



# **ALCO HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

Website: <http://www.alco.com.hk>

(Stock Code: 328)

## **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2006**

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 2006, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2006

		Unaudited	
		Six months ended	
		30th September	
		2006	2005
	Note	HK\$'000	HK\$'000
Turnover	3	2,762,714	2,886,662
Cost of goods sold	5	(2,493,643)	(2,638,943)
Gross profit		<u>269,071</u>	<u>247,719</u>
Other gains	4	15,285	20,087
Selling expenses	5	(79,896)	(65,976)
Administrative expenses	5	(37,268)	(37,036)
Other operating expenses	5	(2,669)	(2,329)
Operating profit		<u>164,523</u>	<u>162,465</u>
Finance costs		(10,369)	(10,609)
Profit before income tax		<u>154,154</u>	<u>151,856</u>
Income tax expense	6	(17,318)	(16,055)
Profit attributable to equity holders of the Company		<u><u>136,836</u></u>	<u><u>135,801</u></u>
Dividends	7	<u><u>50,513</u></u>	<u><u>56,135</u></u>
Earnings per share attributable to equity holders of the Company			
– basic	8	24.4 cents	HK24.3 cents
– diluted	8	24.4 cents	HK24.2 cents

**CONDENSED CONSOLIDATED BALANCE SHEET***As at 30th September 2006*

	<b>Unaudited 30th September 2006 HK\$'000</b>	Audited 31st March 2006 HK\$'000
Non-current assets		
Property, plant and equipment	348,725	320,262
Investment properties	36,060	36,060
Leasehold land and land use rights	56,329	56,497
Deferred development costs	10,451	6,797
Held-to-maturity investments	110,887	110,887
	<u>562,452</u>	<u>530,503</u>
Current assets		
Inventories	1,176,941	618,405
Trade receivables, prepayments and deposits	1,053,702	413,510
Cash and cash equivalents	500,085	1,028,572
	<u>2,730,728</u>	<u>2,060,487</u>
Current liabilities		
Trade payables, other payables and accruals	1,026,192	796,816
Trust receipt loans	456,533	139,978
Current income tax liabilities	36,371	18,768
Borrowings	282,625	103,545
	<u>1,801,721</u>	<u>1,059,107</u>
Net current assets	<u>929,007</u>	<u>1,001,380</u>
Total assets less current liabilities	<u><u>1,491,459</u></u>	<u><u>1,531,883</u></u>
Capital and reserves attributable to equity holders of the Company		
Share capital	56,125	56,125
Reserves	1,381,545	1,369,912
Total equity	<u>1,437,670</u>	<u>1,426,037</u>
Non-current liabilities		
Borrowings	25,910	77,682
Deferred income tax liabilities	27,879	28,164
	<u>53,789</u>	<u>105,846</u>
Total equity and non-current liabilities	<u><u>1,491,459</u></u>	<u><u>1,531,883</u></u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30th September 2006*

### 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.

These condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31st March 2006.

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 2006, except that the Group has adopted certain amendments to standards and interpretations which are effective for accounting periods commencing on or after 1st January 2006.

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 the current period, the Group adopted the following amendments to standards and interpretations which are effective for accounting periods beginning on or after 1st January 2006 and which are relevant to its operations. The adoption of these amendments to standards and interpretations had no material effect on the results and financial position for the current or prior accounting period as prepared and presented. Accordingly, no prior year adjustment has been required.

- HKAS 21 (Amendment) Net Investment in a Foreign Operation
- HKAS 39 &  
HKFRS 4 (Amendment) Financial Guarantee Contracts
- HKFRS – Int 4 Determining whether an Arrangement contains  
a Lease

The Group has not early adopted the following new standard, amendment to standard and interpretations that have been issued but are not yet effective in these condensed consolidated financial statements:

- HKAS 1 (Amendment) Capital Disclosures
- HKFRS 7 Financial Instruments: Disclosures
- HK(IFRIC) – Int 8 Scope of HKFRS 2
- HK(IFRIC) – Int 9 Reassessment of Embedded Derivatives

### 3. Segment information

The Group is principally engaged in the design, manufacture and sale of consumer electronic 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 electronic products.

Plastic products – Manufacture and sale of plastic and packaging products

	2006				2005			
	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	2,760,113	2,601	-	2,762,714	2,878,017	8,645	-	2,886,662
Inter-segment sales	-	106,712	(106,712)	-	-	129,788	(129,788)	-
	<u>2,760,113</u>	<u>109,313</u>	<u>(106,712)</u>	<u>2,762,714</u>	<u>2,878,017</u>	<u>138,433</u>	<u>(129,788)</u>	<u>2,886,662</u>
Segment results	<u>164,469</u>	<u>54</u>		<u>164,523</u>	<u>161,906</u>	<u>559</u>		<u>162,465</u>

#### (b) Geographical segment

	Turnover Six months ended 30th September	
	2006 HK\$'000	2005 HK\$'000
North America	2,110,593	2,325,424
Europe	403,594	248,738
Asia	143,925	237,140
Others	104,602	75,360
	<u>2,762,714</u>	<u>2,886,662</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

	<b>Six months ended 30th September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interest income	12,202	15,392
Others	3,083	4,695
	<u>15,285</u>	<u>20,087</u>

#### 5. Expenses by nature

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

	<b>Six months ended 30th September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Amortisation of deferred development costs	3,006	3,206
Depreciation	31,585	30,684
Staff costs	160,722	147,368
	<u>195,313</u>	<u>181,258</u>

#### 6. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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 30th September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Current income tax		
– Hong Kong profits tax	17,603	15,834
Deferred income tax	(285)	221
	<u>17,318</u>	<u>16,055</u>

## 7. Dividends

	<b>Six months ended 30th September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interim dividend, proposed, of HK9 cents (2005: HK6 cents) per ordinary share	<b>50,513</b>	33,681
No interim special dividend proposed (2005: HK4 cents per ordinary share)	–	22,454
	<b><u>50,513</u></b>	<b><u>56,135</u></b>

At a meeting held on 7th December 2006, the directors declared an interim dividend of HK9 cents (2005: HK6 cents and interim special dividend of HK4 cents) per share for the six months ended 30th September 2006.

## 8. Earnings per share

### Basic

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

	<b>Six months ended 30th September</b>	
	<b>2006</b>	2005
Profit attributable to equity holders of the Company (HK\$'000)	<b><u>136,836</u></b>	<u>135,801</u>
Weighted average number of ordinary shares in issue (thousands)	<b><u>561,252</u></b>	<u>558,675</u>
Basic earnings per share (HK cents)	<b><u>24.4</u></b>	<u>24.3</u>

### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has no dilutive potential ordinary shares for the period. (2005: one category of dilutive potential ordinary shares: bonus warrants) For the bonus warrants a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding bonus warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the bonus warrants.

	<b>Six months ended 30th September</b>	
	<b>2006</b>	2005
Profit attributable to equity holders of the Company (HK\$'000)	<b>136,836</b>	135,801
Weighted average number of ordinary shares in issue (thousands)	<b>561,252</b>	558,675
Adjustments for bonus warrants (thousands)	–	2,536
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<b>561,252</b>	561,211
Diluted earnings per share (HK cents)	<b>24.4</b>	24.2

## **DIVIDEND**

The directors have resolved to declare an interim dividend of HK9 cents (2005: HK6 cents and interim special dividend of HK4 cents) per share for the six months ended 30th September 2006 to the shareholders whose names are on the register of members of the Company on 29th December 2006. The dividend warrants are expected to be despatched on 11th January 2007.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 28th December 2006 to Friday, 29th December 2006, 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, Abacus Share Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 27th December 2006.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Group results**

The Board of Directors is pleased to report that the Group delivered an encouraging results during the review period.

For the six months ended 30th September 2006, the Group recorded a turnover of HK\$2.76 billion, against HK\$2.89 billion for the corresponding period last year. Profit attributable to shareholders was HK\$136.8 million, an increase of 1% as compared with HK\$135.8 million for the same period last year. Earnings per share were HK24.4 cents (2005: HK24.3 cents).

Committed to maintaining a steady dividend policy, the Board declared an interim dividend payment of HK9 cents (2005: HK10 cents) per share for the six months ended 30th September 2006.

## **Review of operations**

During the period under review, the operating environment continued to be very challenging for consumer electronics manufacturers at large and particularly for traditional audio-visual (AV) manufacturers in Southern China. While the costs associated with various types of raw materials have stabilized somewhat, the prices of many components and parts such as AC cords, plastic cabinets and metal cases, which are very sensitive to increases in raw material prices, remained comparatively high. Furthermore, manufacturers in Southern China have to compete with other booming economies across China for migrant workers at ever rising wages, especially during the peak production months of June to September.

Under such an environment, the Group accelerated the pace to reduce our line-up of traditional audio products, the costs of which are easily affected by raw material prices. As a result, the turnover from traditional products declined further during the period under review. And despite the fact that effort was made to reduce the line-up of traditional products, as the Group still needed to supply a few key customers with the complete line of Alco products, including traditional audio items such as multi-disc home audio systems, our profitability was therefore affected.

All dynamics taken into account, the Group's business and finances remained robust, a direct result of the Group's strategy started a few years ago to move towards high value-added products such as LCD TVs with up to 32 inches screens and to offer more unique products with TFT-LCD screens incorporated. These products have cost structures that are more resistant to rises in basic raw material prices. In fact, for the past few years, the prices of the key components of the Group's high value-added products have been on a downward trend. As a result of this strategy, the Group's gross profit margin was maintained at 9.7% (2005: 8.6%) for the review period.

To tackle escalation of labour costs that is expected to persist in the Pearl River Delta region, the Group continued to increase investment in automation, including the recent installation of Automatic Optical Inspection (AOI) equipment. The new equipment not only allows the Group to reduce reliance on workers for PCB inspections, but has also bolstered the accuracy of such activities, thus enhancing the quality and long-term reliability of our PCB assemblies and products. In line with the Group's development direction towards high value-added products that require clean and spotless assembly premises, the scale and sophistication of our "clean zone" facilities have been increased further, with the latest one being of Class 10,000 grade.

Power shortage is yet another continuous challenge that manufacturers in the PRC have to face. Apart from monitoring the power supply situation very closely, we have further reduced the demand of electricity for non-mission-critical areas by the installation of solar panels. In situation where unexpected power stoppage did occur, our 50 generators always ensured that production could still be carried out virtually uninterrupted.

## **Prospects**

Looking ahead, we remain cautiously optimistic about our performance in the second half of the financial year. However, we expect several factors to potentially affect future prospects; in particular, increasing labour costs, fluctuation in the prices of parts that are with extensive raw-material content, and increasing pressure on the RMB to appreciate.

In view of the conditions mentioned, and expecting price pressures to remain intense due to keen market competition, the Group will continue to focus on prudent cost control measures and product re-engineering efforts to achieve the best business performance possible. In addition to support active development and more aggressive promotion of high value-added products, we will remain committed to automating our manufacturing processes and facilities in China. In fact, in the past few years, as a result of the Group's consistent automation effort, the number of direct workers employed by the Group has been reduced by more than 10 per cent a year.

With regard to geographical coverage, even though the majority of the Group's products were shipped to North America during the review period, there was the very encouraging trend of increased sales to Europe, thanks in part to the strong performance of our LCD TV products. To sustain this growth momentum, we are adding variety to the LCD TV products that have particularly strong appeals to European customers. Furthermore, our new line of LCD TVs has also received encouraging feedback and strong interest from customers in other markets such as South America. However, shipments to these markets are very often SKD (semi-knock-down) or CKD (complete-knock-down) based and will necessitate local assembly, thus requiring more time and effort to finalize the orders details with customers. In general, however, the Group will persist to explore and capture opportunities in these and other new markets, to gradually increase our sales to territories other than North America and Europe.

In the second half of the financial year and in calendar year 2007, we will continue to refine our product mix, leaning towards high value-added categories with particular emphasis on large-scale LCD TVs with up to 42 inches screens. We also expect to see an ever greater number of our products incorporated with TFT-LCD screens. While keeping our focus mostly on

products with mainstream features that promise steady returns, we will also strive to incorporate new and unique features into our models to make sure that our offerings continue to be well differentiated from our competition.

## **LIQUIDITY AND FINANCIAL RESOURCES**

Shareholders' funds as at 30th September 2006 were HK\$1,438 million (31st March 2006: HK\$1,426 million) and net assets per share were HK\$2.56 (31st March 2006: HK\$2.54).

The cash position of the Group remained very strong. As at 30th September 2006, our cash and bank balances stood at HK\$500 million (2005: HK\$888 million). The decrease in cash level was mainly attributable to the increase in stock level catering for the October shipments to meet Christmas orders.

The trade receivables balance as at 30th September 2006 was HK\$1,039 million (2005: HK\$935 million). We have been adopting a prudent credit policy, and credit terms granted are generally based on the financial strengths of individual customers.

Current ratio was maintained at a comfortable level of 152%. The gearing ratio, representing the ratio of net borrowings to equity, was 11%. Following the shipments in the fourth quarter of 2006, we are expected to be in a net cash position.

We continued to finance our operations using internal resources and banking facilities. As at 30th September 2006, we had been granted banking facilities of HK\$2,360 million, of which HK\$765 million were utilised. Among the utilised facilities, HK\$739 million are repayable within one year and HK\$26 million are repayable within two years. All bank debts were borrowed on floating rate basis and are denominated in either HK dollar or US dollar.

During the period under review, we invested HK\$61 million (2005: HK\$40 million) in the purchase of moulds, plant and equipment. All expenditures were financed from internal resources. As at 30th September 2006, we had capital commitments contracted but not provided for in respect of moulds, plant and machinery amounted to HK\$1 million.

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

## **EMPLOYEES**

As at 30th September 2006, the Group had approximately 14,300 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.

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

For the six months ended 30th September 2006, 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 provision A.4.1.

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company are not appointed for a specific term. However, according to the By-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.

## **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 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 2006.

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr WONG Po Yan, G.B.M., J.P., the Hon LI Wah Ming, Fred, J.P. and Mr LAU Wang Yip, Derrick.

### **PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

The interim report of the Company containing all the information required by the Listing Rules will be published on the Stock Exchange's website in due course.

### **LIST OF DIRECTORS**

As at the date of this announcement, 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, G.B.M., J.P., the Hon LI Wah Ming, Fred, J.P. and Mr LAU Wang Yip, Derrick.

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

Hong Kong, 7th December 2006

Please also refer to the published version of this announcement in The Standard.