



Chairman

LEUNG Kai Ching, Kimen

RESULTS AND DIVIDENDS

On behalf of the Board of Directors, I am pleased to announce the annual results for the year ended 31st March 2005.

During the year under review, the Group recorded a turnover of approximately HK\$5.4 billion, an increase of 41% when compared with last year's HK\$3.8 billion. Profit attributable to shareholders rose from HK\$149 million to HK\$239 million, an increase of 60%. Earnings per share increased by 53%, from HK28.5 cents to HK43.7 cents.

The Board of Directors recommended the payment of a final dividend of HK12.0 cents per ordinary share (2004: HK8.0 cents) and a special dividend of HK4.0 cents per ordinary share (2004: HK3.0 cents) for the year ended 31st March 2005. Taking into account the HK5.0 cents interim dividend paid per ordinary share (2004: HK3.0 cents) earlier in the year, the total dividend per ordinary share amounted to HK21.0 cents (2004: HK11.0 cents plus a special dividend of HK3.0 cents) for this financial year.

The final and special dividends will be payable on 22nd September 2005 to shareholders of the Company, subject to shareholders' approval at the forthcoming Annual General Meeting.

BUSINESS REVIEW

2004 was a challenging yet fruitful year for Alco. The Group led the market in launching high-value consumer digital products, which generated substantial amount of orders. The Group continued to invest in sophisticated production facilities to ensure our products meet customers' ever-growing expectation for product performance and quality.

During the year, the Group continued to face different challenges. Margin pressure was partly due to keen market competition and partly due to higher prices of raw materials and other components, particularly plastic resin and memory integrated circuits. Nevertheless, by focusing on producing more high-end digital products for OEM and private label customers, adopting prudent cost control measures and boosting economies of scale, we were able to mitigate the pressure and maintained gross profit margin at about 8.7%.

Audio-visual products

For the year ended 31st March 2005, audio-visual products continued to be the major revenue contributor of the Group. The market responded well to our high-value products such as portable DVD players with built-in TFT-LCD screens, translating into significant income for us during the year. To widen our product portfolio, we also diversified our product range further to cover home-use TFT-LCD TV and DVD recorder products. Other new models have also been added and will be added throughout calendar year 2005, especially to the solid-state memory based digital audio player and hard-disk based digital audio player categories. Though under severe price pressure, our traditional audio products, such as 20-CD home audio systems, micro audio systems and personal CD players, continued to generate stable order and income for the Group.



Production facilities



Even though we have not expanded our production plants physically, we have continued to upgrade and expand our manufacturing facilities to meet increasing customer demands for our high-value digital products. More "clean zone" facilities, lead-free soldering equipment and advanced Surface Mount Technology ("SMT") facilities were added during the year. To support our consistently expanding digital AV product range, we plan to further expand all these advanced production facilities in 2006. In order to further alleviate our demand for and reliance on labour, we also stepped up automation of our many production processes including the use of robotic arms

in the plastic moulding operation and the installation of automatic-spraying facilities.



Continuous investment is critical to ensure that we have the production capacity, ability and flexibility to produce our world-class product range that can cater to the ever-changing needs of our customers and consumers.

Markets and customers

Part of Alco's success rests on our direct and long-term relationship with mass retail chain stores in North America and Europe. These strong ties allow us to very effectively and quickly ascertain the viability of new products and concepts, and shorten the lead time for us to deliver existing and new models to retail customers.

As for our OEM business, in addition to the existing largely AV-products customer base, we have been manufacturing products for and are bidding on projects related to other product sectors, such as office automation, industrial security systems, and the like. All these activities are part of our efforts to enlarge our customer base for non-AV OEM business.

PROSPECTS

Aiming to grow our shares in major markets such as North America and Europe, we are gearing up to expand our product portfolio by developing more high-end and high-value products. Such product advancements are necessary to sustain growth of the Group, as traditional low-end products will eventually be all phased out. This has been the business strategy of the Group for the past few years and we plan to continue to do so consistently and prudently.

During the year, we saw various challenges that affected the entire industry. Factors such as oil prices hike making raw materials such as plastic resin more expensive, labour shortage and power shortage in Mainland China, and the tight supply of certain key components all contributed to the increase in the costs of manufacturing for the industry. The Group alleviated the impact of some of these problems by stepping up automation to lower our reliance on direct labour and beefing up our own power generation facilities for uninterrupted electricity supply. Even though we have no definite plan to relocate our existing production facilities, we have been constantly studying the feasibility of establishing manufacturing facilities in the northern part of Guangdong province where a lower-cost labour pool is available.



On the portable DVD products front, though the Group anticipated tight supply of TFT-LCD panels in the upcoming peak production season, with new generations of TFT-LCD fabrication facilities coming on-stream, the supply and pricing of the panels are expected to improve by the end of 2005. Facing intense competition in the portable DVD market, we have been developing new applications and new products employing medium sized LCD panels. We have also been developing new LCD TV products to further enhance our overall product portfolio and variety in this product segment.

To stay abreast of the changing needs in such a dynamic market, the Group will increase investment in research and development to strategically and selectively grow the number and variety of products. During the year, we expanded our office in Shenzhen to further enhance our research and development resources there. Staffed by high calibre and experienced professionals, our product development teams are dedicated to developing more sophisticated and value-added products that will provide ever-better margins for the Group.

APPRECIATION

We would not have achieved such encouraging performance without the support of our business partners, staff, the management and shareholders. On behalf of the Board, I would like to express my sincere gratitude to all of them for their continuous dedication, commitment and support over the past year.

LEUNG Kai Ching, Kimen

Chairman

Hong Kong, 18th July 2005