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## 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 30 SEPTEMBER 2022

#### PERFORMANCE HIGHLIGHTS

	2022	2021 (Restated)
– Revenue (HK\$)	<b>52 million</b>	353 million
– Loss for the period – from continuing operations (HK\$)	<b>49 million</b>	133 million

The directors of Alco Holdings Limited (the “Company”) announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2022, as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2022

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2022</b>	2021
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
			(Represented)
<b>Continuing operations</b>			
Revenue	4	51,977	353,347
Cost of goods sold	6	<u>(53,315)</u>	<u>(343,038)</u>
Gross (loss) profit		(1,338)	10,309
Other income and gain	5	5,014	11,199
Selling expenses	6	(4,944)	(53,012)
Administrative expenses	6	(29,103)	(62,285)
Research and development expenses		(12,345)	(34,432)
Other operating expenses	6	<u>(1,476)</u>	<u>(555)</u>
Operating loss		(44,192)	(128,776)
Finance income		3	1
Finance costs		<u>(4,382)</u>	<u>(4,052)</u>
Loss before income tax		(48,571)	(132,827)
Income tax expense	7	<u>—</u>	<u>—</u>
<b>Loss for the period from continuing operations</b>		<u>(48,571)</u>	<u>(132,827)</u>
<b>Discontinued operation</b>			
Loss for the period from discontinued operation, net of tax	10	<u>(417,120)</u>	<u>(39,037)</u>
Loss for the period		<u><u>(465,691)</u></u>	<u><u>(171,864)</u></u>

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2022</b>	2021
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
			(Represented)
<b>Loss for the period attributable to:</b>			
From continuing operations			
– Owners of the Company		(48,571)	(132,821)
– Non-controlling interests		–	(6)
		<u>–</u>	<u>(6)</u>
		<b><u>(48,571)</u></b>	<b><u>(132,827)</u></b>
<b>Loss for the period attributable to:</b>			
From discontinued operation			
– Owners of the Company		(417,120)	(39,037)
– Non-controlling interests		–	–
		<u>–</u>	<u>–</u>
		<b><u>(417,120)</u></b>	<b><u>(39,037)</u></b>
<b>Loss per share attributable to owners of the Company</b>			
From continuing and discontinued operations			
– Basic	<i>8</i>	<b>(HK64.3 cents)</b>	(HK23.7 cents)
– Diluted	<i>8</i>	<b>(HK64.3 cents)</b>	(HK23.7 cents)
		<u>(HK64.3 cents)</u>	<u>(HK23.7 cents)</u>
From continuing operations			
– Basic	<i>8</i>	<b>(HK6.7 cents)</b>	(HK18.3 cents)
– Diluted	<i>8</i>	<b>(HK6.7 cents)</b>	(HK18.3 cents)
		<u>(HK6.7 cents)</u>	<u>(HK18.3 cents)</u>
Dividends	<i>9</i>	–	–
		<u>–</u>	<u>–</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*For the six months ended 30 September 2022*

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss for the period	<b>(465,691)</b>	(171,864)
Other comprehensive expense, net of tax:		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	<u>(7,849)</u>	<u>(4,048)</u>
Total comprehensive expense for the period	<b><u>(473,540)</u></b>	<b><u>(175,912)</u></b>
<b>Total comprehensive expense for the period attributable to:</b>		
– Owners of the Company	<b>(473,540)</b>	(175,906)
– Non-controlling interests	<u>–</u>	<u>(6)</u>
	<b><u>(473,540)</u></b>	<b><u>(175,912)</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

		Unaudited 30 September 2022 <i>HK\$'000</i>	Audited 31 March 2022 <i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		53,703	133,963
Investment properties		48,567	53,430
Right-of-use assets		61,060	71,582
Prepayments, deposits and other receivables	11	<u>1,120</u>	<u>5,570</u>
		<u>164,450</u>	<u>264,545</u>
Current assets			
Inventories		89,024	353,939
Trade and other receivables	11	35,869	203,068
Other current assets		602	602
Income tax recoverable		1,292	1,421
Bank balances and cash		<u>9,864</u>	<u>10,202</u>
		<u>136,651</u>	<u>569,232</u>
Current liabilities			
Trade and other payables	12	347,099	337,414
Income tax liabilities		6,258	6,853
Lease liabilities		–	62,352
Bank and other borrowings	13	242,897	284,967
Loans from shareholders	14	<u>432,692</u>	<u>401,966</u>
		<u>1,028,946</u>	<u>1,093,552</u>
Net current liabilities		<u>(892,295)</u>	<u>(524,320)</u>
Total assets less current liabilities		<u>(727,845)</u>	<u>(259,775)</u>

		<b>Unaudited</b>	Audited
		<b>30 September</b>	31 March
		<b>2022</b>	2022
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Capital and reserves attributable to owners of the Company			
Share capital	<i>15</i>	<b>79,557</b>	72,324
Reserves		<b>(818,137)</b>	(344,597)
		<b>(738,580)</b>	(272,273)
Non-controlling interests		<b>(650)</b>	(650)
Total deficit		<b>(739,230)</b>	(272,923)
Non-current liabilities			
Other payables	<i>12</i>	<b>11,385</b>	11,455
Lease liabilities		–	1,693
Loans from shareholders	<i>14</i>	–	–
		<b>11,385</b>	13,148
Total deficit and non-current liabilities		<b>(727,845)</b>	(259,775)

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 September 2022*

## 1. Basis of preparation

The condensed consolidated financial statements of Alco Holdings Limited and its subsidiaries (collectively, the Group) for the six months ended 30 September 2022 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 (“HKICPA”) and the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

## 2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 March 2022 except as described below.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning 1 April 2022:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The application of the amendments to HKFRSs in the current interim period has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

### 3. Other information

The directors of the Company consider that it is appropriate to prepare the condensed consolidated financial statements on the going concern basis taking into account the following facts and assumptions:

#### *i) Shareholders loan status*

The management of the Group has several discussions with the shareholder's loan providers. Mrs. Leung, the wife of Mr. Leung Wai Sing ("Wilson"), is in the process of applying for the estate administrator of Wilson's estate. She believes that she will be officially appointed as the estate administrator of Wilson and she is willing to discuss the extension of the shareholder's loan on behalf of Wilson. The other shareholders also indicate to extend their shareholders' loan accordingly. Up to the date of this announcement, the Leung's family members has disposed their pledged properties to repay certain borrowings of the Group as further shareholders' loan totaling HK\$74 million which showed their intentions to continuous financial support to the Group.

#### *ii) Bank and other borrowings status*

The management of the Group continues to negotiate with banks and financial institutions, with reference to valuation performed by independent qualified professional valuers and market data information, whereby the majority of bank and other borrowing balances are being covered by the value of their corresponding pledged properties. During the period and up to the date of this announcement, the Group has repaid approximately HK\$74 million to the lenders by further shareholders' loan. The Board will continue its efforts to discuss and work out the repayment schedules with the lenders to reduce the bank and other borrowing balances and consider further sales of the remaining pledged properties to repay the loans.

#### *iii) Operation*

The Group had adopted multiple cost mitigation measures to streamline its core business activities and significantly cut down those redundant operations. During the period, the Group ceased the operation of the self-owned contract processing manufacturing. Together with the groupwide migration to OEM/ODM production model, the management is of the view that the date-to-date maintenance cost of the Group would be reduced significantly. The management has reassessed the geographical exposure and believes that the Group should focus on those overseas strategic markets and close down those unprofitable overseas operations, for which the related applications were in progress. The Group continued to restructure its operation across the Group, and cutting down redundant functions to free up the resources and redirect to other business segments which may have higher growth potential.

Besides cost controls, the Group formed a strategic distributor relationship with Giken Sakata, a Singaporean company listed on Singapore Stock Exchange, who will use its bank facilities to issue letter of credit and payment of the supplier of the Group. The Group further invited Jasmy Incorporated ("Jasmy"), which is the one of the leading blockchain technology and cryptocurrency applications company in Japan, to strategically invest in one of our subsidiaries. Jasmy has undertook to provide financial resources and technological support to the Group. The Board believes that the partnership with Jasmy will bring synergies to the Group's transforming operations.



iv) *Liability analysis*

The Group recorded total liabilities of approximately HK\$1,040 million and net liabilities of approximately HK\$739 million as at 30 September 2022. Out of which the liability of approximately HK\$621 million was attributed to the discontinued operations. The liabilities and assets of continued operations amounted to approximately HK\$419 million and HK\$215 million respectively as at 30 September 2022. Among which the Bank and other borrowing of approximately HK\$160 million is covered by the value of pledged properties which reference to valuation performed by independent qualified professional valuers and market data information. Shareholders' loan of approximately HK\$70 million is related to the extension granted by shareholders whom indicated their intentions to continue supporting the Group. And approximately HK\$43 million from the disposal of properties held by Leung's family member has been repaid to the bank and financial institution after the period ended.

The directors of the Company believe that, taking into account the above plans and measures, the Group will have sufficient working capital to satisfy its present requirements for the period ending 30 September 2023. However, should the Group fail to achieve the above mentioned plans and measures, the Group may be unable to operate as a going concern, in which case adjustments might have to be made to the carrying values of the Group's assets to state them at their realisable values, to provide for any further liabilities which might arise and to reclassify its non-current assets and non-current liabilities to current assets and current liabilities, respectively.

**4. Segment information**

(a) *Segment analysed by products*

The Group mainly operates in the Asia Pacific and is principally engaged in designing, manufacturing and selling of consumer electronic products including AV products and notebook products.

AV and other products	–	Design, manufacture and sale of consumer electronic products, including audio, video and other products
Notebook products	–	Design, manufacture and sale of commercial notebook and personal computers 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.

	For the six months ended 30 September							
	2022				2021			
	Continuing operations				Continuing operations			
AV and other products HK\$'000	Notebook products HK\$'000	Elimination HK\$'000	Total HK\$'000	AV and other products HK\$'000	Notebook products HK\$'000	Elimination HK\$'000	Total HK\$'000 (Represented)	
Segment revenue								
External sales	-	51,977	-	51,977	15,871	337,477	-	353,348
Inter-segment sales	-	-	-	-	13,350	702	(14,052)	-
	<u>-</u>	<u>51,977</u>	<u>-</u>	<u>51,977</u>	<u>29,221</u>	<u>338,179</u>	<u>(14,052)</u>	<u>353,348</u>
Segment results	-	(31,847)		(31,847)	3,522	(97,866)		(94,344)
Research and development expenses				(12,345)				(34,432)
Finance income				3				1
Finance costs				(4,382)				(4,052)
Loss before income tax				(48,571)				(132,827)
Income tax expense				-				-
Loss for the period				<u>(48,571)</u>				<u>(132,827)</u>
Loss for the period attributable to								
- Equity holders of the Company				(48,571)				(132,821)
- Non-controlling interest				-				(6)
				<u>(48,571)</u>				<u>(132,827)</u>

(b) *Segment analysed by geographical areas*

The segment revenue for the six months ended 30 September 2022 and 2021 are as follows:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
		(Represented)
North America	–	54,735
Asia	<b>40,822</b>	244,893
Europe	<b>6,636</b>	48,132
Others	<b>4,519</b>	5,587
	<u><b>51,977</b></u>	<u>353,347</u>

The analysis of revenue by geographical area is based on the destination to which the goods are delivered. Information about the Group's non-current assets is presented based on the geographical location of the assets.

**5. Other income and gain**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
		(Represented)
Sub-lease income	–	7,045
Rental income from investment properties	<b>2,128</b>	848
Others	<b>2,886</b>	3,306
	<u><b>5,014</b></u>	<u>11,199</u>

## 6. Expenses by nature

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

	Six months ended	
	30 September	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Represented)
Depreciation of property, plant and equipment	2,375	3,634
Depreciation of right-of-use assets	857	857
Employee benefit expenses	14,291	49,918
Severance pay	328	92

## 7. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits for the period. Corporate income tax on profits generated from subsidiaries operating in the PRC has 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 profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended	
	30 September	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax		
– PRC corporate income tax	–	–
Income tax expense	–	–

## 8. Loss per share

### *Basic*

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2022</b>	2021
		(Restated)
<b>Continuing and discontinued operations</b>		
Loss for the period attributable to owners of the Company ( <i>HK\$'000</i> )	<u><u>(465,691)</u></u>	<u><u>(171,864)</u></u>
Weighted average number of ordinary shares in issue	<u><u>724,631,686</u></u>	<u><u>724,631,686</u></u>
Basic loss per share ( <i>HK cents</i> )	<u><u>(64.3)</u></u>	<u><u>(23.7)</u></u>
<b>Continuing operations</b>		
Loss for the period attributable to owners of the Company ( <i>HK\$'000</i> )	<u><u>48,571</u></u>	<u><u>132,827</u></u>
Basic loss per share ( <i>HK cents</i> )	<u><u>(6.7)</u></u>	<u><u>(18.3)</u></u>

### *Diluted*

There were no dilutive potential ordinary shares during the six months ended 30 September 2022 and 2021. Therefore, the diluted loss per share is the same as the basic loss per share.

## 9. Dividends

The Directors do not recommend the payment of interim dividend for the six months ended 30 September 2022 (2021: Nil).

## 10. Discontinued operation

On 31 August 2022, the Board has made the strategic decision to cease the operation of the production line in Dongguan and has obtained the approval from the local government on the same date. The related deregistration and insolvency application is in progress with the assistance from the local government as at this announcement date. The disposal of self-owned contract processing manufacturing business line enables the Group to free up the resources and redirect its resources to other business segments which may have higher growth potential to maximise the benefit of the shareholders of the Group.

The results from the discontinued self-owned contract processing manufacturing business for the period ended 30 September 2022 and 30 September 2021 are set out below:

	<b>Unaudited</b>	
	<b>30 September</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	5,637	46,804
Cost of goods sold	<u>(7,533)</u>	<u>(62,572)</u>
Gross loss	(1,896)	(15,768)
Other income and gain	63,997	3,497
Selling expenses	(13,418)	(10,234)
Administrative expenses	(70,084)	(12,982)
Impairment loss	(393,911)	–
Other operating expenses	(1,411)	(393)
Finance income	1	958
Finance costs	<u>(398)</u>	<u>(4,115)</u>
Loss before income tax	(417,120)	(39,037)
Income tax expense	<u>–</u>	<u>–</u>
Loss for the period from discontinued operation, net tax	<u><b>(417,120)</b></u>	<u><b>(39,037)</b></u>

## 11. Trade receivables, prepayments, deposits and other receivables

	30 September 2022 HK\$'000	31 March 2022 HK\$'000
Non-current		
Prepayments, deposits and other receivables ( <i>Note</i> )	1,120	8,685
Less: loss allowance	—	(3,115)
	<u>1,120</u>	<u>5,570</u>
Current		
Trade receivables ( <i>Note</i> )	11,762	159,310
Less: loss allowance	(8,743)	(8,744)
	<u>3,019</u>	<u>150,566</u>
Trade receivables, net	3,019	150,566
Prepayments, deposits and other receivables	32,850	52,502
	<u>35,869</u>	<u>203,068</u>
Total	<u><u>36,989</u></u>	<u><u>208,638</u></u>

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

The fair value of the trade and other receivables approximate to their carrying amounts.

*Note:* As at 30 September 2021, the Group transferred trade receivables with carrying amounts of HK\$15.7 million to a financial institution by discounting those trade receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (*Note* 13). These financial assets are carried at amortised cost in the Group's condensed consolidated statement of financial position.

The ageing analysis of trade receivables based on shipping terms is as follows:

	30 September 2022 HK\$'000	31 March 2022 HK\$'000
0 – 30 days	2,132	4,669
31 – 60 days	887	4,244
61 – 90 days	—	2,777
Over 90 days	—	138,876
	<u>3,019</u>	<u>150,566</u>

## 12. Trade and other payables

	<b>30 September 2022 HK\$'000</b>	31 March 2022 HK\$'000
Non-current		
Other payables	11,385	11,455
Current		
Trade payables	189,912	207,553
Other payables and accruals	146,827	119,501
Provision for warranty	10,360	10,360
	<u>347,099</u>	<u>337,414</u>
Total	<u><b>358,484</b></u>	<u><b>348,869</b></u>

The fair value of the trade and other payables approximate to their carrying amounts.

The ageing analysis of trade payables based on invoice date is as follows:

	<b>30 September 2022 HK\$'000</b>	31 March 2022 HK\$'000
0 – 30 days	3,929	16,203
31 – 60 days	1,389	2,061
61 – 90 days	4,951	5,121
Over 90 days	179,643	184,168
	<u>189,912</u>	<u>207,553</u>



### 13. Bank and other borrowings

	<b>30 September 2022 HK\$'000</b>	31 March 2022 HK\$'000
Current		
Bank borrowing, secured ( <i>Note i</i> )	<b>184,060</b>	186,187
Bank borrowings, unsecured ( <i>Note ii</i> )	<b>25,080</b>	28,172
Other borrowings, secured ( <i>Note iii</i> )	<b>33,757</b>	70,608
	<hr/>	<hr/>
	<b>242,897</b>	284,967
	<hr/> <hr/>	<hr/> <hr/>

#### Notes:

- (i) The bank borrowing is secured by the Group's buildings, investment properties and right-of-use assets.
- (ii) The bank borrowings are unsecured and supported by corporate guarantees given by the Company (*Note 16*).
- (iii) As at 31 March 2022, the other borrowings are secured by the Group's equipment and machineries of approximately HK\$7,485,000.

### 14. Loans from shareholders

	<b>30 September 2022 HK'000</b>	31 March 2022 HK'000
Current		
Mr. Leung Kai Ching, Kimen (deceased)	<b>78,200</b>	78,200
Mr. Leung Wai Sing, Wilson (deceased) and his family	<b>308,492</b>	277,766
Mr. Leung Wai Lap, David	<b>26,000</b>	26,000
Ms. Leung Ka Yan, Karen	<b>20,000</b>	20,000
	<hr/>	<hr/>
	<b>432,692</b>	401,966
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts of the loans from shareholders approximate their fair values.

As at 30 September 2022, the loans from shareholders were interest-bearing at a fixed rate of 4.5% per annum or 1.3% over 1-month HIBOR or LIBOR per annum. Balances of HK\$432,692,000 would be repayable within one year or on demand. On 31 March 2021, the executor of Mr. Leung Kai Ching, Kimen's estate and Mr. Leung Wai Sing, Wilson, agreed to extend the repayment date to 31 December 2022.

## 15. Share capital

	<b>Company</b>	
	<b>Ordinary Shares</b>	
	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1 April 2021, 31 March 2022 and 30 September 2022	<u>800,000,000</u>	<u>80,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
As at 1 April 2021 and 31 March 2022	723,244,650	72,324
Placing of new share ( <i>Note</i> )	<u>72,324,000</u>	<u>7,233</u>
	<u>795,568,650</u>	<u>79,557</u>

*Note:* In September 2022, the Company issued a total of 72,324,000 ordinary shares with par value of HK\$0.1 each at a price of HK\$0.1 each. Further details were mainly set out in the announcement dated 23 September 2022.

## 16. Contingent liabilities

The Company provided corporate guarantees in favour of the banks to secure general banking facilities granted to certain of its subsidiaries (*Note 13*).

## 17. Commitments

### (a) Capital commitments

	<b>30 September 2022 HK\$'000</b>	31 March 2022 HK\$'000
Capital expenditure in respect of the acquisition of moulds, plant and machinery contracted but not provided for in the condensed consolidated financial statements	<u><u>1,232</u></u>	<u><u>1,232</u></u>

### (b) Operating lease commitments (as lessor)

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease rental receivables under non-cancellable operating leases in respect of land and buildings are as follows:

	<b>30 September 2022 HK\$'000</b>	31 March 2022 HK\$'000
Within one year	21,223	21,412
After one year but within two years	1,719	12,231
After two years but within three years	<u>—</u>	<u>—</u>
	<u><u>22,942</u></u>	<u><u>33,643</u></u>

The lease terms are from one to two years.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Group results and dividends

For the six months ended 30 September 2022, the Group recorded turnover of HK\$52 million (2021: HK\$353 million) and loss attributable to shareholders of HK\$49 million (2021: loss of HK\$133 million) for our continuing operation.

For the period under review, in terms of product segment, revenue of self-branded (AVITA) notebook computers dropped 85% to HK\$52 million. The main reasons for the decrease were weak demand. Traditional OEM/ODM business (manufacturing of AV products) has become an inferior segment for the Group, resulting in, total revenue decreasing 85% to HK\$52 million.

During the period under review, the gross loss margin decreased slightly by 0.3% from 2.9% to 2.6% compared to same period last year. The improving gross loss margin was mainly attributed to the reduction in cost of goods sold effected from the strategic transformation from previous self-owned contract processing production method to a more cost-effective OEM/ODM production model.

The decrease in net loss is around 63% to HK\$49 million when, compared to the corresponding period last year.

The directors do not recommend the payment of an interim dividend (2021: Nil) for the 6 months period ended 30 September 2022.

### Review of Operations

The Group embarked on substantial changes in the first half of the current financial year. The COVID-19 pandemic remains to impose an adverse impact on the Group's logistics and supply chain and the sales turnover. To cope with the slow-down of demand and fierce competition in the global market, the Group implemented multiple measures to reduce its operating costs. First, the Group decided to put on a halt to the sales to the North American market. Second, the Group adopted a more cost-saving outsourcing production model to replace the manufacturing operation. Third, the Group reduced the production, sales and marketing, administrative, research and development costs as well as downsized its middle management. As a consequence, the cost of goods sold, selling expenses and administrative expenses significantly dropped compared with the same period of last year. We expect the ongoing operation costs will be reduced considerably.

During the endeavor of the last decades, the Group had developed a number of valuable intellectual properties, patents and trademarks (i.e. Venturer tablet and Avita notebook computer). The Group also retained well established distribution channels world-wide. Leveraging on these valuable assets, the Board had been actively seeking new business opportunities during the reporting period.

In October 2022, Jasmy Incorporated (“Jasmy”) strategically invested in our company, AVITA Technologies International Co. Ltd (“Avita Tech”). Jasmy is one of the leading blockchain technology and cryptocurrency applications company in Japan. We intended to include Jasmy’s Secure IOT technology and solutions into Avita Tech’s existing line-up of consumer notebooks as well as looking at the development of new business notebooks with Secure PC devices and solution, with Device as a Service (DaaS) solutions built-in. Jasmy will provide capital injection and facilities to Avita Tech for its marketing and sales, brand building, research and development, as well as operation activities. We look forward to the synergy with the cooperation with Jasmy.

In October 2022, we also entered into a distribution agreement with one of our customer, Giken Sakata (“Giken”), a company listed in the stock exchange of Singapore. Giken will use its bank facilities to issue letter of credit and payment of the supplier of the Group. It would further relieve the cashflow pressure of our on-going business.

The family members of late ex-Chairmen Mr. Leung Kai Ching Kimen and Mr. Leung Wai Sing continued to support the Group. During the report period and up to the date of this announcement, they sold three properties located in Hong Kong, which were pledged for the Group’s loans from bank and financial institutions, totally HKD43 million, for the Group’s repayment of outstanding loans. On behalf of the Board of Directors, I would like to express my sincere gratitude to the Leung’s family members for their understanding and support to the Group.

## **Prospects**

To cope with the unpredictable business environment, the Group will continue to preserve and strive for more financial assets to survive through the hard time. Despite the challenges, the Group is pursuing the following:

- To minimize its operational fixed cost in all functions;
- To seek cooperation opportunities with business partners through the supply chain to share the financial obligation for operating our business;
- To dispose its investment properties, production equipment, lands and offices to generate positive cash flows for operation and to reduce the gearing of the Group;
- To leverage on its track record and explore different commercially viable and profit-making business opportunities;
- To raise funds through capital markets through issue of new shares and bonds.

## **Liquidity and financial resources**

The Group’s total deficit and total deficit per share as at 30 September 2022 were HK\$739 million (31 March 2022: HK\$273 million) and HK\$0.93 (31 March 2022: HK\$0.38) respectively.

As at 30 September 2022, we had cash and deposits of HK\$10 million. After deducting bank and other borrowings of HK\$243 million, we had net bank and other borrowings of HK\$233 million (31 March 2022: net bank and other borrowings of HK\$275 million). In addition, we had loans from shareholders of HK\$433 million.

As at 30 September 2022, our inventory was HK\$89 million (31 March 2022: HK\$354 million). We take a cautious approach to monitor the inventory level especially during this environment with uncertainty.

Trade receivables as at 30 September 2022 were HK\$3 million (31 March 2022: HK\$151 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 30 September 2022 were HK\$190 million (31 March 2022: HK\$208 million).

Capital expenditure on fixed assets during the six months ended 30 September 2022 was nil (2021: HK\$16 million). As at 30 September 2021, we had capital commitments contracted but not provided for in respect of property, moulds, plant and machinery and renovation amounting to HK\$1 million (31 March 2021: HK\$1 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 period.

## **Employees**

As at 30 September 2022, the Group had approximately 69 employees in Hong Kong, the PRC and Taiwan. 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 for the six months ended 30 September 2022 and the Company did not redeem any of its shares during the same period.

## **CORPORATE GOVERNANCE**

The Company has complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules for the six months ended 30 September 2022.

## **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 directors of the Company. Having made specific enquiry to 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 six months ended 30 September 2022.

## **AUDIT COMMITTEE**

The interim results of the Group have not been reviewed by external auditors. 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 six months ended 30 September 2022.

The Audit Committee currently comprises three independent non-executive directors of the Company, namely Mr. CHU Hoi Kan, Mr. LAM Chi Wing and Mr. TANG Sher Kin.

## **PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This interim results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of Alco Holdings Limited at [www.alco.com.hk](http://www.alco.com.hk). The 2022 interim report will be despatched to the shareholders of the Company and available on the same websites in due course.

## **LIST OF DIRECTORS**

As at the date of this announcement, the Board of Directors comprises two executive directors, namely Mr. LEI Kam Chao and Mr. CHUNG Hau Yeung, one non-executive director, namely Ms. HONG Ting and three independent non-executive directors, namely Mr. CHU Hoi Kan, Mr. LAM Chi Wing and Mr. TANG Sher Kin.

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

Hong Kong, 25 November 2022