



ALCO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 328)

INTERIM REPORT 2014

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 2014, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2014

		Unaudited	
		Six months ended	
		30th September	
		2014	2013
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
			(Restated)
Continuing operation			
Revenue	3	1,095,396	1,054,413
Cost of goods sold	4	(1,030,763)	(994,063)
Gross profit		64,633	60,350
Other income		4,214	4,380
Selling expenses	4	(43,333)	(34,956)
Administrative expenses	4	(31,105)	(38,836)
Other operating (expenses)/income	4	(10,066)	1,873
Exchange gain on loans and receivables		-	2,974
Impairment of loans and receivables		-	(8,733)
Impairment of available-for-sale financial assets		-	(15,225)
Operating loss		(15,657)	(28,173)
Finance income		6,670	13,928
Finance costs		(2,281)	(1,888)
Loss before income tax		(11,268)	(16,133)
Income tax credit/(expenses)	5	2,009	(5,982)
Loss for the period from continuing operation		(9,259)	(22,115)
Discontinued operation			
Loss for the period from discontinued operation	6	-	(13,256)
Loss for the period		(9,259)	(35,371)

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

For the six months ended 30th September 2014

		Unaudited	
		Six months ended	
		30th September	
		2014	2013
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
			(Restated)
Loss for the period attributable to:			
Equity holders of the Company			
– Continuing operation		(9,181)	(21,892)
– Discontinued operation		–	(13,256)
		<u>–</u>	<u>(13,256)</u>
		(9,181)	(35,148)
Non-controlling interests			
– Continuing operation		(78)	(223)
		<u>(78)</u>	<u>(223)</u>
		(9,259)	(35,371)
		<u>(9,259)</u>	<u>(35,371)</u>
Loss per share attributable to equity holders of the Company			
Basic loss per share			
– Continuing operation	7	(HK1.6 cents)	(HK3.8 cents)
– Discontinued operation	7	–	(HK2.3 cents)
		<u>(HK1.6 cents)</u>	<u>(HK6.1 cents)</u>
Diluted loss per share			
– Continuing operation	7	(HK1.6 cents)	(HK3.8 cents)
– Discontinued operation	7	–	(HK2.3 cents)
		<u>(HK1.6 cents)</u>	<u>(HK6.1 cents)</u>
Dividends	8	17,381	17,403
		<u>17,381</u>	<u>17,403</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September 2014

	Unaudited	
	Six months ended	
	30th September	
	2014	2013
	HK\$'000	HK\$'000
		(Restated)
Loss for the period	<u>(9,259)</u>	<u>(35,371)</u>
Other comprehensive loss, net of tax:		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	<u>(411)</u>	<u>(141)</u>
Total comprehensive loss for the period	<u>(9,670)</u>	<u>(35,512)</u>
Total comprehensive loss for the period attributable to:		
Equity holders of the Company		
– Continuing operation	(9,592)	(22,033)
– Discontinued operation	<u>-</u>	<u>(13,256)</u>
	(9,592)	(35,289)
Non-controlling interests		
– Continuing operation	<u>(78)</u>	<u>(223)</u>
	<u>(9,670)</u>	<u>(35,512)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2014

	Note	Unaudited 30th September 2014 HK\$'000	Audited 31st March 2014 HK\$'000
Non-current assets			
Property, plant and equipment		213,795	212,385
Investment properties		305,210	305,210
Leasehold land and land use rights		6,981	7,150
Intangible assets		25,350	29,250
Deferred income tax assets		40,346	36,692
Other receivables	11	43,374	58,414
		<u>635,056</u>	<u>649,101</u>
Current assets			
Inventories		1,011,647	353,439
Loans and receivables	9	–	1,562
Trade and other receivables	11	923,143	632,824
Current income tax assets		–	692
Cash and cash equivalents		722,458	924,146
		<u>2,657,248</u>	<u>1,912,663</u>
Current liabilities			
Trade and other payables	12	802,562	575,843
Trust receipt loan		576,763	–
Current income tax liabilities		953	–
Borrowings	13	80,000	80,000
		<u>1,460,278</u>	<u>655,843</u>
Net current assets		<u>1,196,970</u>	<u>1,256,820</u>
Total assets less current liabilities		<u>1,832,026</u>	<u>1,905,921</u>
Capital and reserves attributable to equity holders of the Company			
Share capital	14	57,937	58,009
Reserves		1,764,519	1,798,264
		<u>1,822,456</u>	<u>1,856,273</u>
Non-controlling interests		(430)	(352)
Total equity		<u>1,822,026</u>	<u>1,855,921</u>
Non-current liabilities			
Borrowings	13	10,000	50,000
Total equity and non-current liabilities		<u>1,832,026</u>	<u>1,905,921</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2014

	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 2013	58,009	310,651	940	(618)	11,783	58,074	1,488,167	1,927,006	-	1,927,006
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)
Transactions with owners										
2013 final dividend	-	-	-	-	-	-	(34,806)	(34,806)	-	(34,806)
Non-controlling interests arising on business combination	-	-	-	-	-	-	-	-	28	28
Total transactions with owners	-	-	-	-	-	-	(34,806)	(34,806)	28	(34,778)
At 30th September 2013	58,009	310,651	940	(759)	11,783	58,074	1,418,213	1,856,911	(195)	1,856,716
At 1st April 2014	58,009	310,651	940	(43)	11,783	58,074	1,416,859	1,856,273	(352)	1,855,921
Comprehensive loss										
Loss for the period	-	-	-	-	-	-	(9,181)	(9,181)	(78)	(9,259)
Others comprehensive loss										
Currency translation differences	-	-	-	(411)	-	-	-	(411)	-	(411)
Total comprehensive loss	-	-	-	(411)	-	-	(9,181)	(9,592)	(78)	(9,670)
Transactions with owners										
Repurchase of shares	(72)	(978)	72	-	-	-	(72)	(1,050)	-	(1,050)
2014 final dividend	-	-	-	-	-	-	(23,175)	(23,175)	-	(23,175)
Total transactions with owners	(72)	(978)	72	-	-	-	(23,247)	(24,225)	-	(24,225)
At 30th September 2014	57,937	309,673	1,012	(454)	11,783	58,074	1,384,431	1,822,456	(430)	1,822,026

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th September 2014

	Unaudited	
	Six months ended	
	30th September	
	2014	2013
	HK\$'000	HK\$'000
Net cash used in operating activities	(720,174)	(550,517)
Net cash generated from/(used in) investing activities	5,948	(70,629)
Net cash generated from financing activities	512,538	35,194
Net decrease in cash and cash equivalents	(201,688)	(585,952)
Cash and cash equivalents at the beginning of the period	924,146	1,231,776
Cash and cash equivalents at the end of the period	722,458	645,824
Analysis of balances of cash and cash equivalents		
Bank balances and cash	722,458	645,824

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September 2014

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 2014.

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 2014, except the Group has adopted certain HKASs and Hong Kong Financial Reporting Standards (“HKFRS”) which are mandatory for the financial year beginning 1st April 2014.

2. Changes in accounting policies

The following new standards, amendments to standards and interpretation are relevant to the Group and are mandatory for the financial year beginning 1st April 2014.

HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities

The adoption of the above new 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 2014 and have not been early adopted by the Group:

HKFRS 9	Financial Instruments ⁴
HKFRS 11 (Amendment)	Accounting for Acquisition of Interest in Joint Operation ²
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
HKFRS (Amendment)	Annual Improvement 2010-2012 Cycle ¹
HKFRS (Amendment)	Annual Improvement 2011-2013 Cycle ¹
HKAS 16 and 38 (Amendment)	Classification of Acceptable Methods of Depreciation and Amortisation ²
HKAS 19 (Amendment)	Employee Benefits: Defined Benefit Plans – Employee Contributions ¹

¹ Effective for annual periods beginning on or after 1st July 2014

² Effective for annual periods beginning on or after 1st January 2016

³ Effective for annual periods beginning on or after 1st January 2017

⁴ Changes effective date to be determined

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. During the year ended 31st March 2014, the Group disposed of the plastics products operation and the results of such operation have been presented as discontinued operation in the condensed consolidated income statement for the six months ended 30th September 2013 (Note 6).

Consumer electronic products	–	Design, manufacture and sale of consumer electronic products
Plastic products	–	Manufacture and sale of plastic and packaging products (ceased after February 2014)

3. Segment information (continued)

(a) Segment analysed by products (continued)

	Six months ended 30th September					
	2014			2013 (Restated)		
	Continuing operation	Discontinued operation	Total	Continuing operation	Discontinued operation	Total
	Consumer electronic products	Plastic products		Consumer electronic products	Plastic products	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	1,095,396	-	1,095,396	1,054,413	54,712	1,109,125
Inter-segment sales	-	-	-	-	(43,690)	(43,690)
External sales	<u>1,095,396</u>	<u>-</u>	<u>1,095,396</u>	<u>1,054,413</u>	<u>11,022</u>	<u>1,065,435</u>
Segment results	<u>(15,657)</u>	<u>-</u>	<u>(15,657)</u>	<u>(28,173)</u>	<u>(14,440)</u>	<u>(42,613)</u>

(b) Segment analysed by geographical areas

	Revenue	
	2014	2013
	HK\$'000	HK\$'000
Continuing operation		(Restated)
North America	1,053,067	930,397
Europe	2,465	78,366
Asia	32,956	43,287
Others	6,908	2,363
	<u>1,095,396</u>	<u>1,054,413</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 2014 and 2013 were located or utilised in the PRC or Hong Kong.

4. Expenses by nature

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

	Six months ended	
	30th September	
	2014	2013
	HK\$'000	HK\$'000
<i>Continuing operation</i>		(Restated)
Amortisation of intangible assets	3,900	4,442
Depreciation	16,716	15,839
Termination benefits	16,394	424
Employee benefit expenses	112,754	132,388

5. Income tax credit/expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits 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:

	Six months ended	
	30th September	
	2014	2013
	HK\$'000	HK\$'000
<i>Continuing operation</i>		(Restated)
Current income tax		
– Hong Kong profits tax	(40)	(4,147)
– Under provision in prior years	–	(27)
– PRC enterprise income tax	(1,605)	–
Deferred income tax credit/(expenses)	3,654	(1,808)
Income tax credit/(expenses)	2,009	(5,982)

6. Discontinued operation

During the year ended 31st March 2014, the Group completed its disposal of the entire interest in Alco Plastic Products Limited (“APPL”), a wholly owned subsidiary of the Company, to one of the APPL’s directors at a cash consideration of HK\$3,000,000. Full consideration was received in February 2014. The principal activity of APPL was the manufacturing and selling of plastic products. Accordingly, the results of plastic products business have been presented as a discontinued operation in the condensed consolidated financial statements for the six months ended 30th September 2013.

(a) *Analysis of the results of discontinued operation is as follows:*

	Six months ended 30th September 2013 HK\$'000
Revenue	54,712
Cost of goods sold	<u>(65,871)</u>
Gross loss	(11,159)
Selling expenses	(3)
Administrative expenses	(1,044)
Other operating expenses	<u>(2,234)</u>
Loss before income tax	(14,440)
Income tax credit	<u>1,184</u>
Loss for the period from discontinued operation attributable to equity holders of the Company	<u><u>(13,256)</u></u>

(b) *Analysis of the expenses of discontinued operation is as follows:*

	Six months ended 30th September 2013 HK\$'000
Depreciation	1,536
Termination benefits	3,112
Employee benefit expenses	9,317
Deferred income tax credit	(1,184)

6. Discontinued operation (continued)

(c) Analysis of the cash flows of discontinued operation is as follows:

	Six months ended 30th September 2013 <i>HK\$'000</i>
Net cash inflow from operating activities	45,791
Net cash inflow from investing activities	5,135
Net cash outflow from financing activities	<u>(50,100)</u>
Net cash inflow from discontinued operation	<u><u>826</u></u>

7. Loss per share

Basic

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

	Six months ended 30th September 2014	2013 (Restated)
Loss attributable to equity holders of the Company (<i>HK\$'000</i>)		
– Continuing operation	(9,181)	(21,892)
– Discontinued operation	<u>–</u>	<u>(13,256)</u>
	<u>(9,181)</u>	<u>(35,148)</u>
Weighted average number of ordinary shares in issue	<u>579,715,327</u>	<u>580,093,720</u>
Basic loss per share (<i>HK cents</i>)		
– Continuing operation	(1.6)	(3.8)
– Discontinued operation	<u>–</u>	<u>(2.3)</u>
	<u>(1.6)</u>	<u>(6.1)</u>

7. Loss per share (continued)

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 had only one category of dilutive potential ordinary shares for the six months ended 30th September 2013: 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 2014, the Company did not have dilutive potential ordinary shares.

	Six months ended	
	30th September	
	2014	2013
		(Restated)
Loss attributable to equity holders of the Company (HK\$'000)		
– Continuing operation	(9,181)	(21,892)
– Discontinued operation	–	(13,256)
	(9,181)	(35,148)
Weighted average number of ordinary shares in issue	579,715,327	580,093,720
Dilutive effect on share options	–	–
Weighted average number of ordinary shares for the calculation of diluted loss per share	579,715,327	580,093,720
Diluted loss per share (HK cents)		
– Continuing operation	(1.6)	(3.8)
– Discontinued operation	–	(2.3)
	(1.6)	(6.1)

8. Dividends

	Six months ended 30th September	
	2014	2013
	HK\$'000	HK\$'000
Interim dividend, declared, of HK3 cents (2013: HK3 cents) per ordinary share	17,381	17,403

At a meeting held on 26th November 2014, the directors declared an interim dividend of HK3 cents (2013: HK3 cents) per share for the six months ended 30th September 2014.

9. Loans and receivables

	30th September 2014	31st March 2014
	HK\$'000	HK\$'000
Government bonds (<i>Note</i>)	-	1,562
Carrying amount as at the end of the period	-	1,562
Carrying amount as at the beginning of the period	1,562	102,379
Redemption	(1,562)	(21,302)
Disposal	-	(85,701)
Exchange gain	-	6,186
Carrying amount as at the end of the period	-	1,562

Note:

The government bonds were issued by the Ministry of Finance PRC and were 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.

10. Available-for-sale financial assets

	30th September 2014 HK\$'000	31st March 2014 HK\$'000
Fair value of unlisted equity securities outside Hong Kong as at the beginning of the period	-	36,953
Disposal	-	(36,953)
	<hr/>	<hr/>
Fair value of unlisted equity securities outside Hong Kong as at the end of the period	<hr/> -	<hr/> -

The available-for-sale financial assets represented the Group's long-term investment in the shares of Hydis Technologies Company Limited ("Hydis"). They were denominated in KRW.

11. Trade and other receivables

	30th September 2014 HK\$'000	31st March 2014 HK\$'000
Non-current		
Other receivables (<i>Note</i>)	<hr/> 43,374	<hr/> 58,414
Current		
Trade receivables	885,907	590,215
Prepayments, deposits and other receivables (<i>Note</i>)	<hr/> 37,236	<hr/> 42,609
	<hr/> 923,143	<hr/> 632,824
Total	<hr/> 966,517	<hr/> 691,238

Note:

As at 30th September 2014, other receivables included approximately HK\$58,414,000 (31st March 2014: HK\$73,755,000) consideration receivable from PVI Global Corporation (a subsidiary of E Ink Holdings Inc. ("E Ink")) for the disposal of the corporate bond of Hydis. A guarantee was granted by E Ink to cover the entire receivable amount as at 30th September 2014.

11. Trade and other receivables (continued)

The ageing analysis of trade receivables based on shipping terms is as follows:

	30th September 2014 HK\$'000	31st March 2014 HK\$'000
0 – 30 days	499,392	242,495
31 – 60 days	150,718	68,062
61 – 90 days	194,124	130,335
Over 90 days	41,673	149,323
	885,907	590,215

As at 30th September 2014, no trade receivables (31st March 2014: HK\$50,755,000) were considered past due if measured strictly against the credit terms offered.

12. Trade and other payables

	30th September 2014 HK\$'000	31st March 2014 HK\$'000
Trade payables	732,943	522,787
Other payables and accruals	69,619	53,056
	802,562	575,843

The ageing analysis of trade payables based on invoice date is as follows:

	30th September 2014 HK\$'000	31st March 2014 HK\$'000
0 – 30 days	668,091	486,240
31 – 60 days	48,804	23,517
61 – 90 days	11,230	10,087
Over 90 days	4,818	2,943
	732,943	522,787

13. Borrowings

	30th September 2014 HK\$'000	31st March 2014 HK\$'000
Non-current		
Bank borrowings, unsecured (<i>Note</i>)	10,000	50,000
Current		
Bank borrowings, unsecured (<i>Note</i>)	80,000	80,000
Total borrowings	90,000	130,000

Note:

The bank borrowings are unsecured and are supported by corporate guarantees given by the Company (*Note 15*). The borrowings were denominated in HKD and interest bearing at a margin over Hong Kong Inter-bank Offer Rate.

The maturity of bank borrowings is as follows:

	30th September 2014 HK\$'000	31st March 2014 HK\$'000
Within one year	80,000	80,000
In the second year	10,000	50,000
	90,000	130,000

The carrying amounts of the borrowings approximated to their fair values.

14. Share capital

	Company Ordinary Shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1st April 2013, 31st March 2014 and 30th September 2014	800,000,000	80,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st April 2013 and 31st March 2014	580,093,720	58,009
At 1st April 2014	580,093,720	58,009
Cancellation of shares repurchased	(726,000)	(72)
At 30th September 2014	579,367,720	57,937

15. Contingent liabilities

The Company provided guarantees in favour of certain banks to secure general banking facilities granted to certain of its subsidiaries (*Note 13*).

16. Commitments

(a) Capital commitments

	30th September 2014 HK\$'000	31st March 2014 HK\$'000
Moulds, plant and machinery contracted but not provided for	<u>1,012</u>	<u>2,377</u>

(b) Operating lease commitments (as lessee)

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

	30th September 2014 HK\$'000	31st March 2014 HK\$'000
Not later than one year	34,979	35,613
Later than one year and not later than five years	138,475	139,574
Later than five years	<u>346,186</u>	<u>366,381</u>
	<u>519,640</u>	<u>541,568</u>

(c) Operating lease commitments (as lessor)

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

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

	30th September 2014 HK\$'000	31st March 2014 HK\$'000
Not later than one year	7,847	7,680
Later than one year and not later than five years	<u>2,545</u>	<u>5,264</u>
	<u>10,392</u>	<u>12,944</u>

DIVIDEND

The directors have resolved to declare an interim dividend of HK3 cents (2013: HK3 cents) per share for the six months ended 30th September 2014 to the shareholders whose names are on the register of members of the Company on 12th December 2014. The dividend warrants are expected to be despatched on 23rd December 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 11th December 2014 to Friday, 12th December 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 10th December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Group results

For the six months ended 30th September 2014, the Group reported turnover of HK\$1.1 billion (2013: HK\$1.05 billion), while loss attributable to shareholders was reduced to HK\$9 million. The rise in turnover was principally driven by healthy demand for the Group's new range of tablets. Performance has improved following the discontinuation of the plastics operation and the disposal of all its interests in Hydix Technologies, both of which were completed last year. However, with the objective of increasing efficiency and saving overhead, the Group has undergone restructuring during the reporting period, which incurred HK\$16 million in severance payment.

Business review

Though the economic recovery in the United States has continued at a modest pace, the consumer electronics industry remains highly competitive – aggravated by rising manufacturing and labour costs as well as intense competition from mainland manufacturers. What is more, with last-minute orders now becoming the norm, industry players must have the financial strength to accommodate such demands. And this further extends to promotional orders that involve high quantities, which likewise requires a company to have significant financial flexibility in order to accept.

At Alco, the company has endeavoured to maintain a strong cash position. And this high liquidity has enabled the Group to capture business opportunities that its peers with lesser financial clout have lost. With this competitive advantage, the Group has been able to accept bulk or last-minute orders when necessary.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business review *(continued)*

Besides financial strength, however, the ability to deliver high-quality, innovative products on a consistent and reliable manner remain major factors that determine the success or failure of a company in this exceedingly competitive industry. And in such respects, the Group has shown that it is well up to the task. Having carefully assessed developing market trends, the Group began production of a new range of tablets during the second half of last year, which have since become a significant source of revenue, as well as achieving comparatively fair margin levels. Available in a range of appealing sizes, the devices also offer a number of enhanced features, including wireless keyboards that capitalize on Bluetooth technology.

Aside from this new sales driver, the various lines of AV products continue to constitute an important foundation for the Group. Within this portfolio are included its sound bar, music system and DVD players, all of which have continued to generate stable returns. Management has been continuously examining each model's performance based on such criteria as demand and margin, duly removing old models and replacing them with new models to ensure that the overall product mix is most advantageous.

Prospects

Given the opportunities and obstacles that the Group is set to face; the former include a recovering world economy that should strengthen consumption sentiment, while the latter include persistently high labour and manufacturing costs, the management remains cautious about the Group's prospects for the remaining financial year.

Despite the conflicting conditions, the strong product line-up and sound fundamentals of the Group should nonetheless bode well for its long-term development. Moreover, the introduction of a new range of tablets has once again highlighted the Group's ability to consistently recognise and capitalise on developing market trends, subsequently leveraging its R&D expertise and ties with leading electronics brands and retailers to introduce new and exciting products on the market. The management will therefore continue to closely monitor consumption trends as it seeks to further diversify the Group's business development.

Helping facilitate the Group's onward progress will be the new Houjie Town production facility that is now fully operational. With its combination of efficiency and flexibility, the factory is able to play the dual roles of addressing tight production schedules when necessary and helping the Group to control manufacturing costs. Given that the factory is highly automated, the Group is able to benefit from standardised quality, lesser dependence on skilled labour – reducing its exposure to high labour costs and labour shortages – and more efficient use of resources.

Though the consumer electronics industry will continue to pose numerous challenges, the management is fully prepared, committed and motivated to steer the Group through such challenges to realise sustainable growth.

Liquidity and financial resources

Total equity and equity per share of the Group as at 30th September 2014 were HK\$1,822 million (31st March 2014: HK\$1,856 million) and HK\$3.14 (31st March 2014: HK\$3.20) respectively.

The Group maintains a healthy financial position. As at 30th September 2014, we had cash and deposits of HK\$722 million. After deducting bank loans and trust receipt loans of HK\$667 million, we had net cash of HK\$55 million.

As at 30th September 2014, we had banking facilities of HK\$1,946 million (31st March 2014: HK\$1,596 million), of which HK\$667 million (31st March 2014: HK\$130 million) were utilised. Among the used facilities, HK\$657 million shall be payable in the first year and HK\$10 million shall be payable in the second year.

As at 30th September 2014, our inventory was HK\$1,012 million (31st March 2014: HK\$353 million). After the end of the period, substantially all of the finished goods have been shipped in October 2014. We take a cautious approach to monitor the inventory level especially during this environment with uncertainty.

Trade receivables balance as at 30th September 2014 was HK\$886 million (31st March 2014: HK\$590 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 2014 was HK\$733 million (31st March 2014: HK\$523 million).

Capital expenditure on fixed assets during the six months ended 30th September 2014 was HK\$23 million (2013: HK\$91 million). As at 30th September 2014, we had capital commitments contracted but not provided for in respect of mould and plant and machinery amounting to HK\$1,012,000 (31st March 2014: HK\$2,377,000).

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 2014, the amount totalled RMB225 million.

Employees

As at 30th September 2014, the Group had approximately 3,300 (2013: 4,700) 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 2014, 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 <i>(Note)</i>	246,061,400	42.47%
Mr LEUNG Wai Sing, Wilson	46,320,000	–	46,320,000	7.99%
Mr LEUNG, Jimmy	1,144,000	–	1,144,000	0.20%
Mr KUOK Kun Man, Andrew	752,000	–	752,000	0.13%
Mr LI Wah Ming, Fred	260,000	–	260,000	0.04%

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

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 2014, 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 2014, 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 – Long position	Percentage of the issued share capital of the Company
Shundeian Investments Limited	Beneficial owner	225,911,400 <i>(Note i)</i>	38.99%
Webb David Michael	Beneficial owner	40,397,400	6.97%
DJE Investment S.A.	Investment manager	35,092,000 <i>(Note ii)</i>	6.06%
DJE Kapital AG	Investment manager	35,092,000 <i>(Note ii)</i>	6.06%
Dr. Jens Alfred Karl Ehrhardt	Investment manager	35,092,000 <i>(Note ii)</i>	6.06%
LEUNG Wai Lap, David	Beneficial owner	34,828,190	6.01%

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 are 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 2014, 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September 2014, the Company repurchased a total of 670,000 ordinary shares of the Company at a consideration of HK\$977,600 on The Stock Exchange of Hong Kong Limited. All the 670,000 repurchased shares were cancelled during the period. Details of the repurchases are as follows:

Month of repurchases	Number of shares repurchased	Price per share		Aggregate consideration <i>HK\$</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
April 2014	320,000	1.33	1.29	419,600
July 2014	100,000	1.47	1.47	147,000
August 2014	250,000	1.67	1.58	411,000
	<u>670,000</u>			<u>977,600</u>

The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the net asset value per share and to improving the earnings or loss per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares for the six months ended 30th September 2014 and the Company did not redeem any of its shares during the same period.

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 2014.

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 2014.

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, 26th November 2014