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ALCO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

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

(Stock Code: 328)

INSIDE INFORMATION – BUSINESS UPDATE

Reference is made to the announcement of Alco Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 1 September 2022 in relation to the trading halt.

This announcement is made by Alco Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The board of directors of the Company (“**the Board**”) has noticed that there are certain press releases related to the cessation of operation of one of the subsidiaries of the Group, Alco Electronics (Dongguan) Limited (“**AEDGL**”) published and the content of which may not be precise and accurate. The Board hereby announces that the production line under AEDGL (“**the Production Line**”), officially ceased operation on 31 August 2022. AEDGL is currently in the process of settling the outstanding debt under the arrangement from local government body and will be deregistered upon approval from the local government body. The maintenance of the Production Line has become more difficult due to the ongoing trade war between China and the United States of America and the outbreak of coronavirus pandemic which in turn has resulted in the tremendous increase in operational cost. As mentioned in the Group’s Annual Report for the year ended 2022 (the “**2022 Annual Report**”), the Group has streamlined its operation over the recent financial years to enhance its liquidity position, such as fading out the Production Line and to outsource the production function for better cost controls.

As disclosed in the Group’s 2022 Annual Report, the Group had recorded loss attributable to its shareholders of around HK\$595 million, it was partly the result of a decline in sales by approximately 54%. The significant and continuous drop in sales has left the Production Line with excessive production capacity and under-utilized labour force. The Group has started laying off excessive workers and office staff from the beginning of the year and subleasing any excessive factory space to other parties. The local government has been facilitating the cessation of the Production Line of AEDGL and the Group was notified by the local government that their approval for cessation of the Production Line was granted on 31 August 2022.

The Board believes (i) the said challenging environment; (ii) the current severe loss incurred from the self-production model; (iii) the excessive production capacity; and (iv) the migration to more cost-effective Original Equipment Manufacturer (“OEM”)/Original Design Manufacturer (“ODM”) model, have collectively rendered it no longer commercially viable to maintain the Production Line. As such, the Board, after careful and due consideration, has resolved to cease the operation of the Production Line with an aim to improve the Group’s financial position. While the Production Line was fading out since the beginning of 2021, the output from the Production Line was only minimal. Therefore, the cessation of the Production line will not bring along significant impact to the Group’s financial performance and operation. The details on the cessation of Production Line of AEDGL would be disclosed in the interim report expected to be published in December 2022.

The Board believes that it is in the best interests of the Group and its shareholders as a whole to cease the operation at this stage so that the Group will be able to focus its resources on OEM/ODM model for product supply. The Board believes that subcontracting of the Production Line would allow improved cost control and therefore maximizing the return for the Shareholders.

By order of the Board
Alco Holdings Limited
LEI KAM CHAO
Chairman

Hong Kong, 2 September 2022

As at the date of this announcement, the executive directors of the Company are Mr. LEI Kam Chao, Mr. CHUNG Hau Yeung and Mr. YIP Wing Shing. Non-executive director is Ms. HONG Ting. The independent non-executive directors of the Company are Mr. TANG Sher Kin, Ms. CHOI Ka Ying and Mr. LAM Chi Wing.