

The directors of Alco Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September 2005, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2005

|  |             | <b>Unaudited</b>        |                 |
|--|-------------|-------------------------|-----------------|
|  |             | <b>Six months ended</b> |                 |
|  |             | <b>30th September</b>   |                 |
|  |             |                         | Restated        |
|  |             | <b>2005</b>             | 2004            |
|  | <i>Note</i> | <b>HK\$'000</b>         | <i>HK\$'000</i> |
| Turnover   | 3           | <b>2,886,662</b>        | 2,830,284       |
| Cost of sales  | 5           | <b>(2,638,943)</b>      | (2,603,420)     |
| Gross profit   |             | <b>247,719</b>          | 226,864         |
| Other gains, net   | 4           | <b>20,087</b>           | 11,598          |
| Selling expenses   | 5           | <b>(65,976)</b>         | (61,379)        |
| Administrative expenses  | 5           | <b>(37,036)</b>         | (36,760)        |
| Other operating expenses   |             | <b>(2,329)</b>          | (3,914)         |
| Operating profit   |             | <b>162,465</b>          | 136,409         |
| Finance costs  |             | <b>(10,609)</b>         | (3,492)         |
| Profit before income tax   |             | <b>151,856</b>          | 132,917         |
| Income tax expense   | 6           | <b>(16,055)</b>         | (18,840)        |
| Profit for the period  |             | <b><u>135,801</u></b>   | <u>114,077</u>  |
| Attributable to:   |             |                         |                 |
| Shareholders of the Company  |             | <b>135,801</b>          | 111,789         |
| Minority interests   |             | <b>–</b>                | 2,288           |
|  |             | <b><u>135,801</u></b>   | <u>114,077</u>  |
| Dividends  | 7           | <b><u>56,135</u></b>    | <u>27,823</u>   |
| Earnings per share attributable to shareholders of the Company during the period |             |                         |                 |
| – basic  | 8           | <b>HK24.3 cents</b>     | HK20.8 cents    |
| – diluted  | 8           | <b>HK24.2 cents</b>     | HK20.3 cents    |

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2005

|  |    | <b>Unaudited<br/>30th September<br/>2005<br/>HK\$'000</b> | Audited and<br>restated<br>31st March<br>2005<br>HK\$'000 |
|--|----|---|---|
| Non-current assets                             |    |   |   |
| Property, plant and equipment                  |    | <b>343,253</b>  | 335,361   |
| Investment properties                          |    | <b>34,260</b>   | 34,260  |
| Leasehold land and land use rights             |    | <b>56,666</b>   | 56,835  |
| Deferred development costs                     |    | <b>9,378</b>  | 8,112   |
| Long-term bank deposits                        |    | –   | 111,400   |
| Held-to-maturity investments                   | 9  | <b>111,400</b>  | –   |
|  |    | <b>554,957</b>  | 545,968   |
| Current assets                                 |    |   |   |
| Inventories                                    |    | <b>531,452</b>  | 549,546   |
| Trade receivables, prepayments<br>and deposits | 10 | <b>955,328</b>  | 367,616   |
| Bank balances and cash                         |    | <b>888,044</b>  | 746,944   |
|  |    | <b>2,374,824</b>  | 1,664,106   |
| Current liabilities                            |    |   |   |
| Trade payables, other payables<br>and accruals | 11 | <b>758,035</b>  | 671,093   |
| Trust receipt loans                            |    | <b>464,834</b>  | 89,050  |
| Current income tax liabilities                 |    | <b>28,648</b>   | 12,814  |
| Obligations under finance leases               | 12 | –   | 206   |
| Bank loans – current portion                   | 13 | <b>166,879</b>  | 77,619  |
|  |    | <b>1,418,396</b>  | 850,782   |
| Net current assets                             |    | <b>956,428</b>  | 813,324   |
| Total assets less current liabilities          |    | <b>1,511,385</b>  | 1,359,292   |
| Capital and reserves                           |    |   |   |
| Share capital                                  | 14 | <b>56,135</b>   | 55,733  |
| Reserves                                       |    | <b>1,277,664</b>  | 1,228,981   |
|  |    | <b>1,333,799</b>  | 1,284,714   |
| Non-current liabilities                        |    |   |   |
| Bank loans – long-term portion                 | 13 | <b>142,787</b>  | 40,000  |
| Deferred income tax liabilities                |    | <b>34,799</b>   | 34,578  |
|  |    | <b>177,586</b>  | 74,578  |
| Total equity and non-current liabilities       |    | <b>1,511,385</b>  | 1,359,292   |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2005

|   | Unaudited                          |                  |
|---|------------------------------------|------------------|
|   | Six months ended<br>30th September |                  |
|   | 2005                               | Restated<br>2004 |
|   | <i>HK\$'000</i>                    | <i>HK\$'000</i>  |
| Net cash used in operating activities             | <b>(386,821)</b>                   | (454,111)        |
| Net cash used in investing activities             | <b>(43,641)</b>                    | (12,983)         |
| Net cash generated from financing activities      | <b>571,562</b>                     | 723,409          |
| Net increase in cash and cash equivalents         | <b>141,100</b>                     | 256,315          |
| Cash and cash equivalents at beginning of period  | <b>746,944</b>                     | 242,272          |
| Cash and cash equivalents at end of period        | <b>888,044</b>                     | 498,587          |
| Analysis of balances of cash and cash equivalents |                                    |                  |
| Bank balances and cash                            | <b>888,044</b>                     | 498,587          |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2005

|   | Unaudited                                   |                              |  |                                 |                                  |                                  | Total<br>HK\$'000 |
|---|---|------------------------------|--|---------------------------------|----------------------------------|----------------------------------|-------------------|
|   | Attributable to shareholders of the Company |                              |  |                                 |                                  |                                  |                   |
|   | Share<br>capital<br>HK\$'000                | Share<br>premium<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Exchange<br>reserve<br>HK\$'000 | Retained<br>earnings<br>HK\$'000 | Minority<br>interest<br>HK\$'000 |                   |
| At 1st April 2005, as previously reported as equity                       | 55,733                                      | 250,619                      | 471  | (723)                           | 971,677                          | -                                | 1,277,777         |
| Adoption of revised HKAS 17   | -   | -                            | -  | -                               | 8,528                            | -                                | 8,528             |
| Adoption of HKAS-Int 21   | -   | -                            | -  | -                               | (1,591)                          | -                                | (1,591)           |
| At 1st April 2005, as restated  | 55,733                                      | 250,619                      | 471  | (723)                           | 978,614                          | -                                | 1,284,714         |
| Translation difference  | -   | -                            | -  | (837)                           | -                                | -                                | (837)             |
| Net income/(expense) recognised directly in equity                        | 55,733                                      | 250,619                      | 471  | (1,560)                         | 978,614                          | -                                | 1,283,877         |
| Profit for the period   | -   | -                            | -  | -                               | 135,801                          | -                                | 135,801           |
| Total recognised income for the six months ended 30th September 2005      | 55,733                                      | 250,619                      | 471  | (1,560)                         | 1,114,415                        | -                                | 1,419,678         |
| Exercise of bonus warrants  | 402   | 3,535                        | -  | -                               | -                                | -                                | 3,937             |
| Dividends   | -   | -                            | -  | -                               | (89,816)                         | -                                | (89,816)          |
| <b>At 30th September 2005</b>   | <b>56,135</b>                               | <b>254,154</b>               | <b>471</b>                                   | <b>(1,560)</b>                  | <b>1,024,599</b>                 | <b>-</b>                         | <b>1,333,799</b>  |
| At 1st April 2004, as previously reported as equity                       | 53,292                                      | 229,137                      | 471  | (3,168)                         | 821,571                          | -                                | 1,101,303         |
| At 1st April 2004, as previously separately reported as minority interest | -   | -                            | -  | -                               | -                                | 19,204                           | 19,204            |
| Adoption of revised HKAS 17   | -   | -                            | -  | -                               | 7,547                            | -                                | 7,547             |
| Adoption of HKAS-Int 21   | -   | -                            | -  | -                               | (1,180)                          | -                                | (1,180)           |
| At 1st April 2004, as restated  | 53,292                                      | 229,137                      | 471  | (3,168)                         | 827,938                          | 19,204                           | 1,126,874         |
| Translation difference  | -   | -                            | -  | (178)                           | -                                | -                                | (178)             |
| Net income/(expense) recognised directly in equity                        | 53,292                                      | 229,137                      | 471  | (3,346)                         | 827,938                          | 19,204                           | 1,126,696         |
| Profit for the period   | -   | -                            | -  | -                               | 111,789                          | 2,288                            | 114,077           |
| Total recognised income for the six months ended 30th September 2004      | 53,292                                      | 229,137                      | 471  | (3,346)                         | 939,727                          | 21,492                           | 1,240,773         |
| Exercise of bonus warrants  | 2,353                                       | 20,706                       | -  | -                               | -                                | -                                | 23,059            |
| Dividends   | -   | -                            | -  | -                               | (61,208)                         | (1,000)                          | (62,208)          |
| At 30th September 2004  | 55,645                                      | 249,843                      | 471  | (3,346)                         | 878,519                          | 20,492                           | 1,201,624         |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September 2005

### 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 (the “HKICPA”).

These condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31st March 2005.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial statements are consistent with those used in the annual accounts for the year ended 31st March 2005, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA (new “HKFRSs”) which are effective for accounting periods commencing on or after 1st January 2005.

These interim financial statements have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information (December 2005). The HKFRS standards and interpretations that will be applicable at 31st March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

### 2. Changes in accounting policies

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

|           |   |
|-----------|---|
| – HKAS 1  | Presentation of Financial Statements                            |
| – HKAS 2  | Inventories   |
| – HKAS 7  | Cash Flow Statements  |
| – HKAS 8  | Accounting Policies, Changes in Accounting Estimates and Errors |
| – HKAS 10 | Events after the Balance Sheet Date                             |
| – HKAS 16 | Property, Plant and Equipment                                   |
| – HKAS 17 | Leases  |
| – HKAS 21 | The Effects of Changes in Foreign Exchange Rates                |
| – HKAS 23 | Borrowing Costs   |
| – HKAS 24 | Related Party Disclosures                                       |
| – HKAS 27 | Consolidated and Separate Financial Statements                  |

## 2. Changes in accounting policies (continued)

- HKAS 31 Investments in Joint Ventures
- HKAS 32 Financial Instruments: Disclosure and Presentation
- HKAS 33 Earnings Per Share
- HKAS 36 Impairment of Assets
- HKAS 38 Intangible Assets
- HKAS 39 Financial Instruments: Recognition and Measurement
- HKAS 40 Investment Property
- HKAS-Int 12 Scope of HKAS-Int 12 Consolidation – Special Purpose Entities
- HKAS-Int 15 Operating Leases – Incentives
- HKAS-Int 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets
- HKFRS 2 Share-based Payment
- HKFRS 3 Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 31, 33, 36 and 38, HKAS-Ints 12 and 15 and HKFRSs 2 and 3 did not result in significant changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 31, 33, 36 and 38, HKAS-Ints 12 and 15 and HKFRSs 2 and 3 had no material effect on the Group's accounting policies.
- HKAS 21 had no material effect on the Group's accounting policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification, measurement and recognition of financial instruments.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

## 2. Changes in accounting policies (continued)

The adoption of HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of revised HKAS 17 resulted in an increase in opening retained earnings at 1st April 2004 by HK\$7,547,000.

|  | <b>30th September<br/>2005<br/>HK\$'000</b> | 31st March<br>2005<br>HK\$'000 |
|--|---|--------------------------------|
| Decrease in property, plant and equipment      | <b>47,647</b>                               | 48,307                         |
| Increase in leasehold land and land use rights | <b>56,666</b>                               | 56,835                         |
| Increase in retained earnings                  | <b>9,019</b>                                | 8,528                          |

|  | <b>Six months ended<br/>30th September</b> |                  |
|--|--|------------------|
|  | <b>2005<br/>HK\$'000</b>                   | 2004<br>HK\$'000 |
| Decrease in administrative expenses    | <b>491</b>                                 | 491              |
| Increase in basic earnings per share   | <b>HK0.1 cent</b>                          | HK0.1 cent       |
| Increase in diluted earnings per share | <b>HK0.1 cent</b>                          | HK0.1 cent       |

The adoption of HKAS-Int 21 resulted in a decrease in opening retained earnings at 1st April 2004 by HK\$1,180,000.

|   | <b>30th September<br/>2005<br/>HK\$'000</b> | 31st March<br>2005<br>HK\$'000 |
|---|---|--------------------------------|
| Increase in deferred income tax liability | –   | 1,591                          |
| Decrease in retained earnings             | –   | 1,591                          |

There was no impact on basic and diluted earnings per share from the adoption of HKAS-Int 21.

### 3. Segment information

The Group is principally engaged in the design, manufacture and sale of consumer audio-visual, telecommunication and plastic products.

#### (a) Business segment

The Group mainly operates in the People's Republic of China (the "PRC") and Hong Kong in two main business segments:

- Consumer electronic products – Design, manufacture and sale of consumer audio-visual and telecommunication products
- Plastic products – Manufacture and sale of plastic and packing products

|                        | Six months ended 30th September                |                                 |                         |                   |  |                                 |                         |                   |
|------------------------|--|---------------------------------|-------------------------|-------------------|--|---------------------------------|-------------------------|-------------------|
|                        | 2005   |                                 |                         |                   | Restated<br>2004                               |                                 |                         |                   |
|                        | Consumer<br>electronic<br>products<br>HK\$'000 | Plastic<br>products<br>HK\$'000 | Elimination<br>HK\$'000 | Group<br>HK\$'000 | Consumer<br>electronic<br>products<br>HK\$'000 | Plastic<br>products<br>HK\$'000 | Elimination<br>HK\$'000 | Group<br>HK\$'000 |
| External sales         | 2,878,017                                      | 8,645                           | -                       | 2,886,662         | 2,823,006                                      | 7,278                           | -                       | 2,830,284         |
| Inter-segment<br>sales | -  | 129,788                         | (129,788)               | -                 | -  | 123,643                         | (123,643)               | -                 |
|                        | <u>2,878,017</u>                               | <u>138,433</u>                  | <u>(129,788)</u>        | <u>2,886,662</u>  | <u>2,823,006</u>                               | <u>130,921</u>                  | <u>(123,643)</u>        | <u>2,830,284</u>  |
| Segment results        | <u>161,906</u>                                 | <u>559</u>                      |                         | <u>162,465</u>    | <u>135,725</u>                                 | <u>684</u>                      |                         | <u>136,409</u>    |



### 3. Segment information (continued)

#### (b) Geographical segment

|                           | Turnover         |                  |
|---------------------------|------------------|------------------|
|                           | Six months ended |                  |
|                           | 30th September   |                  |
|                           | 2005             | 2004             |
|                           | <i>HK\$'000</i>  | <i>HK\$'000</i>  |
| North America             | 2,325,424        | 1,753,041        |
| Europe                    | 248,738          | 778,242          |
| Asia                      | 237,140          | 246,606          |
| Australia and New Zealand | 35,682           | 21,266           |
| South America             | 33,790           | 19,372           |
| Africa                    | 5,888            | 11,757           |
|                           | <u>2,886,662</u> | <u>2,830,284</u> |

The analysis of turnover by geographical segment is based on the destination to which the shipments are made. No analysis of the contribution by geographical segment has been presented as the ratios of profit to turnover achieved for the above geographical segments are not substantially out of line with the Group's overall ratio of profit to turnover.

### 4. Other gains, net

|                 | Six months ended |                 |
|-----------------|------------------|-----------------|
|                 | 30th September   |                 |
|                 | 2005             | 2004            |
|                 | <i>HK\$'000</i>  | <i>HK\$'000</i> |
| Interest income | 15,392           | 7,417           |
| Others          | 4,695            | 4,181           |
|                 | <u>20,087</u>    | <u>11,598</u>   |

## 5. Expenses by nature

Expenses included in cost of sales, selling and administrative expenses are analysed as follows:

|  | <b>Six months ended<br/>30th September</b> |                  |
|--|--|------------------|
|  | <b>2005</b>                                | Restated<br>2004 |
|  | <b>HK\$'000</b>                            | HK\$'000         |
| Amortisation of deferred development costs | <b>3,206</b>                               | 5,011            |
| Depreciation                               | <b>30,684</b>                              | 33,258           |
| Staff costs                                | <b>147,368</b>                             | 133,035          |

## 6. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the condensed consolidated income statement represents:

|                         | <b>Six months ended<br/>30th September</b> |          |
|-------------------------|--|----------|
|                         | <b>2005</b>                                | 2004     |
|                         | <b>HK\$'000</b>                            | HK\$'000 |
| Current income tax      |  |          |
| – Hong Kong profits tax | <b>15,834</b>                              | 14,439   |
| Deferred income tax     | <b>221</b>                                 | 4,401    |
|                         | <b>16,055</b>                              | 18,840   |

No overseas taxation has been provided as the Group's subsidiaries in Canada and the PRC have no estimated assessable profits for the six months ended 30th September 2005 (2004: nil).

## 7. Dividends

|  | <b>Six months ended<br/>30th September</b> |                      |
|--|--|----------------------|
|  | <b>2005</b>                                | 2004                 |
|  | <b>HK\$'000</b>                            | HK\$'000             |
| Interim dividend, proposed, of HK6 cents<br>(2004: HK5 cents) per ordinary share | <b>33,681</b>                              | 27,823               |
| Special dividend, proposed, of HK4 cents<br>(2004: nil) per ordinary share       | <b>22,454</b>                              | —                    |
|  | <b><u>56,135</u></b>                       | <b><u>27,823</u></b> |

At a meeting held on 13th December 2005, the directors declared an interim dividend of HK6 cents (2004: HK5 cents) per share and a special dividend of HK4 cents (2004: nil) per share for the six months ended 30th September 2005.

## 8. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company for the six months ended 30th September 2005 of HK\$135,801,000 (2004 restated: HK\$111,789,000). The basic earnings per share is based on the weighted average of 558,675,389 (2004: 538,299,020) ordinary shares in issue during the period.

The diluted earnings per share is based on 561,210,665 (2004: 551,904,387) ordinary shares which is the aggregate of the weighted average number of ordinary shares in issue during the period and the weighted average of 2,535,276 (2004: 13,605,367) ordinary shares deemed to be issued at no consideration if all bonus warrants had been exercised.

## 9. Held-to-maturity investments

|                                       | <b>30th September<br/>2005<br/>HK\$'000</b> |
|---------------------------------------|---|
| Structured bank deposits in Hong Kong | <b><u>111,400</u></b>                       |

The fair value of these investments is not materially different from the carrying value.

## 10. Trade receivables, prepayments and deposits

An ageing analysis of trade receivables based on invoiced date as at 30th September 2005 is as follows:

|              | <b>30th September<br/>2005<br/>HK\$'000</b> | 31st March<br>2005<br>HK\$'000 |
|--------------|---|--------------------------------|
| 0 – 30 days  | <b>851,212</b>                              | 225,711                        |
| 31 – 60 days | <b>66,698</b>                               | 105,146                        |
| 61 – 90 days | <b>15,605</b>                               | 13,338                         |
| Over 90 days | <b>1,126</b>                                | 4,624                          |
|              | <hr/> <b>934,641</b> <hr/>                  | <hr/> 348,819 <hr/>            |

The credit terms given vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

## 11. Trade payables, other payables and accruals

An ageing analysis of trade payables based on suppliers' invoice date as at 30th September 2005 is as follows:

|              | <b>30th September<br/>2005<br/>HK\$'000</b> | 31st March<br>2005<br>HK\$'000 |
|--------------|---|--------------------------------|
| 0 – 30 days  | <b>332,204</b>                              | 295,486                        |
| 31 – 60 days | <b>142,450</b>                              | 91,262                         |
| 61 – 90 days | <b>66,380</b>                               | 56,836                         |
| Over 90 days | <b>5,146</b>                                | 4,353                          |
|              | <hr/> <b>546,180</b> <hr/>                  | <hr/> 447,937 <hr/>            |

## 12. Obligations under finance leases

As at 30th September 2005, the Group's finance lease liabilities were payable as follows:

|  | <b>30th September<br/>2005<br/>HK\$'000</b> | 31st March<br>2005<br>HK\$'000 |
|--|---|--------------------------------|
| Within one year                            | –   | 208                            |
| Future finance charges on finance leases   | –   | (2)                            |
|  | <hr/>                                       | <hr/>                          |
| Present value of finance lease liabilities | <u>–</u>                                    | <u>206</u>                     |

The present value of finance lease liabilities is as follows:

|  | <b>30th September<br/>2005<br/>HK\$'000</b> | 31st March<br>2005<br>HK\$'000 |
|--|---|--------------------------------|
| Within one year                            | –   | 206                            |
|  | <hr/>                                       | <hr/>                          |
| Present value of finance lease liabilities | <u>–</u>                                    | <u>206</u>                     |

## 13. Bank loans

|  | <b>30th September<br/>2005<br/>HK\$'000</b> | 31st March<br>2005<br>HK\$'000 |
|--|---|--------------------------------|
| Bank loans – unsecured ( <i>note</i> ) | <u>309,666</u>                              | <u>117,619</u>                 |

The above bank loans are repayable in the following periods:

|                            | <b>30th September<br/>2005<br/>HK\$'000</b> | 31st March<br>2005<br>HK\$'000 |
|----------------------------|---|--------------------------------|
| Within one year            | 166,879                                     | 77,619                         |
| In the second year         | 116,878                                     | 32,500                         |
| In the third to fifth year | 25,909                                      | 7,500                          |
|                            | <hr/>                                       | <hr/>                          |
|                            | <u>309,666</u>                              | <u>117,619</u>                 |

*Note:*

The unsecured bank loans are supported by corporate guarantees given by the Company.

## 14. Share capital

|                                     | <b>Company</b>            |                      |
|-------------------------------------|---------------------------|----------------------|
|                                     | <b>Number of shares</b>   | <b>HK\$'000</b>      |
| Authorised:                         |                           |                      |
| Ordinary shares of HK\$0.10 each    |                           |                      |
| Brought forward and carried forward | <b><u>800,000,000</u></b> | <b><u>80,000</u></b> |
| Issued and fully paid:              |                           |                      |
| Ordinary shares of HK\$0.10 each    |                           |                      |
| At 1st April 2005                   | <b>557,334,088</b>        | <b>55,733</b>        |
| Exercise of bonus warrants          | <b><u>4,017,632</u></b>   | <b><u>402</u></b>    |
| At 30th September 2005              | <b><u>561,351,720</u></b> | <b><u>56,135</u></b> |
| At 1st April 2004                   | 532,923,488               | 53,292               |
| Exercise of bonus warrants          | <u>23,529,600</u>         | <u>2,353</u>         |
| At 30th September 2004              | <b><u>556,453,088</u></b> | <b><u>55,645</u></b> |

During the six months ended 30th September 2005, 4,017,632 (2004: 23,529,600) ordinary shares of HK\$0.10 each of the Company were issued at a subscription price of HK\$0.98 per share to bonus warrant holders on the exercise of their bonus warrants for a total cash consideration of HK\$3,937,279 (2004: HK\$23,059,008).

The bonus warrants had expired on 2nd September 2005. Bonus warrants outstanding as at 1st September 2005 were automatically forfeited.

Details of the movement of bonus warrants during the six months ended 30th September 2005 are as follows:

| <b>Subscription price per share</b> | <b>Number of bonus warrants outstanding as at 1st April 2005</b> | <b>Number of bonus warrants exercised during the period</b> | <b>Number of bonus warrants forfeited</b> |
|-------------------------------------|--|---|---|
| HK\$0.98                            | 5,185,951  | 4,017,632   | 1,168,319                                 |

## 15. Contingent liabilities

|   | Group  |  | Company                                      |  |
|---|--|--|--|--|
|   | 30th<br>September<br>2005<br><i>HK\$'000</i> | 31st<br>March<br>2005<br><i>HK\$'000</i> | 30th<br>September<br>2005<br><i>HK\$'000</i> | 31st<br>March<br>2005<br><i>HK\$'000</i> |
| Corporate guarantees given to banks in respect of utilised banking facilities | —  | —  | <b>774,500</b>                               | 206,669                                  |
|   | <u>—</u>                                     | <u>—</u>                                 | <u><b>774,500</b></u>                        | <u>206,669</u>                           |

## 16. Commitments

### (a) Operating lease commitments

As at 30th September 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

|   | 30th September<br>2005<br><i>HK\$'000</i> | 31st March<br>2005<br><i>HK\$'000</i> |
|---|---|---------------------------------------|
| Not later than one year                           | <b>30,213</b>                             | 33,493                                |
| Later than one year and not later than five years | <b>27,322</b>                             | 39,035                                |
| Later than five years                             | <b>17,817</b>                             | 19,279                                |
|   | <u><b>75,352</b></u>                      | <u>91,807</u>                         |

### (b) Capital commitments

|   | 30th September<br>2005<br><i>HK\$'000</i> | 31st March<br>2005<br><i>HK\$'000</i> |
|---|---|---------------------------------------|
| Contracted but not provided for in respect of moulds, plant and machinery | <b>1,541</b>                              | 6,582                                 |
|   | <u><b>1,541</b></u>                       | <u>6,582</u>                          |

## 17. Future operating lease arrangements

As at 30th September 2005, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

|   | <b>30th September<br/>2005<br/>HK\$'000</b> | 31st March<br>2005<br>HK\$'000 |
|---|---|--------------------------------|
| Not later than one year                           | <b>2,905</b>                                | 1,964                          |
| Later than one year and not later than five years | <b>1,269</b>                                | 333                            |
|   | <b><u>4,174</u></b>                         | <u>2,297</u>                   |

## DIVIDEND

The directors have resolved to declare an interim dividend of HK6 cents (2004: HK5 cents) per share and a special dividend of HK4 cents (2004: nil) per share for the six months ended 30th September 2005 to the shareholders whose names are on the register of members of the Company on 6th January 2006. The dividend warrants are expected to be despatched on 18th January 2006.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 5th January 2006 to Friday, 6th January 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend and special dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Abacus Share Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong (with effect from 3rd January 2006 change to 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong) not later than 4:00 p.m. on Wednesday, 4th January 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Group results

The Board of Directors is pleased to report that the first half of the year has been rewarding for Alco. The Group is able to report encouraging results during the review period.

For the six months ended 30th September 2005, the Group recorded a turnover of HK\$2.89 billion, representing an increase of 2% compared with HK\$2.83 billion of the corresponding period last year. Gross profit margin increased from 8.0% to 8.6%. Profit attributable to shareholders was HK\$135.8 million, an increase of 21% compared with HK\$111.8 million (restated) for the six months ended 30th September 2004. Earnings per share were HK24.3 cents (2004 restated: HK20.8 cents).



It is the Group's policy to maintain a steady dividend policy. The Board declared an interim dividend of HK6 cents (2004: HK5 cents) per share and a special dividend of HK4 cents (2004: nil) per share for the six months ended 30th September 2005, amounting to a total of HK\$56,135,000 (2004: HK\$27,823,000).

## **REVIEW OF OPERATIONS**

Rising interest rates dampened global economic growth during the review period. The costs of many raw materials and other components, in particular plastic resin and memory integrated circuits, also increased significantly. Competition in the OEM market continued to be vigorous, contributing to a tremendous pressure on pricing.

To counter the unfavourable market and costs conditions, the Group had taken decisive actions to quickly scale down the production of low-end products and swiftly shift its focus to high value digital AV products. As a result of this strategy, the gross profit margin of the Group during the review period reached 8.6% (2004: 8.0%).

During the review period, the demand for the Group's digital AV products such as portable DVD players and LCD TVs grew steadily and contributed significantly to the Group's revenue. Even though the Group has taken steps to reduce production of traditional analog audio products, 20-CD home audio systems and micro audio systems still generated stable income for the Group during the period under review.

Although the Group was performing reasonably well in the first half of 2005/06, it has faced numerous challenges during the review period.

Pressure from labour shortage and rising labour cost was high in many areas in Southern China during the period under review. To alleviate such pressure, the Group has continuously invested in new technologies and highly automated procedures and equipment to enhance product quality, reduce labour cost and minimize wastage of raw materials.

Manufacturers in China at large have suffered from the power shortage. Alco is not an exception. Apart from equipped with more than 50 power generators, the Group has been monitoring the power supply situation closely and has adopted precautionary measures to reduce electricity consumption in non-mission-critical areas to ensure its production and operation would not be affected by power shortage.

## **PROSPECTS**

Looking ahead, the Group expects costs of raw materials and components to stabilize in 2006. However, price pressure is still intense due to keen market competition. The Group will continue to implement prudent cost control measures and product re-engineering efforts to achieve better business performance. The Group's production facilities run two shifts daily for maximum utilization and ensuring products are delivered on schedule during peak seasons.

Furthermore, the Group will continue to expand its product range by offering more high value digital AV products, such as portable DVD players, DVD recorders, and LCD TVs in different sizes, with an aim to further improve gross margin and keep pace with market demand.

The Group will further consolidate its overseas business by working more closely with major retail chains in both Europe and North America on an OEM or private-labeled basis. The former will contribute a stable and significant income for the Group, whereas the latter will help boost overall profitability.

On the basis of all the aforesaid measures and policies, the management is cautiously optimistic about its performance in the second half of the year.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The cash position of the Group remained very strong. As at 30th September 2005, our cash on hand and held-to-maturity bank deposits totaled at HK\$999 million. After deducting the interest bearing debts of HK\$774 million, we had net surplus cash of HK\$225 million.

We finance our operations by drawing from a combination of resources including retained profits, trust receipt banking facilities and committed long term bank loan. As at 30th September 2005, the Group had been granted banking facilities of HK\$2,034 million, of which HK\$774 million were used. Among the used facilities, HK\$631 million are repayable within one year and the remaining HK\$143 million are repayable within five years.

Capital expenditure spent on acquisition of property, plant and equipment during the period was HK\$40 million (2004: HK\$74 million). At 30th September 2005, the Group had capital commitments contracted but not provided for in respect of moulds, plant and machinery amounted to HK\$1,541,000 (31st March 2005: HK\$6,582,000).

Our foreign exchange exposure is well managed and as nearly all of our sales, purchases and borrowings are denominated in US dollar and HK dollar, we have natural hedge against currency risks and it is our policy not to engage in speculative activities.

## **EMPLOYEES**

As at 30th September 2005, the Group had approximately 15,700 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' INTERESTS IN SHARES

As at 30th September 2005, the interests and short positions of the directors in the shares of the Company, as recorded in the register required to be kept by the Company under Section 352 of the Securities and Futures Ordinance (the "SFO"), or as 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 Companies (the "Model Code") were as follows:

|                           | Long positions in shares of the Company |                               |                                |                 |
|---------------------------|---|-------------------------------|--------------------------------|-----------------|
|                           | Personal interests                      | Corporate interests           | Family interests               | Total interests |
| Mr LEUNG Kai Ching, Kimen | 18,200,000                              | 38,891,600<br><i>(note a)</i> | 187,019,800<br><i>(note b)</i> | 244,111,400     |
| Mr LEUNG Wai Sing, Wilson | 44,640,000                              | –                             | 187,019,800<br><i>(note b)</i> | 231,659,800     |
| Mr KUOK Kun Man, Andrew   | 1,202,000                               | –                             | –                              | 1,202,000       |

### Notes:

- (a) 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) These shares were owned by Kimen Leung UT Limited, a company incorporated in the British Virgin Islands as the trustee of The Kimen Leung Unit Trust which is beneficially owned by The Kimen Leung Family Trust. Mr LEUNG Wai Sing, Wilson and other family members of Mr LEUNG Kai Ching, Kimen are the beneficiaries of The Kimen Leung Family Trust which is a discretionary trust.

Save as disclosed above, as at 30th September 2005, other than one ordinary share each in the Hong Kong incorporated subsidiaries of the Company held in trust for the Group by Mr LEUNG Kai Ching, Kimen, none of the directors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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.

## SUBSTANTIAL SHAREHOLDERS

As at 30th September 2005, the interests and short positions of those persons (other than the Directors) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

| <b>Name</b>                        | <b>Capacity in which shares were held</b>                      | <b>Long positions in shares</b>         | <b>Approximate shareholding percentage</b> |
|------------------------------------|--|---|--|
| Shundeian Investments Limited      | Beneficial owner   | 225,911,400<br><i>(note a)</i>          | 40.24%                                     |
| HSBC International Trustee Limited | Trustee  | 187,835,800<br><i>(note b)</i>          | 33.46%                                     |
| Kimen Leung UT Limited             | Trustee  | 187,019,800<br><i>(notes a &amp; b)</i> | 33.32%                                     |
| Commonwealth Bank of Australia     | Interest of corporation controlled by substantial shareholders | 33,780,000                              | 6.02%                                      |
| Leung Wai Lap, David               | Beneficial owner   | 32,972,190                              | 5.87%                                      |
| Webb David Michael                 | Beneficial owner   | 28,129,400                              | 5.01%                                      |

### Notes:

- (a) Among the referenced shares, 38,891,600 ordinary shares were held 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; and 187,019,800 ordinary shares were held by Kimen Leung UT Limited, a company incorporated in the British Virgin Islands as the trustee of The Kimen Leung Unit Trust which is beneficially owned by The Kimen Leung Family Trust. Mr LEUNG Wai Sing, Wilson and other family members of Mr LEUNG Kai Ching, Kimen are the beneficiaries of The Kimen Leung Family Trust which is a discretionary trust.
- (b) Among the referenced shares, 187,019,800 ordinary shares were held for Kimen Leung UT Limited, which were related to the same block of shares held by Kimen Leung UT Limited.

Save as disclosed above, as at 30th September 2005, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no person, other than the Directors of the Company, whose interests are set out in the section headed “Directors’ interests in shares” 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 in the Company. There are no changes in any terms of the scheme during the six months ended 30th September 2005.

Up to 30th September 2005, no share option was granted under the above scheme.

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

For the six months ended 30th September 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed shares of the Company.

## **CORPORATE GOVERNANCE**

The Group is committed to maintaining high standards of corporate governance so as to enhance clarity and transparency of business activities. The Group has adopted all the code provisions on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules, except for the deviations from code provisions A.4.1 and B.1.1 to B.1.5, in respect of the service term of directors and the establishment of a Remuneration Committee.

According to the Bye-laws of the Company, independent non-executive directors of the Company will retire by rotation every year and their appointments will be reviewed when they are due for re-election. In the opinion of the Company, this meets the same objective as the Code.

On 13th December 2005, the Group established the Remuneration Committee with specific written terms of reference in accordance with the requirements of code provisions B.1.1 to B.1.5. The Remuneration Committee consists of three independent non-executive directors of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the Model Code for Securities Transactions (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry of all directors, all the directors confirmed that they had complied with the required standards as set out in the Model Code during the period under review.

## AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors of the Company. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited consolidated interim accounts for the six months ended 30th September 2005.

## LIST OF DIRECTORS

As at the date of this report, the Board of Directors comprises three executive directors, namely Mr. Leung Kai Ching, Kimen, Mr. Leung Wai Sing, Wilson and Mr. Kuok Kun Man, Andrew and three independent non-executive directors, namely Mr. Wong Po Yan, The Hon Li Wah Ming, Fred and Mr. Lau Wang Yip, Derrick.

On behalf of the Board  
**LEUNG Kai Ching, Kimen**  
*Chairman*

Hong Kong, 13th December 2005