



ALCO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 328)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST MARCH 2004

The Directors of Alco Holdings Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st March 2004 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT*For the year ended 31st March 2004*

		2004	Restated 2003
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	3,814,781	4,314,503
Cost of sales		(3,482,935)	(3,946,584)
Gross profit		331,846	367,919
Other revenues		22,327	11,748
Selling expenses		(90,202)	(97,552)
Administrative expenses		(82,707)	(81,147)
Other operating expenses		(7,506)	(27,873)
Operating profit	3	173,758	173,095
Finance costs		(7,002)	(11,569)
Share of loss of a jointly controlled entity		(318)	(481)
Profit before taxation		166,438	161,045
Taxation	4	(15,378)	(19,965)
Profit after taxation		151,060	141,080
Minority interests		(1,695)	(3,751)
Profit attributable to shareholders		149,365	137,329
Dividends	5	74,599	66,480
Earnings per share – basic	6	28.5 cents	26.9 cents
– diluted	6	27.4 cents	26.6 cents

CONSOLIDATED BALANCE SHEET*As at 31st March 2004*

	2004	Restated 2003
	HK\$'000	HK\$'000
Fixed assets	427,523	449,272
Deferred development costs	16,398	20,175
Investment in a jointly controlled entity	–	–
Investment in security	39,682	40,365
Other investment	–	1,934
Long-term bank deposits	119,200	–
Current assets		
Inventories	596,828	421,913
Trade receivables	333,321	203,786
Other receivables, prepayments and deposits	18,560	26,449
Bank balances and cash	466,679	407,524
	<u>1,415,388</u>	<u>1,059,672</u>
Current liabilities		
Trade payables	458,555	260,638
Other payables and accrued charges	128,945	122,083
Trust receipt loans	152,638	43,912
Taxation payable	13,607	6,591
Obligations under finance leases	2,813	6,795
Bank loans – current portion	57,143	22,500
	<u>813,701</u>	<u>462,519</u>
Net current assets	<u>601,687</u>	<u>597,153</u>
Total assets less current liabilities	<u>1,204,490</u>	<u>1,108,899</u>

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Financed by:

Share capital	53,292	51,138
Reserves	1,048,011	957,187
Shareholders' funds	1,101,303	1,008,325
Minority interests	19,204	19,109
Obligations under finance leases	206	3,025
Bank loans – long-term portion	54,286	47,500
Deferred taxation	29,491	30,940
	<u>1,204,490</u>	<u>1,108,899</u>

Notes:

(1) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with the Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention as modified by the revaluation of certain investment properties.

In the current year, the Group has adopted the SSAP 12 (revised) “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The adoption of SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. As a result of the change, opening retained earnings at 1st April 2002 and 2003 have reduced by HK\$2,070,000 and HK\$8,078,000 respectively, which represent the unprovided deferred tax liabilities. Taxation for the year ended 31st March 2003 has increased by HK\$6,008,000.

(2) Segment information

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

(a) Primary reporting format – 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

	2004				Restated 2003			
	Consumer electronic products HK\$'000	Plastic products HK\$'000	Elimination HK\$'000	Group HK\$'000	Consumer electronic products HK\$'000	Plastic products HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover								
External sales	3,781,964	32,817	-	3,814,781	4,266,996	47,507	-	4,314,503
Inter-segment sales	-	254,038	(254,038)	-	-	310,312	(310,312)	-
	<u>3,781,964</u>	<u>286,855</u>	<u>(254,038)</u>	<u>3,814,781</u>	<u>4,266,996</u>	<u>357,819</u>	<u>(310,312)</u>	<u>4,314,503</u>
Segment results	<u>172,933</u>	<u>707</u>		<u>173,640</u>	<u>169,935</u>	<u>3,079</u>		173,014
Unallocated revenues less expenses				118				81
Operating profit				<u>173,758</u>				<u>173,095</u>
Segment assets	1,904,316	74,193		1,978,509	1,412,033	117,086		1,529,119
Unallocated assets				39,682				42,299
Total assets				<u>2,018,191</u>				<u>1,571,418</u>
Segment liabilities	714,817	28,340		743,157	405,745	30,708		436,453
Unallocated liabilities				173,731				126,640
Total liabilities				<u>916,888</u>				<u>563,093</u>

(b) Secondary reporting format – Geographical segment

	Turnover	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
North America	2,474,800	2,663,351
Europe	862,109	973,946
Asia	381,678	441,768
Africa	45,653	36,318
Australia and New Zealand	37,965	52,193
South America	12,576	146,927
	<u><u>3,814,781</u></u>	<u><u>4,314,503</u></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. Most of its assets and capital expenditure for the years ended 31st March 2004 and 2003 were located or utilised in the PRC and Hong Kong.

(3) Operating profit

Operating profit is stated after charging the following:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Depreciation of fixed assets	76,833	98,083
Amortisation of deferred development costs	12,485	18,391
Operating lease rental in respect of land and buildings	36,045	34,814

(4) Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit of the Group for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

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	2004 <i>HK\$'000</i>	Restated 2003 <i>HK\$'000</i>
Current taxation:		
Hong Kong profits tax	16,898	15,822
Over-provision in prior years	(71)	(3,159)
Deferred taxation relating to the origination and reversal of temporary differences	<u>(1,449)</u>	<u>7,302</u>
Taxation charges	<u>15,378</u>	<u>19,965</u>

There was no share of taxation attributable to a jointly controlled entity for the year (2003: nil). No overseas taxation has been provided as the Group's subsidiaries in Canada and the PRC have no estimated assessable profits during the year.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2004 <i>HK\$'000</i>	Restated 2003 <i>HK\$'000</i>
Profit before taxation	<u>166,438</u>	<u>161,045</u>
Calculated at a taxation rate of 17.5% (2003: 16%)	29,127	25,767
Effect of different taxation rates in other countries	(1,276)	(534)
Income not subject to taxation	(16,718)	(9,346)
Expenses not deductible for taxation purposes	1,860	3,300
Over-provision in prior years	(71)	(3,159)
Tax losses not recognised	2,456	1,272
Increase in deferred tax liabilities resulting from an increase in expected tax rate	<u>–</u>	<u>2,665</u>
Taxation charges	<u>15,378</u>	<u>19,965</u>

(5) Dividends

	2004 HK\$'000	2003 HK\$'000
Interim, paid, of HK3.0 cents (2003: HK2.0 cents) per ordinary share	15,977	10,228
Final, proposed, of HK8.0 cents (2003: HK6.0 cents) per ordinary share	42,634	30,683
Special, proposed, of HK3.0 cents (2003: HK5.0 cents) per ordinary share	15,988	25,569
	74,599	66,480

(6) Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders for the year ended 31st March 2004 of HK\$149,365,000 (2003 restated: HK\$137,329,000). The basic earnings per share is based on the weighted average of 523,486,059 (2003: 511,382,099) ordinary shares in issue during the year.

The diluted earnings per share is based on 546,017,321 (2003: 516,836,174) ordinary shares which is the weighted average of ordinary shares in issue during the year plus the weighted average of 22,531,262 (2003: 5,454,075) ordinary shares deemed to be issued at no consideration if all outstanding bonus warrants had been exercised.

FINAL AND SPECIAL DIVIDENDS

The Board of Directors recommended a final dividend of HK8.0 cents (2003: HK6.0 cents) per ordinary share and a special dividend of HK3.0 cents (2003: HK5.0 cents) per ordinary share for the year ended 31st March 2004. Together with the interim dividend paid of HK3.0 cents (2003: HK2.0 cents) per ordinary share, we will pay a total dividend of HK14.0 cents (2003: HK13.0 cents) per ordinary share for this financial year.

The final and special dividends will be payable on 13th September 2004 to shareholders of the Company, subject to shareholders' approval of payment of the final and special dividends at the forthcoming Annual General Meeting.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 26th August 2004 to Thursday, 2nd September 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final and special dividends, 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, Wanchai, Hong Kong, not later than 4:00 p.m. on Wednesday, 25th August 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Group results

During the year under review, the Group recorded a turnover of approximately HK\$3.8 billion (2003: HK\$4.3 billion). Profit attributable to shareholders rose from HK\$137 million to HK\$149 million, an increase of 9%. Earnings per share recorded an increase of 6%, from HK26.9 cents to HK28.5 cents.

Liquidity and financial resources

The cash position of the Group remained strong. As at 31st March 2004, cash and deposits amounted to HK\$586 million. After deducting the interest bearing debts of HK\$267 million, the Group had a net surplus cash of HK\$319 million, as compared with last year's HK\$284 million. The increase in net surplus cash is mainly due to profit generated from operations and with less capital expenditure incurred during the year.

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The low interest rate environment helped lower interest expense from HK\$11 million last year to HK\$7 million this year. Surplus cash on hand was used to pay off higher interest-bearing debts or invested in higher yield capital-secured deposits. Interest income generated during the year increased from HK\$5 million to HK\$14 million.

Inventories increased from last year's HK\$422 million to HK\$597 million this year, indicative of stronger business activities compared with the corresponding period of last year. Total interest bearing debts increased to HK\$267 million, as compared with HK\$124 million last year. Total interest bearing debts (before netting of cash) as a ratio to shareholders' equity increased from 12% to 24%. Interest coverage for the year was over 24 times.

Exercising tight control on risk management, the Group continuously reviews the credit quality of its customers and limits individual credit exposures accordingly. Inventory level is closely monitored and goods are only produced based on orders from customers. Foreign exchange exposure is well managed, as sales and purchases, as well as interest bearing debts are denominated substantially in HK dollars and US dollars.

The Group's policy is to finance its operations by a combination of retained profits and bank borrowings. As at the end of March, total banking facilities granted to the Group amounted to HK\$1,056 million, of which HK\$264 million were used. The Group believes that its strong cash position and support from the banks not only safeguard the smooth running of its operations but also enable it to exploit potential investment opportunities.

Employees

As at 31st March 2004, we had approximately 14,000 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.

BUSINESS REVIEW

Audio-visual Products

In the past year, audio-visual products, led by digital audio and digital video products, remained as the Group's most substantial contributor of revenue. With strong focus on digital products, the Group was able to capture the rise in demand for high-value digital audio-visual products and attained satisfactory levels of business.

During the second half of the year, the global economic conditions improved and there was increase in demand for digital electronic products subsequently. Despite the negative impact of Severe Acute Respiratory Syndrome and global economy downturn in the first half of the year, the Group's business started to pick up in the second half of the year. Products that received positive market response included solid-state-memory based audio, DVD-related products such as high-powered Home Theatre Systems, portable TFT-LCD displays and video players, home-use TFT-LCD TV with DVD players, as well as the Group's traditional products such as 20-CD Home Audio Systems.

During the year, prices of raw materials, in particular, of memory integrated circuits and plastic resins, increased the pressure on the Group's costs. However, the Group had been able to mitigate the effect of such costs pressure to the Group's financial performance by enhancing continuous cost control measures and operational efficiency. Such materials cost increases are expected to ease towards the end of 2004 and early 2005, and hence hopefully bring back a more healthy cost environment.

Production Facilities

The Group enhanced its ability to manufacture sophisticated high-end products such as DVD recorder drives, TFT-LCD displays and video players by expanding its "clean zone" facilities and establishing a lead-free soldering environment within its production plant. During the year, the Group continued to invest in advanced Surface Mount Technology ("SMT") facilities, and is committed to investing more in 2005. It enables the Group to further diversify its product range and boosts its ability to attract more potential EMS business.

Recently, power shortages in the PRC have become prevalent. Equipped with more than fifty power generators in the Group's plants over the past years, the Group is able to provide sufficient electricity for its smooth and uninterrupted operations.

Last year, the Group achieved the much sought-after ISO9000:2000 certification, thanks to the ongoing efforts and commitment of its Quality Committee and staff members, who have worked hard to ensure that products are of consistently superb quality. This achievement is evidence of the Group's quality control procedures meeting stringent international standards. To continue our efforts, the Group has also been taking steps to improve the environmental friendliness of each production process, and has secured ISO14000 certification during the year under review.

Markets and Customers

During the year under review, North America and Europe remained as the Group's major markets. Turnover from the North American and European markets represented 65% and 22% of the Group's turnover respectively. With the recovery of the global economy, and more promising market outlook, the Group expects its market share for the private label products continuing to grow in the long run. Although the Group saw steady growth in OEM orders, the competitive market environment in this business exerted pressure on profit margin, which fortunately has been able to be compensated, to certain extent, by the profit margin achieved by the Group's private label products.

PROSPECTS

Looking ahead, determined to maintain its reputation as a provider of high quality products and services, the Group will strive to stay abreast of changes in the dynamic market and develop sophisticated new products with strong market potential. It will continue to focus on the development of high-end and high value products such as solid-state-memory, Hard Disc and TFT-LCD-related products. The Group is all geared up to take advantage of the immense potential of and growing demand for such sophisticated digital products, both in existing markets and in emerging markets with promising business opportunities.

The Group will also continue to consolidate its presence in the North American and European markets where solid foundations have been laid for its private label products. To further broaden its customer base and diversify its source of revenue, the Group is committed to strengthening its strategic partnerships with existing OEM customers as well as forging ties with new ones with good growth potential.

With these initiatives plus Alco's constant quest for quality and cost efficiency, the Group is confident that it will continue to bring healthy rewards to its shareholders in the coming year.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to our staff, management and shareholders for their continuous dedication, commitment and support over the past year.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied with the Code of Best Practice except that independent non-executive directors are not appointed for a specific term as recommended under Appendix 14 of the Listing Rules. According to the Bye-laws of the Company, independent non-executive directors of the Company will retire 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 of Best Practice.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the financial statements of the Group for the year ended 31st March 2004.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The detailed results containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the Stock Exchange's website in due course.

LIST OF DIRECTORS

The directors of the Company as at the date of this announcement are Mr. Leung Kai Ching, Kimen, Mr. Leung Wai Sing, Wilson and Mr. Kuok Kun Man, Andrew as executive directors; Mr Wong Po Yan, The Hon Li Wah Ming, Fred and Mr. Lau Wang Yip, Derrick as independent non-executive directors.

By Order of the Board
LEUNG Kai Ching, Kimen
Chairman

Hong Kong, 13th July 2004

Please also refer to the published version of this announcement in The Standard dated 14 July 2004.