



# **ALCO HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 328)

**INTERIM REPORT 2013**

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 2013, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2013

|                                                              |             | <b>Unaudited<br/>Six months ended<br/>30th September</b> |                 |
|--------------------------------------------------------------|-------------|----------------------------------------------------------|-----------------|
|                                                              |             | <b>2013</b>                                              | 2012            |
|                                                              | <i>Note</i> | <i>HK\$'000</i>                                          | <i>HK\$'000</i> |
| Revenue                                                      | 3           | <b>1,065,435</b>                                         | 974,453         |
| Cost of goods sold                                           | 4           | <b>(1,016,244)</b>                                       | (889,350)       |
| Gross profit                                                 |             | <b>49,191</b>                                            | 85,103          |
| Other income                                                 | 4           | <b>4,380</b>                                             | 2,172           |
| Selling expenses                                             | 4           | <b>(34,959)</b>                                          | (43,694)        |
| Administrative expenses                                      | 4           | <b>(39,880)</b>                                          | (34,048)        |
| Other operating expenses                                     | 4           | <b>(361)</b>                                             | (9,594)         |
| Exchange gain on loans and receivables                       | 8           | <b>2,974</b>                                             | 1,203           |
| Impairment of loans and receivables                          | 8           | <b>(8,733)</b>                                           | –               |
| Impairment of available-for-sale financial assets            | 9           | <b>(15,225)</b>                                          | (24,000)        |
| Operating loss                                               |             | <b>(42,613)</b>                                          | (22,858)        |
| Finance income                                               |             | <b>13,928</b>                                            | 8,696           |
| Finance costs                                                |             | <b>(1,888)</b>                                           | (1,922)         |
| Loss before income tax                                       |             | <b>(30,573)</b>                                          | (16,084)        |
| Income tax (expense)/credit                                  | 5           | <b>(4,798)</b>                                           | 12,729          |
| Loss for the period                                          |             | <b>(35,371)</b>                                          | (3,355)         |
| Loss attributable to:                                        |             |                                                          |                 |
| – Equity holders of the Company                              |             | <b>(35,148)</b>                                          | (3,355)         |
| – Non-controlling interests                                  |             | <b>(223)</b>                                             | –               |
|                                                              |             | <b>(35,371)</b>                                          | (3,355)         |
| Loss per share attributable to equity holders of the Company |             |                                                          |                 |
| – basic                                                      | 6           | <b>(HK6.1 cents)</b>                                     | (HK0.6 cents)   |
| – diluted                                                    | 6           | <b>(HK6.1 cents)</b>                                     | (HK0.6 cents)   |
| Dividends                                                    | 7           | <b>17,403</b>                                            | 17,403          |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September 2013

|                                                                                  | Unaudited              |                      |
|----------------------------------------------------------------------------------|------------------------|----------------------|
|                                                                                  | Six months ended       |                      |
|                                                                                  | 30th September         |                      |
|                                                                                  | 2013                   | 2012                 |
|                                                                                  | HK\$'000               | HK\$'000             |
| Loss for the period                                                              | <u>(35,371)</u>        | <u>(3,355)</u>       |
| Other comprehensive (loss)/income, net of tax:                                   |                        |                      |
| Fair value gain on transfer of owner-occupied<br>property to investment property | –                      | 50,482               |
| Currency translation differences                                                 | <u>(141)</u>           | <u>(44)</u>          |
| Other comprehensive (loss)/income<br>for the period, net of tax                  | <u>(141)</u>           | <u>50,438</u>        |
| Total comprehensive (loss)/income for the period                                 | <u><u>(35,512)</u></u> | <u><u>47,083</u></u> |
| Total comprehensive (loss)/income attributable to:                               |                        |                      |
| – Equity holders of the Company                                                  | <u>(35,289)</u>        | 47,083               |
| – Non-controlling interests                                                      | <u>(223)</u>           | –                    |
|                                                                                  | <u><u>(35,512)</u></u> | <u><u>47,083</u></u> |

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30th September 2013

|                                                                    |             | <b>Unaudited<br/>30th September<br/>2013<br/>HK\$'000</b> | Audited<br>31st March<br>2013<br>HK\$'000 |
|--------------------------------------------------------------------|-------------|-----------------------------------------------------------|-------------------------------------------|
|                                                                    | <i>Note</i> |                                                           |                                           |
| Non-current assets                                                 |             |                                                           |                                           |
| Property, plant and equipment                                      |             | <b>142,812</b>                                            | 148,671                                   |
| Investment properties                                              |             | <b>289,050</b>                                            | 289,050                                   |
| Leasehold land and land use rights                                 |             | <b>7,295</b>                                              | 7,394                                     |
| Intangible assets                                                  |             | <b>33,691</b>                                             | 38,133                                    |
| Deferred income tax assets                                         |             | <b>30,317</b>                                             | 31,708                                    |
| Loans and receivables                                              | 8           | –                                                         | 1,538                                     |
| Available-for-sale financial assets                                | 9           | –                                                         | 36,953                                    |
|                                                                    |             | <b>503,165</b>                                            | 553,447                                   |
| Current assets                                                     |             |                                                           |                                           |
| Inventories                                                        |             | <b>747,815</b>                                            | 317,826                                   |
| Loans and receivables                                              | 8           | <b>87,857</b>                                             | 100,841                                   |
| Available-for-sale financial assets                                | 9           | <b>21,728</b>                                             | –                                         |
| Trade and other receivables                                        | 10          | <b>890,098</b>                                            | 523,754                                   |
| Current income tax assets                                          |             | –                                                         | 7,196                                     |
| Cash and cash equivalents                                          |             | <b>645,824</b>                                            | 1,231,776                                 |
|                                                                    |             | <b>2,393,322</b>                                          | 2,181,393                                 |
| Current liabilities                                                |             |                                                           |                                           |
| Trade and other payables                                           | 11          | <b>761,001</b>                                            | 607,067                                   |
| Current income tax liabilities                                     |             | <b>8,770</b>                                              | –                                         |
| Borrowings                                                         | 12          | <b>180,000</b>                                            | 70,000                                    |
|                                                                    |             | <b>949,771</b>                                            | 677,067                                   |
| Net current assets                                                 |             | <b>1,443,551</b>                                          | 1,504,326                                 |
| Total assets less current liabilities                              |             | <b>1,946,716</b>                                          | 2,057,773                                 |
| Capital and reserves attributable to equity holders of the Company |             |                                                           |                                           |
| Share capital                                                      | 13          | <b>58,009</b>                                             | 58,009                                    |
| Reserves                                                           |             | <b>1,798,902</b>                                          | 1,868,997                                 |
|                                                                    |             | <b>1,856,911</b>                                          | 1,927,006                                 |
| Non-controlling interests                                          |             | <b>(195)</b>                                              | –                                         |
| Total equity                                                       |             | <b>1,856,716</b>                                          | 1,927,006                                 |
| Non-current liabilities                                            |             |                                                           |                                           |
| Borrowings                                                         | 12          | <b>90,000</b>                                             | 130,000                                   |
| Deferred income tax liabilities                                    |             | –                                                         | 767                                       |
|                                                                    |             | <b>90,000</b>                                             | 130,767                                   |
| Total equity and non-current liabilities                           |             | <b>1,946,716</b>                                          | 2,057,773                                 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2013

|                                                                                       | Unaudited                                     |               |                            |                  |                            |                     |                   |           |                           |              |
|---------------------------------------------------------------------------------------|-----------------------------------------------|---------------|----------------------------|------------------|----------------------------|---------------------|-------------------|-----------|---------------------------|--------------|
|                                                                                       | Attributable to equity holders of the Company |               |                            |                  |                            |                     |                   |           | Non-controlling interests | Total equity |
|                                                                                       | Share capital                                 | Share premium | Capital redemption reserve | Exchange reserve | Staff compensation reserve | Revaluation Surplus | Retained earnings | Total     |                           |              |
| HK\$'000                                                                              | HK\$'000                                      | HK\$'000      | HK\$'000                   | HK\$'000         | HK\$'000                   | HK\$'000            | HK\$'000          | HK\$'000  | HK\$'000                  |              |
| At 1st April 2012                                                                     | 58,009                                        | 310,651       | 940                        | (657)            | 11,783                     | -                   | 1,457,415         | 1,838,141 | -                         | 1,838,141    |
| Comprehensive loss                                                                    |                                               |               |                            |                  |                            |                     |                   |           |                           |              |
| Loss for the period                                                                   | -                                             | -             | -                          | -                | -                          | -                   | (3,355)           | (3,355)   | -                         | (3,355)      |
| Others comprehensive income/(loss)                                                    |                                               |               |                            |                  |                            |                     |                   |           |                           |              |
| Currency translation differences                                                      | -                                             | -             | -                          | (44)             | -                          | -                   | -                 | (44)      | -                         | (44)         |
| Transferred from owner-occupied property to investment property carried at fair value | -                                             | -             | -                          | -                | -                          | 50,482              | -                 | 50,482    | -                         | 50,482       |
| Total comprehensive income/(loss)                                                     | -                                             | -             | -                          | (44)             | -                          | 50,482              | (3,355)           | 47,083    | -                         | 47,083       |
| Transaction with owners                                                               |                                               |               |                            |                  |                            |                     |                   |           |                           |              |
| 2012 final dividend                                                                   | -                                             | -             | -                          | -                | -                          | -                   | (17,403)          | (17,403)  | -                         | (17,403)     |
| Total transaction with owners                                                         | -                                             | -             | -                          | -                | -                          | -                   | (17,403)          | (17,403)  | -                         | (17,403)     |
| At 30th September 2012                                                                | 58,009                                        | 310,651       | 940                        | (701)            | 11,783                     | 50,482              | 1,436,657         | 1,867,821 | -                         | 1,867,821    |
| At 1st April 2013                                                                     | 58,009                                        | 310,651       | 940                        | (618)            | 11,783                     | 58,074              | 1,488,167         | 1,927,006 | -                         | 1,927,006    |
| Non-controlling interests arising on business combination                             | -                                             | -             | -                          | -                | -                          | -                   | -                 | -         | 28                        | 28           |
| Comprehensive loss                                                                    |                                               |               |                            |                  |                            |                     |                   |           |                           |              |
| Loss for the period                                                                   | -                                             | -             | -                          | -                | -                          | -                   | (35,148)          | (35,148)  | (223)                     | (35,371)     |
| Others comprehensive loss                                                             |                                               |               |                            |                  |                            |                     |                   |           |                           |              |
| Currency translation differences                                                      | -                                             | -             | -                          | (141)            | -                          | -                   | -                 | (141)     | -                         | (141)        |
| Total comprehensive loss                                                              | -                                             | -             | -                          | (141)            | -                          | -                   | (35,148)          | (35,289)  | (223)                     | (35,512)     |
| Transaction with owners                                                               |                                               |               |                            |                  |                            |                     |                   |           |                           |              |
| 2013 final dividend                                                                   | -                                             | -             | -                          | -                | -                          | -                   | (34,806)          | (34,806)  | -                         | (34,806)     |
| Total transaction with owners                                                         | -                                             | -             | -                          | -                | -                          | -                   | (34,806)          | (34,806)  | -                         | (34,806)     |
| At 30th September 2013                                                                | 58,009                                        | 310,651       | 940                        | (759)            | 11,783                     | 58,074              | 1,418,213         | 1,856,911 | (195)                     | 1,856,716    |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th September 2013

|                                                          | Unaudited                          |                       |
|----------------------------------------------------------|------------------------------------|-----------------------|
|                                                          | Six months ended<br>30th September |                       |
|                                                          | 2013                               | 2012                  |
|                                                          | HK\$'000                           | HK\$'000              |
| Net cash used in operating activities                    | (550,517)                          | (43,678)              |
| Net cash used in investing activities                    | (70,629)                           | (3,648)               |
| Net cash generated from/(used in) financing activities   | <u>35,194</u>                      | <u>(17,403)</u>       |
| Net decrease in cash and cash equivalents                | (585,952)                          | (64,729)              |
| Cash and cash equivalents at the beginning of the period | <u>1,231,776</u>                   | <u>1,014,928</u>      |
| Cash and cash equivalents at the end of the period       | <u><u>645,824</u></u>              | <u><u>950,199</u></u> |
| Analysis of balances of cash and cash equivalents        |                                    |                       |
| Bank balances and cash                                   | <u><u>645,824</u></u>              | <u><u>950,199</u></u> |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September 2013

### 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 2013.

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 2013, except the Group has adopted certain HKASs and Hong Kong Financial Reporting Standards (“HKFRS”) which are mandatory for the financial year beginning 1st April 2013.

### 2. Changes in accounting policies

The following new and revised standards, amendments to standards and interpretation are relevant to the Group and are mandatory for the financial year beginning 1st April 2013.

|                              |                                                                                                                          |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| HKFRS 1 (Amendment)          | Government Loans                                                                                                         |
| HKFRS 7 (Amendment)          | Disclosures – Offsetting Financial Assets and Financial Liabilities                                                      |
| HKFRS 10                     | Consolidated Financial Statements                                                                                        |
| HKFRS 11                     | Joint Arrangements                                                                                                       |
| HKFRS 12                     | Disclosure of Interests in Other Entities                                                                                |
| HKFRS 10, 11, 12 (Amendment) | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| HKFRS 13                     | Fair Value Measurement                                                                                                   |
| HKAS 1 (Amendment)           | Presentation of Financial Statements                                                                                     |
| HKAS 19 (2011)               | Employee Benefits                                                                                                        |
| HKAS 27 (2011)               | Separate Financial Statements                                                                                            |
| HKAS 28 (2011)               | Investments in Associates and Joint Ventures                                                                             |
| HK(IFRIC) – Int 20           | Stripping Costs in the Production Phase of a Surface Mine                                                                |
| Annual Improvement Project   | Annual Improvements 2009-2011 Cycle                                                                                      |

The adoption of the above new and revised standards, amendments to standards and interpretation 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 standards, amendments to standards and interpretation have been published but are not yet effective for the financial year beginning 1st April 2013 and have not been early adopted by the Group:

|                                         |                                                                              |
|-----------------------------------------|------------------------------------------------------------------------------|
| HKFRS 7, 9 (Amendment)                  | Mandatory Effective Date and Transition Disclosures <sup>2</sup>             |
| HKFRS 9                                 | Financial Instruments <sup>2</sup>                                           |
| HKFRS 10, 12 and<br>HKAS 27 (Amendment) | Investments Entities <sup>1</sup>                                            |
| HKAS 32 (Amendment)                     | Offsetting Financial Assets and Financial Liabilities <sup>1</sup>           |
| HKAS 36 (Amendment)                     | Recoverable Amount Disclosures for<br>Non-Financial Assets <sup>1</sup>      |
| HKAS 39 (Amendment)                     | Novation of Derivatives and Continuation of<br>Hedge Accounting <sup>1</sup> |
| HK(IFRIC) – Int 21                      | Levies <sup>1</sup>                                                          |

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

<sup>2</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 standards, amendments to standards and interpretation, but is not yet in a position to state whether these new 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          |                              |                         |                   |                                          |                              |                         |                   |
|---------------------|------------------------------------------|------------------------------|-------------------------|-------------------|------------------------------------------|------------------------------|-------------------------|-------------------|
|                     | 2013                                     |                              |                         |                   | 2012                                     |                              |                         |                   |
|                     | Consumer electronic products<br>HK\$'000 | Plastic products<br>HK\$'000 | Elimination<br>HK\$'000 | Group<br>HK\$'000 | Consumer electronic products<br>HK\$'000 | Plastic products<br>HK\$'000 | Elimination<br>HK\$'000 | Group<br>HK\$'000 |
| Segment revenue     |                                          |                              |                         |                   |                                          |                              |                         |                   |
| External sales      | 1,054,413                                | 11,022                       | –                       | 1,065,435         | 971,936                                  | 2,517                        | –                       | 974,453           |
| Inter-segment sales | –                                        | 43,690                       | (43,690)                | –                 | –                                        | 52,952                       | (52,952)                | –                 |
|                     | <u>1,054,413</u>                         | <u>54,712</u>                | <u>(43,690)</u>         | <u>1,065,435</u>  | <u>971,936</u>                           | <u>55,469</u>                | <u>(52,952)</u>         | <u>974,453</u>    |
| Segment results     | <u>(39,704)</u>                          | <u>(2,909)</u>               |                         | <u>(42,613)</u>   | <u>(22,726)</u>                          | <u>(132)</u>                 |                         | <u>(22,858)</u>   |

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

|               | Revenue                         |                  |
|---------------|---------------------------------|------------------|
|               | Six months ended 30th September |                  |
|               | 2013<br>HK\$'000                | 2012<br>HK\$'000 |
| North America | 930,397                         | 786,337          |
| Europe        | 78,366                          | 57,084           |
| Asia          | 54,309                          | 127,479          |
| Others        | 2,363                           | 3,553            |
|               | <u>1,065,435</u>                | <u>974,453</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 2013 and 2012 were located or utilised in the PRC or Hong Kong.

#### 4. Expenses by nature

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

|                                   | <b>Six months ended</b> |          |
|-----------------------------------|-------------------------|----------|
|                                   | <b>30th September</b>   |          |
|                                   | <b>2013</b>             | 2012     |
|                                   | <b>HK\$'000</b>         | HK\$'000 |
| Amortisation of intangible assets | <b>4,442</b>            | 6,758    |
| Depreciation                      | <b>17,375</b>           | 22,507   |
| Termination benefits              | <b>3,536</b>            | 12,270   |
| Employee benefit expenses         | <b>141,705</b>          | 118,795  |

#### 5. Income tax expense/credit

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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)/credited to the condensed consolidated income statement represents:

|                                         | <b>Six months ended</b> |          |
|-----------------------------------------|-------------------------|----------|
|                                         | <b>30th September</b>   |          |
|                                         | <b>2013</b>             | 2012     |
|                                         | <b>HK\$'000</b>         | HK\$'000 |
| Current income tax                      |                         |          |
| – Hong Kong profits tax                 | <b>(4,147)</b>          | (1,156)  |
| – (under)/over provision in prior years | <b>(27)</b>             | 12,769   |
| Deferred income tax                     | <b>(624)</b>            | 1,116    |
|                                         | <b>(4,798)</b>          | 12,729   |

## 6. Loss per share

### Basic

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

|                                                                        | <b>Six months ended<br/>30th September</b> |                    |
|------------------------------------------------------------------------|--------------------------------------------|--------------------|
|                                                                        | <b>2013</b>                                | 2012               |
| Loss attributable to equity holders of the Company ( <i>HK\$'000</i> ) | <u><b>(35,148)</b></u>                     | <u>(3,355)</u>     |
| Weighted average number of ordinary shares in issue                    | <u><b>580,093,720</b></u>                  | <u>580,093,720</u> |
| Basic loss per share ( <i>HK cents</i> )                               | <u><b>(6.1)</b></u>                        | <u>(0.6)</u>       |

### Diluted

Diluted loss 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 2013, the conversion of all dilutive share options outstanding would have an anti-dilutive effect on the loss per share.

|                                                                                          | <b>Six months ended<br/>30th September</b> |                    |
|------------------------------------------------------------------------------------------|--------------------------------------------|--------------------|
|                                                                                          | <b>2013</b>                                | 2012               |
| Loss attributable to equity holders of the Company ( <i>HK\$'000</i> )                   | <u><b>(35,148)</b></u>                     | <u>(3,355)</u>     |
| Weighted average number of ordinary shares in issue                                      | <u><b>580,093,720</b></u>                  | <u>580,093,720</u> |
| Dilutive effect on share options                                                         | <u>—</u>                                   | <u>—</u>           |
| Weighted average number of ordinary shares for the calculation of diluted loss per share | <u><b>580,093,720</b></u>                  | <u>580,093,720</u> |
| Diluted loss per share ( <i>HK cents</i> )                                               | <u><b>(6.1)</b></u>                        | <u>(0.6)</u>       |

## 7. Dividends

|                                                                                  | <b>Six months ended</b> |          |
|----------------------------------------------------------------------------------|-------------------------|----------|
|                                                                                  | <b>30th September</b>   |          |
|                                                                                  | <b>2013</b>             | 2012     |
|                                                                                  | <b>HK\$'000</b>         | HK\$'000 |
| Interim dividend, declared, of HK3 cents<br>(2012: HK3 cents) per ordinary share | <b>17,403</b>           | 17,403   |

At a meeting held on 20th November 2013, the directors declared an interim dividend of HK3 cents (2012: HK3 cents) per share for the six months ended 30th September 2013.

## 8. Loans and receivables

|                                                   | <b>30th September</b> | 31st March |
|---------------------------------------------------|-----------------------|------------|
|                                                   | <b>2013</b>           | 2013       |
|                                                   | <b>HK\$'000</b>       | HK\$'000   |
| Non-current                                       |                       |            |
| Government bonds ( <i>Note b</i> )                | –                     | 1,538      |
| Current                                           |                       |            |
| Corporate bonds ( <i>Note a</i> )                 | <b>86,295</b>         | 92,216     |
| Government bonds ( <i>Note b</i> )                | <b>1,562</b>          | 8,625      |
|                                                   | <b>87,857</b>         | 100,841    |
| Carrying amount as at the end of the period       | <b>87,857</b>         | 102,379    |
| Carrying amount as at the beginning of the period | <b>102,379</b>        | 104,184    |
| Additions                                         | –                     | 1,513      |
| Redemption                                        | <b>(8,763)</b>        | (5,012)    |
| Exchange gain                                     | <b>2,974</b>          | 1,694      |
| Impairment                                        | <b>(8,733)</b>        | –          |
| Carrying amount as at the end of the period       | <b>87,857</b>         | 102,379    |

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 amount of the loans and receivables.

## 9. Available-for-sale financial assets

|                                                                                           | <b>30th September<br/>2013<br/>HK\$'000</b> | 31st March<br>2013<br>HK\$'000 |
|-------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------------|
| Fair value of unlisted equity securities outside Hong Kong at the beginning of the period | <b>36,953</b>                               | 112,090                        |
| Impairment loss recognised in consolidated income statement                               | <b>(15,225)</b>                             | (75,137)                       |
| Fair value of unlisted equity securities outside Hong Kong at the end of the period       | <b>21,728</b>                               | 36,953                         |

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

## 10. Trade and other receivables

|                                             | <b>30th September<br/>2013<br/>HK\$'000</b> | 31st March<br>2013<br>HK\$'000 |
|---------------------------------------------|---------------------------------------------|--------------------------------|
| Trade receivables                           | <b>793,202</b>                              | 490,787                        |
| Prepayments, deposits and other receivables | <b>96,896</b>                               | 32,967                         |
|                                             | <b>890,098</b>                              | 523,754                        |

At 30th September 2013, the ageing analysis of trade receivables based on shipping terms is as follows:

|              | <b>30th September<br/>2013<br/>HK\$'000</b> | 31st March<br>2013<br>HK\$'000 |
|--------------|---------------------------------------------|--------------------------------|
| 0-30 days    | <b>174,448</b>                              | 99,483                         |
| 31-60 days   | <b>384,226</b>                              | 89,240                         |
| 61-90 days   | <b>82,594</b>                               | 100,115                        |
| Over 90 days | <b>151,934</b>                              | 201,949                        |
|              | <b>793,202</b>                              | 490,787                        |

As at 30th September 2013, trade receivables of HK\$16,772,000 (31st March 2013: HK\$34,693,000) 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 2013.

## 11. Trade and other payables

|                             | <b>30th September<br/>2013<br/>HK\$'000</b> | 31st March<br>2013<br>HK\$'000 |
|-----------------------------|---------------------------------------------|--------------------------------|
| Trade payables              | <b>700,645</b>                              | 565,827                        |
| Other payables and accruals | <b>60,356</b>                               | 41,240                         |
|                             | <b><u>761,001</u></b>                       | <b><u>607,067</u></b>          |

At 30th September 2013, the ageing analysis of trade payables based on invoice date is as follows:

|              | <b>30th September<br/>2013<br/>HK\$'000</b> | 31st March<br>2013<br>HK\$'000 |
|--------------|---------------------------------------------|--------------------------------|
| 0-30 days    | <b>618,135</b>                              | 524,085                        |
| 31-60 days   | <b>56,889</b>                               | 24,477                         |
| 61-90 days   | <b>19,225</b>                               | 13,924                         |
| Over 90 days | <b>6,396</b>                                | 3,341                          |
|              | <b><u>700,645</u></b>                       | <b><u>565,827</u></b>          |

## 12. Borrowings

|                                            | <b>30th September<br/>2013<br/>HK\$'000</b> | 31st March<br>2013<br>HK\$'000 |
|--------------------------------------------|---------------------------------------------|--------------------------------|
| Non-current                                |                                             |                                |
| Bank borrowings, unsecured ( <i>Note</i> ) | <u>90,000</u>                               | <u>130,000</u>                 |
| Current                                    |                                             |                                |
| Bank borrowings, unsecured ( <i>Note</i> ) | <u>180,000</u>                              | <u>70,000</u>                  |
| Total borrowings                           | <u><b>270,000</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<br/>2013<br/>HK\$'000</b> | 31st March<br>2013<br>HK\$'000 |
|--------------------|---------------------------------------------|--------------------------------|
| Within one year    | <b>180,000</b>                              | 70,000                         |
| In the second year | <b>80,000</b>                               | 80,000                         |
| In the third year  | <u>10,000</u>                               | <u>50,000</u>                  |
|                    | <u><b>270,000</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<br/>Ordinary Shares</b> |                 |
|------------------------------------------------------------|------------------------------------|-----------------|
|                                                            | <i>Number of shares</i>            | <i>HK\$'000</i> |
| Authorised:<br>Ordinary shares of HK\$0.10 each            |                                    |                 |
| At 1st April 2013 and 30th September 2013                  | <b>800,000,000</b>                 | <b>80,000</b>   |
| Issued and fully paid:<br>Ordinary shares of HK\$0.10 each |                                    |                 |
| At 1st April 2013 and 30th September 2013                  | <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<br/>2013<br/>HK\$'000</b> | 31st March<br>2013<br>HK\$'000 |
|-------------------------------------------------------------------------|---------------------------------------------|--------------------------------|
| Renovation, moulds, plant and machinery contracted but not provided for | <b><u>39,064</u></b>                        | <u>11,681</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<br/>2013<br/>HK\$'000</b> | 31st March<br>2013<br>HK\$'000 |
|---------------------------------------------------|---------------------------------------------|--------------------------------|
| Not later than one year                           | <b>35,740</b>                               | 22,066                         |
| Later than one year and not later than five years | <b>139,181</b>                              | 139,721                        |
| Later than five years                             | <b><u>335,050</u></b>                       | <u>352,380</u>                 |
|                                                   | <b><u>509,971</u></b>                       | <u>514,167</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<br/>2013<br/>HK\$'000</b> | 31st March<br>2013<br>HK\$'000 |
|---------------------------------------------------|---------------------------------------------|--------------------------------|
| Not later than one year                           | <b>8,059</b>                                | 5,560                          |
| Later than one year and not later than five years | <b><u>8,467</u></b>                         | <u>5,863</u>                   |
|                                                   | <b><u>16,526</u></b>                        | <u>11,423</u>                  |

## **DIVIDEND**

The directors have resolved to declare an interim dividend of HK3 cents (2012: HK3 cents) per share for the six months ended 30th September 2013 to the shareholders whose names are on the register of members of the Company on 10th December 2013. The dividend warrants are expected to be despatched on 20th December 2013.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 9th December 2013 to Tuesday, 10th December 2013, 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, Hong Kong not later than 4:30 p.m. on Friday, 6th December 2013.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Group results**

For the six months ended 30th September 2013, the Group reported an increase in turnover to HK\$1.1 billion (2012: HK\$1.0 billion), while loss attributable to shareholders was HK\$35.1 million (2012: HK\$3.4 million). The increase in turnover was due to the launch of tablet computers and other internet-related products during the period. Conversely, the loss was mainly due to fierce competition and increase in the cost of certain critical components.

During the period, there was also a severe shortage of direct workers, thus driving up costs. Compounding matters was a further round of basic wage increases implemented by the Dongguan Government of the PRC in May 2013, rising from RMB1,100 to RMB1,310 per month.

In addition, the Group sustained a one-time impairment loss of HK\$24 million from the disposal of its equity and bonds in Hydys Technologies, a company in Korea that is principally engaged in TFT-LCD panel manufacturing. Loss per share was HK6.1 cents (2012: HK0.6 cents).

### Business review

The principle markets of the Group have yet to achieve economic recovery, while conditions within the consumer electronics industry remain highly challenging, with intense competition for what business opportunities are available. For manufacturers in the Pearl River Delta in particular, they were confronted not only with rising labour cost, but also a shortage of workers. This has led to a further upward push in production costs as factory operators seek to retain their workforce by offering higher wages and/or special allowances. Aggravating matters has been retailers' reluctance to maintain inventory, resulting in many rush orders ahead of the traditional year-end peak season. In turn, this has led to an increase in overtime expenditure.

In spite of the aforesaid challenges, the Group completed development of a new range of internet-related entertainment products. Leveraging its solid reputation and strong ties with a renowned consumer electronics brand, the Group has begun manufacturing these highly popular devices during the reporting period, and will be closely examining the development of this business in upcoming months.

Aside from this noteworthy addition, a number of existing products have continued to contribute to the Group. The high-value sound bar systems, for example, have experienced increased sales owing to wireless audio/video technologies found in certain models, and the fact that they are ideal for enhancing consumers' movie watching experience with flat-panel TVs. Likewise, the Group's audio products have been able to generate a healthy source of revenue, while Blu-ray players, which are manufactured on an OEM basis, continue to make headway. During the review period, the management has sought to further refine and enhance the product mix as well, thus ensuring that all products are best able to address market dictates.

With regards to the issue of rising costs, the best defence often lies in controlling overhead and enhancing efficiency. And the Group has begun a new chapter of efficiency with the operation of its new factory in Houjie Town since August 2013. Along with bolstering efficiency, the new production facility opens the way for management to consider entering into more product segments.

### Prospects

Even though reports of slow recovery are emerging from parts of Europe and the United States, the management remains highly cautious about developments in the consumer electronics industry given that intense competition will persist, as will high manufacturing and labour costs, among other concerns.

Despite the cautionary note, the management is confident in the Group's ability to persevere and grow in view of its many attributes, which include a strong product line and robust infrastructure.

With respect to the portfolio of products presently on offer, the Group will continue to enhance those that have strong appeal to consumers and those that have strong future growth prospects. Abiding by this premise, sound bar products will likewise be updated and fitted with even more enticing features.

Having taken the plunge into the smartphones accessories market with the introduction of a variety of docking-related audio and video products, the Group's entry into the internet related entertainment products segment is a logical extension. With the purchase of smart devices, or Multimedia Internet Devices (MID), by consumers expected to reach the one billion mark in 2013, the management will be looking to tap this vast market as it further grows in size and diversity in the coming years.

The ongoing evolution of the Group's product line has further highlighted the importance of flexible production. The new factory in Houjie Town will help expedite this process going forward, as well as allow the management to potentially introduce altogether new products, with the recent introduction of the Group's tablet models being a good example. It is worth noting, however, that despite relocating to new facilities, the management will continue the practice of outsourcing certain operations when necessary, as this represents an intrinsic part of the Group's flexible manufacturing model.

While enhancing the product mix, bolstering production efficiency and controlling costs are all key components to maintaining a successful business, the importance of high liquidity cannot be overemphasized. As one of the strongest safeguards against market instability, the Group continues to benefit from a very strong cash position. Nonetheless, the management will closely scrutinize inventories and receivables to ensure that this front-line defence remains firmly intact.

Regardless of headwinds remaining stiff or gradually subsiding in the upcoming months, the Group is assured of strong leadership. Under the reins of a highly experienced management team and the efforts of staff, the Group will be seeking to generate the momentum necessary for long-term growth.

### Liquidity and financial resources

Total equity and equity per share of the Group as at 30th September 2013 were HK\$1,857 million (31st March 2013: HK\$1,927 million) and HK\$3.20 (31st March 2013: HK\$3.32) respectively.

The Group maintains a healthy financial position. As at 30th September 2013, we had cash and deposits of HK\$646 million. After deducting bank loans of HK\$270 million, we had net cash of HK\$376 million. The Group has adequate liquidity for future working capital requirements.

As at 30th September 2013, our inventory was HK\$748 million (31st March 2013: HK\$318 million). We take a cautious approach to monitor the inventory level especially during this environment with uncertainty.

Trade receivables balance as at 30th September 2013 was HK\$793 million (31st March 2013: HK\$491 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 2013 was HK\$701 million (31st March 2013: HK\$566 million).

Capital expenditure on fixed assets spent was HK\$91 million (2012: HK\$13 million). As at 30th September 2013, we had capital commitments contracted but not provided for in respect of renovation, mould and plant and machinery amounting to HK\$39,064,000 (31st March 2013: HK\$11,681,000).

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 2013, the amount totalled RMB328 million.

### Employees

As at 30th September 2013, the Group had approximately 4,700 (2012: 3,600) 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 2013, 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 |                              |             | Percentage of the issued share capital of the Company |
|---------------------------|-----------------------|------------------------------|-------------|-------------------------------------------------------|
|                           | Personal interest     | Corporate interest           | Total       |                                                       |
| Mr LEUNG Kai Ching, Kimen | 20,150,000            | 225,911,400<br><i>(note)</i> | 246,061,400 | 42.42%                                                |
| Mr LEUNG Wai Sing, Wilson | 45,390,000            | –                            | 45,390,000  | 7.82%                                                 |
| Mr KUOK Kun Man, Andrew   | 752,000               | –                            | 752,000     | 0.13%                                                 |
| Mr LEUNG, Jimmy           | 1,144,000             | –                            | 1,144,000   | 0.20%                                                 |
| Mr LI Wah Ming, Fred      | 260,000               | –                            | 260,000     | 0.04%                                                 |

*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.

### (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 2013, 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 2013, 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 | Percentage of the issued share capital of the Company |
|-------------------------------|------------------------------------|------------------------------------|-------------------------------------------------------|
| Shundeian Investments Limited | Beneficial owner                   | 225,911,400<br><i>(note i)</i>     | 38.94%                                                |
| Webb David Michael            | Beneficial owner                   | 40,397,400                         | 6.96%                                                 |
| DJE Investment S.A.           | Investment manager                 | 35,092,000<br><i>(note ii)</i>     | 6.05%                                                 |
| DJE Kapital AG                | Investment manager                 | 35,092,000<br><i>(note ii)</i>     | 6.05%                                                 |
| Dr. Jens Alfred Karl Ehrhardt | Investment manager                 | 35,092,000<br><i>(note ii)</i>     | 6.05%                                                 |
| LEUNG Wai Lap, David          | Beneficial owner                   | 34,828,190                         | 6.00%                                                 |

### Notes:

- (i) 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.
- (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 2013, 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 2013 are as follows:

| Name of participants                   | Date of grant    | Exercise period                      | Exercise price per share<br>HK\$ | Number of share options          |                          |                                       |
|----------------------------------------|------------------|--------------------------------------|----------------------------------|----------------------------------|--------------------------|---------------------------------------|
|                                        |                  |                                      |                                  | Outstanding as at 1st April 2013 | Lapsed during the period | Outstanding as at 30th September 2013 |
| <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)                | –                                     |
|                                        |                  |                                      |                                  | <u>3,000,000</u>                 | <u>(3,000,000)</u>       | <u>–</u>                              |
| <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)                | –                                     |
|                                        |                  |                                      |                                  | <u>750,000</u>                   | <u>(750,000)</u>         | <u>–</u>                              |
| <b>Senior management and employees</b> |                  |                                      |                                  |                                  |                          |                                       |
| Various                                | 11th May 2010    | 11th May 2010 to 20th August 2013    | 2.90                             | 10,068,000                       | (10,068,000)             | –                                     |
| Various                                | 27th August 2010 | 27th August 2010 to 20th August 2013 | 3.08                             | 100,000                          | (100,000)                | –                                     |
|                                        |                  |                                      |                                  | <u>10,168,000</u>                | <u>(10,168,000)</u>      | <u>–</u>                              |
|                                        |                  |                                      |                                  | <u>13,918,000</u>                | <u>(13,918,000)</u>      | <u>–</u>                              |



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

For the six months ended 30th September 2013, 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 2013.

## **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 2013.

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 five executive directors, namely Mr LEUNG Kai Ching, Kimen, Mr LEUNG Wai Sing, Wilson, Mr KUOK Kun Man, Andrew, Mr LEUNG, Jimmy and Mr LIU Lup Man 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, 20th November 2013