ALCO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

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

(Stock Code: 328)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 MARCH 2020

- Revenue reduced to HK$961 million due to ongoing China and US trade war and impact of COVID-19 (2019 revenue was HK$1,545 million)

- Despite the reduced revenue, operating loss before impairment and fair value loss on investment properties was lowered to HK$421 million (2019 operating loss before impairment and fair value loss on investment properties was HK$489 million)

- Due to uncertain prospects going forward (on-going China and US trade war and post-COVID-19 economic conditions), impairment loss provision of HK$160 million was made, resulting in total net loss of HK$599 million (2019 total net loss was HK$563 million)

The directors of Alco Holdings Limited (the "Company") announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2020 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2020

	Note	**2020**	2019
		HK$'000	*HK$'000*
Revenue	*3*	**961,246**	1,545,212
Cost of goods sold	*5*	**(1,136,174)**	(1,752,912)
Gross loss		**(174,928)**	(207,700)
Other (loss)/income, net	*4*	**(8,452)**	11,028
Selling expenses	*5*	**(123,181)**	(155,199)
Administrative expenses	*5*	**(120,202)**	(140,070)
Other operating expenses	*5*	**(5,668)**	(6,815)
(Provision for)/reversal of impairment losses on trade and other receivables		**(9,585)**	600
Provision for impairment of property, plant and equipment	*9*	**(95,758)**	(20,000)
Provision for impairment of right-of-use assets	*10*	**(30,342)**	–
Provision for impairment of intangible assets		**(810)**	(21,761)
Operating loss		**(568,926)**	(539,917)
Finance income		**1,109**	4,867
Finance costs		**(26,169)**	(16,165)
Loss before income tax		**(593,986)**	(551,215)
Income tax expense	*6*	**(5,444)**	(11,948)
Loss for the year		**(599,430)**	(563,163)
Loss attributable to:			
– Equity holders of the Company		**(599,374)**	(563,134)
– Non-controlling interests		**(56)**	(29)
		(599,430)	(563,163)
Loss per share attributable to equity holders of the Company			
– Basic	*7*	**(HK82.9 cents)**	(HK94.8 cents)
– Diluted	*7*	**(HK82.9 cents)**	(HK94.8 cents)
Dividends	*8*	**–**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

	2020	2019
	HK$'000	*HK$'000*
Loss for the year	**(599,430)**	(563,163)
Other comprehensive loss, net of tax:		
Item that may be subsequently reclassified to profit or loss		
Currency translation differences	**(6,734)**	(12,412)
Item that will not be reclassified to profit or loss		
Revaluation gain on transfer of owner-occupied property to investment properties	**–**	65,423
Total comprehensive loss for the year	**(606,164)**	(510,152)
Attributable to:		
– Equity holders of the Company	**(606,108)**	(510,123)
– Non-controlling interests	**(56)**	(29)
	(606,164)	(510,152)

CONSOLIDATED BALANCE SHEET

As at 31 March 2020

	Note	**2020** **HK$'000**	2019 HK$'000
Non-current assets			
Property, plant and equipment	*9*	**140,223**	316,797
Investment properties		**55,800**	78,238
Right-of-use assets	*10*	**65,661**	–
Intangible assets		**–**	2,004
Deferred income tax assets		**–**	8,153
Prepayments, deposits and other receivables	*11*	**56,817**	11,560
		318,501	416,752
Current assets			
Inventories		**336,572**	480,248
Trade and other receivables	*11*	**442,155**	531,304
Other current assets		**459**	7,986
Current income tax recoverable		**13,856**	13,075
Cash and cash equivalents		**104,481**	277,474
		897,523	1,310,087
Current liabilities			
Trade and other payables	*12*	**128,679**	205,340
Current income tax liabilities		**4,961**	3,396
Lease liabilities	*10*	**31,050**	–
Bank borrowings	*13*	**157,370**	143,397
		322,060	352,133
Net current assets		**575,463**	957,954
Total assets less current liabilities		**893,964**	1,374,706

	Note	**2020**	2019
		HK$'000	*HK$'000*
Capital and reserves attributable to equity holders of the Company			
Share capital		**72,324**	72,324
Reserves		**609,250**	1,257,744
		681,574	1,330,068
Non-controlling interests		**(654)**	(598)
Total equity		**680,920**	1,329,470
Non-current liabilities			
Other payables	*12*	**4,666**	4,720
Lease liabilities	*10*	**47,178**	–
Bank borrowings	*13*	**–**	40,516
Loans from shareholders	*14*	**161,200**	–
		213,044	45,236
Total equity and non-current liabilities		**893,964**	1,374,706

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2. Accounting policies

2.1(a) New standard, amendments to standards and interpretation adopted by the Group

The following new standard, amendments to standards and interpretation are mandatory for the financial year beginning 1 April 2019:

Annual Improvements Project	Annual Improvements 2015-2017 Cycle (amendments)
HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 April 2019. This is disclosed in Note 2.2. Other amendments to the standards and interpretation listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.1(b) New standard, amendments to standards, interpretation and conceptual framework not yet adopted

The new standard, amendments to standards, interpretation and conceptual framework relevant to the Group which have been issued, but not effective for the financial year beginning 1 April 2020 and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions:

		Effective for accounting year beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of material	1 April 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest rate benchmark reform	1 April 2020
HKFRS 3 (Amendments)	Definition of business	1 April 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 April 2020
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Hedge accounting (Amendments)	1 April 2020
HKFRS 17	Insurance contracts	1 April 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be announced

2.1(c) Going concern basis

During the year ended 31 March 2020, the Group incurred loss for the year of HK$599,430,000 and reported a net cash used in operation of HK$242,475,000.

As at 31 March 2020, the Group had total bank borrowings of HK$157,370,000 while its cash and cash equivalents was HK$104,481,000. The Group failed to comply with certain financial covenants in respect of the Group's facilities with three banks totaling HK$437,150,000, of which HK$88,272,000 was utilised by the Group as bank borrowings as of 31 March 2020. Such non-compliance of covenants may give the relevant banks a right to cancel or suspend the facilities.

The performance of the Group's AV products segment had declined since 2017 due to intensive competition in the AV products industry which eroded the gross margin significantly. The China and US trade war has further adversely affected the sales of the Group's AV products during the year, as the Group is having more difficulty in securing profitable order after the additional tariffs imposed by the US government. In view of the decline in profitability of the AV products segment, the Group has started to invest in research and development of notebook products since 2017 in order to diversify its business. The decline in profit in AV products segment, together with the large upfront investment required for the development and marketing of notebook products have brought pressure to the profitability and working capital of the Group.

Furthermore, the outbreak of Coronavirus Disease 2019 ("COVID-19") had led to the suspension of production of the Group's factory in China from February to March 2020. The production has gradually resumed since March 2020. With the outbreak of COVID-19 in the US and other countries since March 2020, certain of the Group's customers postponed their purchase orders due to the uncertain market situation.

The above conditions indicate the existence of material uncertainties which may cast a significant doubt about the ability of the Group to continue as a going concern.

In view of such circumstances and the uncertainties related to the possible impact of the COVID-19 pandemic, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The directors have reviewed the Group's cash flow forecast prepared by management covering a period of twelve months from 31 March 2020. The directors have taken certain plans and measures to mitigate the liquidity pressure, to improve its financial position and to deal with the potential impact of COVID-19, which include, but are not limited to, the following:

(i) On 18 June 2020 and 23 June 2020, the Group obtained written waivers from two banks mentioned above from complying with the relevant financial covenants for the year ended 31 March 2020. For the remaining banking facility of HK$41,200,000 with financial covenant breached, the Group has not obtained a waiver from the bank as such facility was not utilised as at 31 March 2020 and the Group does not plan to use that facility before the relevant financial covenant is met or waived. The Group will continue to monitor its compliance with the covenant requirements. Management will also discuss and negotiate with the respective banks to seek for revision of the terms and the restrictive undertaking requirements as and when necessary. Based on the communication with the banks, the directors are confident that the existing banking facilities will be renewed upon its annual review and continued to be available to the Group in view of the long-established relationships with the banks.

(ii) On 31 March 2020, the Group has entered into two amendments to the original loan agreements with the shareholders to extend the repayment date of the shareholders loan of HK$161,200,000 to 31 December 2021.

(iii) On 15 June 2020, the Group entered into a deed of funding undertakings with one of its major shareholders, Chairman and Chief Executive Director, Mr. Leung Wai Sing, Wilson ("Mr. Leung"), to provide additional funding to the Group. The funding request notice could be issued at the discretion of the Company to Mr. Leung within eighteen months from the date of the deed, i.e. 15 December 2021. The total amount of funding undertakings shall not exceed HK$170,000,000.

The funding when provided shall be treated as an advance to the Company and be repayable by the Company at a suitable time to be agreed between the Company and Mr. Leung, but in any event shall only be repaid after at least twelve months from the funding draw down date.

The undertakings shall cease to have effect after eighteen months from the date of the deed or upon the Company or any member of the Group having obtained additional long-term external bank borrowings or other sources of long-term financing with an aggregated principal amount of not less than HK$170,000,000, whichever is earlier.

On 16 June 2020, the Group drew down a loan of HK$50,000,000 from Mr. Leung under the terms of the deed. The loan is unsecured and repayable after eighteen months from the date of draw down and interest bearing at 1.3% over 1-month HIBOR per annum. The amount of available funding under the deed of funding undertakings was HK$120,000,000 as at 29 June 2020.

(iv) Based on the sales orders on hand for the notebook products up to June 2020, the directors have seen significant increase in sales comparing to the corresponding period in FY2019. In addition, sales orders for the AV products received up to June 2020 have also been in line with the forecast. The directors will continue with its effort in sales and marketing to promote the Group's notebook products in the market. Under the COVID-19 situation, the Group will focus more of its effort on online sales and OEM customers in the current year. The Group also closely monitors the market developments, review collection performance and bolster collection capability under the COVID-19 situation. The directors are confident that the Group would be able to obtain more sale orders going forward and further expand its production scale of its notebook products to improve the profit margin in order to improve its operating performance and reduce the Group's operating cash outflow.

(v) The Group will continue to take active measures to improve profitability and cash flow through various initiatives including further leveraging on capital investments made in the automation of manufacturing process to reduce production costs, improve efficiency and further strengthening its relationships with major suppliers to negotiate for lower cost of critical components and for better trading terms, and negotiate with its landlord for rental concession to mitigate the impact of COVID-19.

(vi) The Group will also continue to seek for other alternative financing and bank borrowings to finance the settlement of the existing financial obligations and future operating and capital expenditure.

(vii) In light of the COVID-19 outbreak, the Group is closely monitoring the latest development and will continue to assess the impact of the pandemic on the Group's operations from time to time and to adjust its plan for business to generate sufficient cash from its operations.

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to achieve its plans and measures as described above which have incorporated assumptions about future events and conditions that are subject to inherent uncertainties. Whether the Group will be able to continue as a going concern would depend upon the following:

(i) the successful implementation of the business plan to increase and accelerate the sales of notebook products and to collect the sales proceeds in the expected timeframe;

(ii) the successful implementation of measures over cost control and capital expenditures so as to improve its profit margin and generate adequate net cash inflow to strengthen its working capital position;

(iii) continuous compliance by the Group of the existing terms and conditions of the bank borrowings and, where applicable, successful negotiation with the banks to obtain waiver or to revise the existing terms and conditions of the bank borrowings for the continuous compliance thereof as and when needed such that the existing bank borrowings will continue to be available to the Group and be repaid in accordance with the agreed repayment schedules;

(iv) whether Mr. Leung will be able to provide further funding advance of up to HK$120,000,000 to the Group, as and when needed, under the funding undertaking as mentioned above; and

(v) whether the Group can successfully contain the impact of the pandemic on the Group's operations from time to time and adjusting its business plan to generate sufficient cash from its operations.

Should the Group be unable to achieve the above-mentioned plans and measures and operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

2.2 Changes in Accounting Policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements.

As indicated in Note 2.1(a) above, the Group has adopted HKFRS 16 Leases retrospectively from 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 April 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.88%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application.

(ii) Measurement of lease liabilities

The reconciliation between the operating lease commitments as disclosed as at 31 March 2019 and the lease liabilities recognised in the consolidated balance sheet as at 1 April 2019 (date of initial application of HKFRS 16) is as follows:

	HK$'000
Operating lease commitments disclosed as at 31 March 2019	378,842
Discounted using the lessee's incremental borrowing rate at the date of initial application	282,940
Less: short-term leases recognised on a straight-line basis as expense	(3,093)
Less: low-value leases recognised on a straight-line basis as expense	(504)
Lease liabilities recognised as at 1 April 2019	279,343
Of which are:	
Current lease liabilities	22,780
Non-current lease liabilities	256,563
	279,343

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 31 March 2019.

(iv) Adjustments recognised in the consolidated balance sheet at 1 April 2019

As a lessee, the Group's leases are mainly rentals of factory, offices and land use rights. The change in accounting policies affected the following items in the consolidated balance sheet at 1 April 2019:

Consolidated balance sheet (extracted)	**31 March 2019 As previously stated**	**Adjustments on adoption of HKFRS 16**	**1 April 2019 Restated**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	316,797	(68,070)	248,727
Prepayments, deposits and other receivables	11,560	(2,253)	9,307
Right-of-use assets	–	295,059	295,059
Deferred income tax assets	8,153	(4,074)	4,079
Non-current liabilities			
Lease liabilities	–	256,563	256,563
Current liabilities			
Trade and other payables	205,340	(16,295)	189,045
Lease liabilities	–	22,780	22,780
Equity			
Reserves	1,257,744	(42,386)	1,215,358

3. Segment information

(a) *Segment analysed by products*

The Group mainly operates in the People's Republic of China (the "PRC"), Taiwan and Hong Kong and is principally engaged in designing, manufacturing and selling of consumer electronic product including AV products and notebooks products.

During the year, the chief operating decision-makers examine the Group's performance both from a product and geographic perspective and has identified two reportable segments of its business:

AV products – Design, manufacture and sale of consumer electronic products, including audio, video and tablet products

Notebook products – Design, manufacture and sale of commercial notebook and personal computer products

The Group's inter-segment transactions mainly consist of sale of assembly parts among subsidiaries. The transactions were entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

	2020				2019			
	AV products *HK$'000*	**Notebook products** *HK$'000*	**Elimination** *HK$'000*	**Total** *HK$'000*	AV products *HK$'000*	Notebook products *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue								
External sales	**786,251**	**174,995**	**–**	**961,246**	1,387,713	157,499	–	1,545,212
Inter-segment sales	**6,919**	**30,916**	**(37,835)**	**–**	5,620	34,557	(40,177)	–
	793,170	**205,911**	**(37,835)**	**961,246**	1,393,333	192,056	(40,177)	1,545,212
Segment results	**(205,064)**	**(237,762)**	**–**	**(442,826)**	(205,570)	(314,347)	–	(519,917)
Provision for impairment of right-of-use assets				**(30,342)**				–
Provision for impairment of property, plant and equipment				**(95,758)**				(20,000)
Finance income				**1,109**				4,867
Finance costs				**(26,169)**				(16,165)
Loss before income tax				**(593,986)**				(551,215)
Income tax expense				**(5,444)**				(11,948)
Loss for the year				**(599,430)**				(563,163)
Loss attributable to								
– Equity holders of the Company				**(599,374)**				(563,134)
– Non-controlling interest				**(56)**				(29)
				(599,430)				(563,163)

(b) Segment analysed by geographical area

The segment revenue for the years ended 31 March 2020 and 2019 are as follows:

	2020	2019
	HK$'000	*HK$'000*
North America	**786,250**	1,379,523
Asia	**142,989**	132,909
Europe	**27,513**	29,042
Others	**4,494**	3,738
	961,246	1,545,212

The analysis of revenue by geographical area is based on the destination to which the shipments are made. Substantially all non-current assets of the Group as at the end of the year are located in Asia.

4. Other (loss)/income, net

	2020	2019
	HK$'000	*HK$'000*
Rental income from investment properties	**2,436**	4,724
Fair value loss on investment properties	**(18,209)**	(2,726)
Net gain on disposal of investment property	**–**	2,650
Rent concession	**3,554**	–
Refund of royalties fee	**914**	6,256
Sub-contracting income	**2,095**	–
Loss on early termination of lease	**(53)**	–
Promotion allowance from suppliers	**516**	–
Others	**295**	124
	(8,452)	11,028

5. Expenses by nature

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

	2020	2019
	HK$'000	*HK$'000*
Amortisation of intangible assets	**1,785**	13,932
Amortisation of leasehold land and land use rights	**–**	47
Auditor's remuneration	**2,380**	2,280
Cost of inventories	**815,614**	1,342,403
Provision for impairment of inventories	**23,622**	34,413
Depreciation of property, plant and equipment	**42,731**	48,249
Depreciation of right-of-use assets	**24,876**	–
Employee benefit expenses (including directors' emoluments)	**183,098**	215,455
Severance pay	**10,495**	2,707
Loss on disposal of plant and equipment	**323**	433
Operating lease rental in respect of land and buildings	**2,232**	29,584
Research and development costs	**40,452**	84,578
Repairs and inspection costs	**9,849**	20,303
Promotion and exhibition expenses	**57,518**	74,710

6. Income tax expense

Hong Kong profits tax has been provided at the rate 16.5% on the estimated assessable profit for the year. Corporate income tax on profit from subsidiaries operating in Mainland China have been calculated at 25% in accordance with the relevant PRC tax law and regulations. 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 Groups operates.

	2020	2019
	HK$'000	*HK$'000*
Current income tax expense		
– Hong Kong profits tax	**–**	8
– PRC corporate income tax	**1,549**	3,631
– Overseas corporate income tax	**–**	35
– (Over)/under-provision in prior years	**(4)**	17
Deferred income tax expense	**3,899**	8,257
Income tax expense	**5,444**	11,948

7. Loss per share

Basic

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

	2020	2019
Loss attributable to equity holders of the Company *(HK$'000)*	**(599,430)**	(563,134)
Weighted average number of ordinary shares in issue	**723,244,650**	594,051,359
Basic loss per share *(HK cents)*	**(82.9)**	(94.8)

Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares during the years ended 31 March 2020 and 2019. Therefore, the diluted loss per share is the same as basic loss per share.

8. Dividends

The directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2020 (2019: Nil).

9. Property, plant and equipment

For impairment assessment, the Group assess the recoverable amount of the property, plant and equipment with reference to the higher of the assets' fair value less costs to disposal and value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. As a result, the Group made an additional provision for impairment of approximately HK$95,758,000 for the year ended 31 March 2020.

As at 31 March 2020, certain of the Group's bank borrowing is secured by land and buildings and right-of-use assets with carrying value of HK$112,065,000 (2019: HK$116,177,000).

10. Leases

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

(a) Right-of-use assets

	Leasehold land	**Office and buildings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
As at 1 April 2019	68,070	226,989	295,059
Additions	–	3,356	3,356
Termination	–	(677)	(677)
Depreciation	(2,409)	(22,467)	(24,876)
Remeasurement	–	(166,360)	(166,360)
Impairment loss	–	(30,342)	(30,342)
Exchange differences	–	(10,499)	(10,499)
As at 31 March 2020	65,661	–	65,661

Note: For impairment assessment, the Group assess the recoverable amount of the right-of-use assets with reference to the higher of the assets' fair value less costs to disposal and value in use. As a result, the Group made a provision for impairment of approximately HK$30,342,000 for the year ended 31 March 2020.

(b) Lease liabilities

	HK$'000
As at 1 April 2019	279,343
Additions	3,314
Termination	(616)
Payments	(23,426)
Remeasurement	(166,360)
Exchange differences	(14,027)
As at 31 March 2020	78,228
Analysed into:	
Current	31,050
Non-current	47,178
	78,228

(ii) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	2020
	HK$'000
Depreciation charge of right-of-use assets	
Leasehold land	2,409
Office and buildings	22,467
	24,876
Provision for impairment of right-of-use assets	30,342
Interest expense on lease liabilities	11,076
Expenses relating to leases of short-term leases	2,232

11. Trade receivables, prepayments, deposits and other receivables

	2020	2019
	HK$'000	*HK$'000*
Non-current		
Prepayments, deposits and other receivables	**59,932**	11,560
Less: Loss allowance	**(3,115)**	–
	56,817	11,560
Current		
Trade receivables	**394,822**	512,054
Less: Loss allowance	**(7,770)**	(1,300)
Trade receivables, net	**387,052**	510,754
Prepayments, deposits and other receivables	**55,103**	20,550
	442,155	531,304
	498,972	542,864

At 31 March 2020 and 2019, the ageing analysis of the trade receivables based on shipping terms is as follows:

	2020	2019
	HK$'000	*HK$'000*
0 – 30 days	**40,999**	41,899
31 – 60 days	**124,568**	62,159
61 – 90 days	**94,733**	69,602
Over 90 days	**126,752**	337,094
	387,052	510,754

12. Trade and other payables

	2020	2019
	HK$'000	*HK$'000*
Non-current		
Other payables	**4,666**	4,720
Current		
Trade payables	**39,637**	94,128
Other payables and accruals	**87,342**	95,979
Refund liabilities	**1,700**	15,233
	128,679	205,340
	133,345	210,060

At 31 March 2020 and 2019, the ageing analysis of the trade payables based on invoice date is as follows:

	2020	2019
	HK$'000	*HK$'000*
0 – 30 days	**23,897**	76,763
31 – 60 days	**5,225**	8,446
61 – 90 days	**4,571**	2,008
Over 90 days	**5,944**	6,911
	39,637	94,128

13. Bank borrowings

During the year ended 31 March 2020, some of the Group's banking facilities are subject to financial and non-financial covenant clauses, whereby the Group is required to meet certain key performance indicators and conditions including but not limited to the Group's sales volume, current ratio, net gearing ratio, tangible net worth and interest coverage.

The Group failed to comply with certain financial covenants in respect of the Group's facilities with three banks totaling HK$437,150,000, of which HK$88,272,000 was utilised by the Group as bank borrowings as of 31 March 2020. Under these bank facilities letters, such non-compliance of covenants may give the relevant banks a right to cancel or suspend the facilities.

On 18 June 2020 and 23 June 2020, the Group obtained written waivers from the two banks mentioned above from complying with the relevant financial covenants for the year ended 31 March 2020, respectively.

14. Loans from shareholders

As at 31 March 2020, the loans from shareholders were interest bearing at 1.3% over 1-month HIBOR or LIBOR per annum. The balances were repayable on 31 December 2021.

Subsequent to the year end, on 15 June 2020, the Group entered in a deed of funding undertakings with one of its major shareholders, Chairman and Chief Executive Director, Mr. Leung, to provide funding to the Group. The funding notice could be issued at the discretion of the Company to Mr. Leung within eighteen months from the date of the deed, i.e. 15 December 2021. The total amount of funding undertakings shall not exceed HK$170,000,000.

Subsequent to the year end, on 16 June 2020, the Group drew down a loan of HK$50,000,000 from Mr. Leung under the terms of the deed. The loan is unsecured and repayable after eighteen months from the date of draw down and interest bearing at 1.3% over 1-month HIBOR per annum. The amount of available funding under the deed of funding undertakings was HK$120,000,000 as at 29 June 2020.

15. Comparative amounts

Certain comparative amounts have been reclassified to confirm with the current year's presentation.

DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2020 (2019: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 24 August 2020 to Thursday, 27 August 2020, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 21 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Group results and dividends

For the year under review, the Group recorded turnover of HK$961 million (2019: HK$1,545 million) and net loss attributable to shareholders of HK$599 million (2019: net loss attributable to shareholders of HK$563 million). The net loss was partly the result of a decline in sales of approximately 38%, due mainly to the uncertainty created by the on-going China and US trade war that has dampened the desire of buyers in the United States (which is the key market for the Group's tablet and audio visual products) in placing large quantity orders as well as orders for models likely to be impacted by sudden imposition of tariffs. Furthermore, the outbreak of COVID-19 at the beginning of the year had devastated our production and delivery of products for February and March of this year. Continuous and substantial investments in advertising and promotions for AVITA, Nexstgo and VAIO notebook computers together with costs incurred in developing more variety of notebook models for different price points in different markets further impacted profitability.

Other reasons for the net loss was the impairment of inventories and certain non-current assets. For inventories, in addition to the provision of HK$153 million made in prior years, a further impairment of HK$24 million was made. As the Group's business has incurred losses. The Group has to assess the recoverable amounts of its underlying assets, pursuant to requirements of relevant accounting standards, an impairment provision of HK$136 million was made further on certain property, plant and equipment, right-of-use assets, intangible assets and receivables. Finally, there was a fair value loss of approximately HK$18 million of investment properties.

The directors do not recommend the payment of a final dividend (2019: Nil) for the financial year ended 31 March 2020.

Review of operations

Since the start of the financial year under review, overall macroeconomic conditions deteriorated further. The on-going and ever escalating China and US trade war together with a weakened global economy especially in the second half of the financial year have continued to erode the confidence of retailers, many of whom deciding to place orders in piecemeal fashion with small quantities and short lead time as their countermeasures against possible and unpredictable imposition of new tariffs. This resulted in the double damage to the Group of increases in production costs and reduced sales.

Moreover, the outbreak of COVID-19 since the last quarter of the financial year devastated the operation of our production facilities and our supply chains. A number of provinces and municipalities in Mainland China have taken emergency public health measures and various actions to prevent the spread of the virus. Some workers were not able to return to our Dongguan factory after the extended Chinese New Year Holiday. In addition, many of our suppliers in Mainland China also could not resume work immediately following the extended New Year Holiday period, leading to major disruptions in our supply chains. Such unprecedented conditions created by the COVID-19 pandemic resulted in a virtual shutdown of our Dongguan factory in the last quarter of the financial year, substantially delaying and reducing our delivery to customers, thus putting a significant dent to the Group's last-quarter revenue. Nevertheless, due to unrelenting efforts by our factory management and the positive development of the coronavirus in Mainland China since April 2020, the production capacity of our Dongguan facilities has resumed to almost 80%. However, since the Group's supply chains have not yet fully recovered, we would still be facing shortages of certain components at least in the months of July to September 2020.

As has been widely reported, due to COVID-19, many countries implemented large scale lockdown, quarantine measures and the virtual stoppage of many economic activities. In view of significant drop in consumer demand and economic slump, many companies across different industries and even global corporations have had to adjust their earnings forecasts, with quite a few even declaring bankruptcy protection. Under such unprecedented circumstance, our retail customers' already fragile confidence receded further, with many of them adopting a conservative approach to sales and forecast. Most severely impacted were the Group's AV products that have traditionally been most popular with and dependent on US retailers. The anticipated growth of our notebook computer business was also not realized (even though the same quantity of units were shipped in the first 9 months of 2019 compared to the quantity shipped from 1 April 2018 to 31 March 2019) due to the shutdown of many technology partners' operations, resulting in delays of models originally planned to be launched in the last quarter of the financial year under review.

Despite such severe and unprecedented challenges during the year, the Group has continued to implement a long-term growth strategy that centers on the development and promotion of notebook computers under the AVITA, Nexstgo, Venturer and Vaio brands. As at the year under review, there are a total of more than 20 notebook computer models in the Group's portfolio. Besides the 10 key Asian markets which the Group has entered last year, namely Hong Kong, Taiwan, Singapore, Malaysia, China, India, Indonesia, Vietnam, Thailand and the Philippines, we have also entered the markets of Bangladesh, Middle East (Bahrain, Qatar and Saudi Arabia), the United Kingdom, Ireland, USA, Africa (Mauritius), Australia and Papua New Guinea in the year under review.

Moreover, in order to increase consumers' awareness of our notebook computer brands, we actively participated in different computer exhibitions worldwide during the year under review, e.g. CES in Las Vegas (Jan 2020), COMEX in Singapore (Sep 2019); Hong Kong Computer & Communications Festival (Aug 2019), and COMPUTEX in Taiwan (Jun 2019). In particular, AVITA notebook received global recognition and obtained international awards such as 2020 CES Innovation Awards and 2019 Computex Best Choice Award. One of the most exciting and encouraging news during the year under review was that according to industry survey, one of AVITA's notebooks became the bestselling model in Hong Kong in March of 2020, regardless of screen size, technical configuration, or retail price.

Prospects

Even though the coronavirus pandemic is gradually slowing and receding around the world, it won't be much of an exaggeration to say that financial year 2020/21 is and will be full of challenges, especially in view of the on-going and ever worsening trade dispute between China and the United States. It is therefore all the more important for the Group to remain committed to implementing our strategy of products and markets expansion based squarely on the strength and competitiveness of products under our own brands.

Consistent with this strategy, and with the Group's supply chains gradually recovering, a number of new notebook computer models have been launched in the first quarter of the 2020/2021 financial year, with all of them receiving very good feedback from retail channels in various markets. In fact, we have already shipped almost the same quantity of notebook computers in the first quarter of 2020/2021 compared to the entire year of 2019/2020. Furthermore, based on the latest forecasts from all the markets in which the Group's notebook computers are currently sold, and it will very much depend on our supply chains returning to normal, the quantity of notebook computers to be shipped in the second quarter of 2020/2021 should at least double the quantity shipped in the entire year of 2019/2020.

Such a surge in the demand for the Group's notebook computers is partly a result of an increasing number of companies looking at work from home (WFH) options and partly a result of students setting themselves up to study remotely at home. Furthermore, the recent surge in demand for our notebook computers is a direct consequence of the Group's unwavering determination to continuously promote and develop more variety of notebook models to suit different price points in different markets.

As direct results of the above, we are now working very closely with large distributors and international chain stores in their interests to place large-quantity orders for our notebook computers. Based on substantial increase in the sales of our notebook business in the coming year, we are also working very closely with our supply chains in volume discount on component purchases, which in turn will help to increase our gross margin.

Since online shopping has become ever popular and essential under COVID-19 in many countries, in addition to working with traditional brick-and-mortar retail channels, we are also actively channeling more and more of our sales online. We will continue to invest more resources in our direct online shops and digital marketing activities, with the aim that in the not-too-distant future, online sales will be a major contributor to the Group's overall revenue.

Besides constantly bolstering our product portfolio and market presence, the Group is also mindful of the importance of strengthening our production capabilities. We have continued to automate and streamline our manufacturing operations, in order to reduce the reliance on direct labour, thus further boosting efficiency of our Dongguan facilities and the quality/reliability of our products. Despite already having more than 100 robots, the Group will continue to invest in automation, control manufacturing expenses, and ensure greater flexibility, which is particularly essential for handling the increasing demand of our notebook products.

For AV products, in addition to our regular line-up such as soundbars and home theatre systems, the Group is developing a series of Smart Furniture that incorporates audio and visual elements as well as wireless communication features. With our capabilities in AV and notebook computer technologies, we aim to develop a line-up of unique and attractive digital furniture products for the new generation of internet savvy consumers.

Considering the political instability between China and the United States and the impact of COVID-19, the financial year 2020/21 remains extremely challenging to say the least. It is unknown to us when the pandemic will truly end and how the economic recovery will take place. However, we are certain that we will continue to take decisive measures, including streamlining various aspects of operations to lower costs, continuing to invest in developing new products making good use of marketing costs to explore new markets and customers, further enhancing our online business and last but not least incessantly continue to automate our production activities. Backed by an experienced and dedicated management team, we have absolute confidence in the Group's long-term business prospects and success.

Liquidity and financial resources

The Group's total equity and total equity per share as at 31 March 2020 were HK$681 million (2019: HK$1,329 million) and HK$0.94 (2019: HK$1.84) respectively.

As at 31 March 2020, we had cash and deposits of HK$104 million. After deducting bank borrowings of HK$157 million, loans from shareholders of HK$161 million and lease liability of HK$78 million, we had net borrowing of HK$292 million. With unused banking facilities of HK$396 million, the Group has adequate liquidity for future working capital requirements.

As at 31 March 2020, our inventory was HK$337 million (2019: HK$480 million). We take a cautious approach to monitor the inventory level especially during this environment with uncertainty. As at year end, apart from the normal provision, the Group had made an impairment of certain obsolete inventory totalling HK$24 million (2019: HK$34 million).

Trade receivables as at 31 March 2020 were HK$387 million (2019: HK$511 million). It is our policy to deal with creditworthy customers and to adopt a prudent credit policy, and we have been closely monitoring credit risk.

Trade payables as at 31 March 2020 were HK$40 million (2019: HK$94 million).

Capital expenditure on fixed assets during the year was HK$39 million (2019: HK$47 million). As at 31 March 2020, we had capital commitments contracted but not provided for in respect of moulds, plant and machinery and renovation amounting to HK$3 million (2019: HK$9 million).

Due to peg-rate system, we have limited exposure to trade-related foreign exchange risk as substantially all of our sales, purchases and borrowings are denominated in United States dollars and Hong Kong dollars. Adhering to the policy of not engaging in currency speculation, there were no speculative activities during the reporting financial year.

Employees

As at 31 March 2020, the Group had approximately 960 (2019: 1,300) employees in the PRC, Taiwan and Hong Kong. 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

Neither the Company nor its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31 March 2020 and the Company has not redeemed any of its shares during the same financial year.

CORPORATE GOVERNANCE

The Company has complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the 12 months ended 31 March 2020, except with deviation from code provision A.2.1.

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. On 15 June 2018, Mr. LEUNG Wai Sing, Wilson succeeded the chairman of the Board and since then he has the combined role of Chairman of the Board and Chief Executive Officer of the Company. The Board believes that this arrangement is beneficial to the Company as Mr. LEUNG has considerable industry experience.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of the directors, all the directors confirmed that they had complied with the required standards as set out in the Model Code and its code of conduct regarding directors' securities transactions with the Company for the 12 months ended 31 March 2020.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the financial statements of the Group for the year ended 31 March 2020.

The Audit Committee currently comprises three independent non-executive directors of the Company, namely Mr CHEUNG, Johnson, Mr LEE Tak Chi, Mr CHEUNG Ka Wing.

SCOPE OF WORK OF THE AUDITORS OF THE COMPANY

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 March 2020 as set out in the preliminary announcement, have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the draft consolidated financial statements of the Group for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below sections set out an extract of the report by PricewaterhouseCoopers, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 March 2020.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw your attention to Note 2.1(c) to the consolidated financial statements, which states that, the Group incurred a net loss of HK$599,430,000 and an operating cash outflow of HK$242,475,000 for the year ended 31 March 2020. As at 31 March 2020, the Group had total bank borrowings of HK$157,370,000 while its cash and cash equivalents was HK$104,481,000. The Group failed to comply with certain financial covenants in respect of the Group's facilities with three banks totaling HK$437,150,000, of which HK$88,272,000 was utilised by the Group as bank borrowings as of 31 March 2020. The Group's production and its customers are also adversely affected by the COVID-19 pandemic. These events or conditions, along with other matters as set forth in Note 2.1(c) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This final results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and on the website of Alco Holdings Limited at www.alco.com.hk. The annual report of the Company containing all the information required by the Listing Rules will be published on the above websites in due course.

LIST OF DIRECTORS

As at the date of this announcement, the Board of Directors comprises three executive directors, namely Mr LEUNG Wai Sing, Wilson, Mr. LEUNG Kam Fai, Peter and Mr. LIU Hoi Keung and three independent non-executive directors, namely Mr LEE Tak Chi, Mr CHEUNG, Johnson and Mr CHEUNG Ka Wing.

By order of the Board
Alco Holdings Limited
LEUNG Wai Sing, Wilson
Chairman and Chief Executive Officer

Hong Kong, 29 June 2020