261</u></b>	<b><u>718,408</u></b>

At 30th September 2012, the ageing analysis of trade payables based on invoice date is as follows:

	<b>30th September 2012 HK\$'000</b>	31st March 2012 HK\$'000
0 – 30 days	<b>618,558</b>	589,686
31 – 60 days	<b>55,112</b>	53,194
61 – 90 days	<b>23,004</b>	3,954
Over 90 days	<b>3,129</b>	3,393
	<b><u>699,803</u></b>	<b><u>650,227</u></b>

## 12. Borrowings

	<b>30th September 2012 HK\$'000</b>	31st March 2012 HK\$'000
Non-current		
Bank borrowings, unsecured ( <i>Note</i> )	<u>170,000</u>	<u>200,000</u>
Current		
Bank borrowings, unsecured ( <i>Note</i> )	<u>30,000</u>	<u>–</u>
Total borrowings	<u><b>200,000</b></u>	<u><b>200,000</b></u>

*Note:*

The bank borrowings were unsecured and were supported by corporate guarantees given by the Company (Note 14). The borrowings were denominated in HKD and interest bearing at a margin over HIBOR.

The maturity of bank borrowings is as follows:

	<b>30th September 2012 HK\$'000</b>	31st March 2012 HK\$'000
Within one year	<b>30,000</b>	–
In the second year	<b>80,000</b>	70,000
In the third to fifth year	<u>90,000</u>	<u>130,000</u>
	<u><b>200,000</b></u>	<u><b>200,000</b></u>

The carrying amounts of the borrowings approximated to their fair values and were denominated in HKD.

### 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 2012 and 30th September 2012	<b>800,000,000</b>	<b>80,000</b>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
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
At 1st April 2012 and 30th September 2012	<b>580,093,720</b>	<b>58,009</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 2012 HK\$'000</b>	31st March 2012 HK\$'000
Moulds, plant and machinery contracted but not provided for	<u><b>2,040</b></u>	<u>1,845</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 2012 HK\$'000</b>	31st March 2012 HK\$'000
Not later than one year	<b>12,588</b>	25,475
Later than one year and not later than five years	<u><b>1,620</b></u>	<u>2,880</u>
	<u><b>14,208</b></u>	<u>28,355</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:

	<b>30th September 2012 HK\$'000</b>	31st March 2012 HK\$'000
Not later than one year	<b>3,787</b>	2,145
Later than one year and not later than five years	<u><b>2,525</b></u>	<u>229</u>
	<u><b>6,312</b></u>	<u>2,374</u>

## **DIVIDEND**

The directors have resolved to declare an interim dividend of HK3 cents (2011: HK9 cents) per share for the six months ended 30th September 2012 to the shareholders whose names are on the register of members of the Company on 13th December 2012. The dividend warrants are expected to be despatched on 28th December 2012.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 12th December 2012 to Thursday, 13th December 2012, 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, 11th December 2012.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Group results**

For the six months ended 30th September 2012, the Group reported turnover of HK\$1.0 billion (2011: HK\$1.5 billion), while loss attributable to shareholders was HK\$3.4 million (2011: Profit HK\$87.1 million). The declines were due to poor economic conditions in the United States and Europe – its two key markets, as well as an impairment loss from the Group's investment in Hydix Technologies Co., Ltd., a Korean company principally engaged in the development and manufacture of TFT-LCD panels. Loss per share was HK0.6 cents (2011: Earnings per share HK15.0 cents).

The Board has resolved to declare an interim dividend payment of HK3 cents (2011: HK9 cents) per share for the six months ended 30th September 2012.

### Business review

The world economy continued to be burdened by developments in the United States and Europe – the Group's main markets – as both regions have yet to recover from the global financial tsunami in 2008. With consumer confidence continuing to erode, demand for the Group's products weakened. The challenging conditions also intensified competition for what opportunities were available, in turn creating cut-throat price wars. The Group was thus under tremendous pressure – having to be cautious about selecting orders while maintaining a reasonable margin. Complicating matters further have been rising labour shortage and manufacturing costs in the PRC, the former driven by a competitive labour market where demand for skilled workers remains high.

The weak economy has also led to reduced demand and therefore depressed prices for TFT-LCD panels. Consequently, the Group incurred an impairment loss of HK\$24 million resulting from a decline in value of its investment in Hydis Technologies, a Korean company that specialises in the manufacture of TFT-LCD panels.

Despite the difficult conditions, the Group was able to make inroads on several fronts. Its wireless video streaming players equipped with Wi-Fi technology have left a positive impression on consumers. Likewise, the Group's high-value sound bar systems, some with wireless video and audio technologies, have begun to enter the market and earned the appreciation of end users. The management has also shrewdly adjusted its product mix in line with market situation, such as by drastically reducing its line-up of LCD/LED TVs category that have cost many famous brands in the world to announce record losses.

The Group has continued its crusade against rising costs as well, which included the closure of the factory in Changan Town, Dongguan. With the factory's lease expiring in May 2012, the management elected not to renew but rather consolidate production to a new compound under construction in Houjie Town. Though the Group incurred a one-time severance payment to compensate laid off workers, it is able to operate with enhanced efficiency and save on overhead costs in the long run.

### Prospects

The second half of the year is expected to remain highly challenging. With both the US and European markets likely to continue to stagnate, the AV electronics industry can only expect to achieve a lacklustre performance in the short term.

The management, however, remains cautiously optimistic about the Group's long-term outlook based on its many existing attributes. Its R&D expertise will again give rise to still more exciting offerings, including docking-related audio and video products that capitalise on the general public's enthusiasm for smart devices. With approximately 800 million smart phones and tablets expected to be purchased worldwide in 2012, and subsequently pass the 1 billion mark in 2013, this is an important segment that the Group will seek to fully tap. Already, the Group is nearing final development of 7-inch to 10-inch tablet products, with production expected to commence in the middle of 2013. The recent introduction of sound bar systems and wireless streaming players with Wi-Fi technology also represent market segments that, if demand strengthens, can be further developed. Noteworthy as well is the Group's expanded line-up of wireless speaker products that include Airplay technology, hence a further business opportunity.

Aside from enhancing production efficiency, the Group has employed cost cutting measures. This has included consolidating its offices in Hong Kong from two floors to one floor, and renting the unoccupied floor for rental income. The management has been reviewing its human resources as well, with the goal of streamlining the workforce, and thus minimising the expense and enhancing efficiency. The management will also continue to closely monitor all expenditures and take actions when appropriate.

The Group's flexible production capability is yet another strength that will help it to overcome present market uncertainties. By continuing to outsource certain operations and to raise production efficiency through increased automation and engineering efforts, the Group will maintain its competitive edge in the market.

In this current economic climate, a high level of liquidity represents one of the most important safeguards. Though the Group is already in a very strong cash position, it will continue to closely monitor inventories and receivables to ensure that it maintains financially sound, which is paramount given that the global downturn may persist for some time.

Ensuring that all of the Group's strengths are fully utilised is an experienced management team and all members of the management team are committed to the wellbeing of the Group over the long term.

### Liquidity and financial resources

Total equity and equity per share of the Group as at 30th September 2012 were HK\$1,868 million (31st March 2012: HK\$1,838 million) and HK\$3.22 (31st March 2012: HK\$3.17) respectively.

The Group maintains a strong financial position. As at 30th September 2012, we had cash and deposits of HK\$950 million. After deducting bank loans of HK\$200 million, we had net cash of HK\$750 million. The Group has adequate liquidity for future working capital requirements.

As at 30th September 2012, our inventory was HK\$472 million (31st March 2012: HK\$459 million). We take a cautious approach to monitor the inventory level especially during this environment with uncertainty.

Trade receivables balance as at 30th September 2012 was HK\$728 million (31st March 2012: HK\$623 million). As it is our policy to deal with creditworthy customers and to adopt a prudent credit policy, credit risk is kept at minimal.

Trade payables balance as at 30th September 2012 was HK\$700 million (31st March 2012: HK\$650 million).

Capital expenditure on fixed assets spent was HK\$13 million (2011: HK\$12 million). As at 30th September 2012, we had capital commitments contracted but not provided for in respect of mould and plant and machinery amounting to HK\$2,040,000 (31st March 2012: HK\$1,845,000).

Due to the peg-rate system, we have limited exposure to trade-related foreign exchange risk as substantially all of our sales, purchases and borrowings 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 2012, the amount totalled RMB179 million.

### Employees

As at 30th September 2012, the Group had approximately 3,600 (30th September 2011: 5,400) 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 2012, 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:

	Number of shares held		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 <i>(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 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 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) 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 2012, 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 2012, 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
Shudean 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 Shudean 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 2012, 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.

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 ended 30th September 2012 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 2012	Lapsed during the period	Outstanding as at 30th September 2012
<b>Directors</b>						
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 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
				3,000,000	–	3,000,000
<b>Substantial shareholder</b>						
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
<b>Senior management and employees</b>						
Various	11th May 2010	11th May 2010 to 20th August 2013	2.90	12,908,000	(2,122,000)	10,786,000
Various	27th August 2010	27th August 2010 to 20th August 2013	3.08	100,000	–	100,000
				13,008,000	(2,122,000)	10,886,000
				16,758,000	(2,122,000)	14,636,000



## **PURCHASE, SALE OR REDEMPTION OF SHARES**

For the six months ended 30th September 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed shares of the Company.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining high standards of corporate governance so as to enhance clarity and transparency of business activities. The Company has complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct regarding securities transactions by Directors of the Company. 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 2012.

## **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 2012.

The audit committee comprises three independent non-executive directors of the Company, namely Mr 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 Mr 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, 27th November 2012