



ALCO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 328)

INTERIM REPORT 2017

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 30th September 2017, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2017

		Unaudited	
		Six months ended	
		30th September	
		2017	2016
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Revenue	3	911,435	931,356
Cost of goods sold	5	(866,936)	(793,563)
Gross profit		44,499	137,793
Other income	4	11,092	10,542
Selling expenses	5	(41,271)	(48,491)
Administrative expenses	5	(50,698)	(45,908)
Other operating expenses	5	(8,549)	(4,094)
Operating (loss)/profit		(44,927)	49,842
Finance income		5,458	5,724
Finance costs		(3,157)	(4,021)
(Loss)/profit before income tax		(42,626)	51,545
Income tax credit/(expenses)	6	5,884	(5,369)
(Loss)/profit for the period		(36,742)	46,176
(Loss)/profit for the period			
attributable to:			
– Equity holders of the Company		(36,581)	46,355
– Non-controlling interests		(161)	(179)
		(36,742)	46,176
(Loss)/earnings per share attributable to equity holders of the Company			
– Basic	8	(HK6.3 cents)	HK8.0 cents
– Diluted	8	(HK6.3 cents)	HK8.0 cents
Dividends	9	17,358	28,968

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September 2017

	Unaudited	
	Six months ended	
	30th September	
	2017	2016
	HK\$'000	HK\$'000
(Loss)/profit for the period	(36,742)	46,176
Other comprehensive income/(loss), net of tax:		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	<u>9,321</u>	<u>(3,562)</u>
Total comprehensive (loss)/income for the period	<u>(27,421)</u>	<u>42,614</u>
Total comprehensive (loss)/income for the period attributable to:		
– Equity holders of the Company	(27,260)	42,793
– Non-controlling interests	<u>(161)</u>	<u>(179)</u>
	<u>(27,421)</u>	<u>42,614</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2017

		Unaudited 30th September 2017 HK\$'000	Audited 31st March 2017 HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		209,846	202,798
Investment properties		90,488	90,488
Leasehold land and land use rights		5,975	6,001
Intangible assets		20,117	10,776
Deferred income tax assets		35,267	28,225
Prepayments, deposits and other receivables	10	41,780	23,070
		403,473	361,358
Current assets			
Inventories		729,239	473,819
Trade and other receivables	10	884,217	742,693
Current income tax recoverables		13,083	13,086
Cash and cash equivalents		637,625	787,201
		2,264,164	2,016,799
Current liabilities			
Trade and other payables	11	482,304	320,739
Current income tax liabilities		2,920	2,881
Deferred gain	7	17,450	17,450
Trust receipt loan		250,139	–
Borrowings	12	117,450	116,400
		870,263	457,470
Net current assets		1,393,901	1,559,329
Total assets less current liabilities		1,797,374	1,920,687
Capital and reserves attributable to equity holders of the Company			
Share capital	13	57,937	57,937
Reserves		1,732,767	1,788,995
		1,790,704	1,846,932
Non-controlling interests		(602)	(441)
Total equity		1,790,102	1,846,491
Non-current liabilities			
Deferred gain	7	7,272	15,996
Borrowings	12	–	58,200
		7,272	74,196
Total equity and non-current liabilities		1,797,374	1,920,687

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2017

	Unaudited								
	Attributable to equity holders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Capital redemption reserve	Exchange reserve	Staff compensation reserve	Retained earnings	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st April 2016	57,937	309,674	1,012	(9,235)	11,783	1,614,263	1,985,434	(436)	1,984,998
Comprehensive income/(loss)									
Profit/(loss) for the period	-	-	-	-	-	46,355	46,355	(179)	46,176
Other comprehensive loss									
Currency translation differences	-	-	-	(3,562)	-	-	(3,562)	-	(3,562)
Total comprehensive (loss)/income	-	-	-	(3,562)	-	46,355	42,793	(179)	42,614
Transaction with owners									
2016 final dividend	-	-	-	-	-	(173,810)	(173,810)	-	(173,810)
Total transaction with owners	-	-	-	-	-	(173,810)	(173,810)	-	(173,810)
At 30th September 2016	57,937	309,674	1,012	(12,797)	11,783	1,486,808	1,854,417	(615)	1,853,802
At 1st April 2017	57,937	309,674	1,012	(18,855)	11,783	1,485,381	1,846,932	(441)	1,846,491
Comprehensive income/(loss)									
Loss for the period	-	-	-	-	-	(36,581)	(36,581)	(161)	(36,742)
Other comprehensive income									
Currency translation differences	-	-	-	9,321	-	-	9,321	-	9,321
Total comprehensive income/(loss)	-	-	-	9,321	-	(36,581)	(27,260)	(161)	(27,421)
Transaction with owners									
2017 final dividend	-	-	-	-	-	(28,968)	(28,968)	-	(28,968)
Total transaction with owners	-	-	-	-	-	(28,968)	(28,968)	-	(28,968)
At 30th September 2017	57,937	309,674	1,012	(9,534)	11,783	1,419,832	1,790,704	(602)	1,790,102

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th September 2017

	Unaudited	
	Six months ended	
	30th September	
	2017	2016
	HK\$'000	HK\$'000
Net cash used in operating activities	(241,214)	(328,444)
Net cash used in investing activities	(70,808)	(22,008)
Net cash generated from/(used in) financing activities	162,446	(291,453)
Net decrease in cash and cash equivalents	(149,576)	(641,905)
Cash and cash equivalents at the beginning of the period	787,201	1,591,643
Cash and cash equivalents at the end of the period	637,625	949,738
Analysis of balances of cash and cash equivalents		
Bank balances and cash	637,625	949,738

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September 2017

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 (“HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

These condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31st March 2017.

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 2017, except the Group has adopted certain HKASs and Hong Kong Financial Reporting Standards (“HKFRS”) which are mandatory for the financial year beginning 1st April 2017.

2. Changes in accounting policies

The following amendments to standards are mandatory for the first time for the financial year beginning 1st April 2017:

HKFRS 12	Annual Improvements 2014-2016 Cycle (amendments)
HKAS 7 (Amendment)	Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses

The Group has adopted these standards and the adoption of these standards did not have significant impacts on the Group’s results and financial position.

There are no other new standards or amendments to standards that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

2. Changes in accounting policies *(continued)*

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1st April 2017 and have not been early adopted by the Group:

HKFRS 1 and HKFRS 28	Annual Improvements 2014-2016 Cycle (amendments)
HKAS 40 (Amendment)	Transfers of Investment Property ¹
HKFRS 2 (Amendment)	Classification and Measurement of Share-Based Payment Transactions ¹
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
HKFRS 9	Financial Instruments ¹
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 15 (Amendment)	Clarifications to HKFRS 15 ¹
HKFRS 16	Leases ²
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ²

¹ *Effective for financial years beginning on or after 1st January 2018*

² *Effective for financial years beginning on or after 1st January 2019*

³ *No mandatory effective date yet determined*

The directors of the Company are in the process of assessing the financial impact of the adoption of the above new standards and amendments to standards. The directors of the Company will adopt the new standards and amendments to standards when they become effective.

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 products.

	Six months ended	
	30th September	
	2017	2016
	HK\$'000	HK\$'000
Segment revenue	911,435	931,356
Segment results	(44,927)	49,842

(b) Segment analysed by geographical areas

	Revenue	
	Six months ended	
	30th September	
	2017	2016
	HK\$'000	HK\$'000
North America	895,211	922,458
Europe	10,176	3,225
Asia	5,259	1,499
Others	789	4,174
	911,435	931,356

The analysis of revenue by geographical segment is based on the destination to which the shipments are made. Primarily all of the Group's assets and capital expenditure for the six months ended 30th September 2017 and 2016 were located or utilised in the PRC, Taiwan or Hong Kong.

4. Other income

	Six months ended 30th September	
	2017	2016
	HK\$'000	<i>HK\$'000</i>
Rental income from investment properties	1,958	1,277
Amortisation of deferred gain (<i>Note 7</i>)	8,724	8,725
Others	410	540
	11,092	10,542

5. Expenses by nature

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

	Six months ended 30th September	
	2017	2016
	HK\$'000	<i>HK\$'000</i>
Amortisation of intangible assets	3,900	3,900
Depreciation	18,020	19,290
Employee benefit expenses	110,539	111,956
Severance pay	5,098	1,362

6. Income tax credit/expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable loss/profits for the period. Taxation on overseas loss/profits has been calculated on the estimated assessable loss/profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation credited/(charged) to the condensed consolidated income statement represents:

	Six months ended	
	30th September	
	2017	2016
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	(3)	(933)
– PRC corporate income tax	(79)	(439)
– Overseas corporate income tax	(149)	–
– (Under)/over provision in prior years	(2)	14
Deferred income tax credit/(expenses)	6,117	(4,011)
	<hr/>	<hr/>
Income tax credit/(expenses)	5,884	(5,369)
	<hr/> <hr/>	<hr/> <hr/>

7. Gain on disposal of properties and deferred gain

In January 2016, Alco Electronics Limited (“AEL”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, Lead Harvest Group Limited (“Lead Harvest”), for the disposal of a self-occupied property and certain investment properties in Quarry Bay with carrying values of HK\$23,791,000 and HK\$236,310,000, respectively, at a total net consideration of HK\$533,769,000. The transaction was completed on 29th February 2016 (“Completion Date”).

Upon completion of the disposal, AEL and Lead Harvest entered into a tenancy agreement, whereby AEL leased the aforesaid self-occupied property from Lead Harvest for its own use for 3 years commencing on the Completion Date. The fair value of the self-occupied property near the Completion Date was determined by the Valuer. The excess of consideration over fair value has been deferred and amortised over the lease period, resulting in the recognition of “deferred gain” amounting to HK\$24,722,000 (31st March 2017: HK\$33,446,000) in the condensed consolidated balance sheet and amortisation of the deferred gain amounting to HK\$8,724,000 in the condensed consolidated income statement for the current period (2016: HK\$8,725,000).

8. Earnings/loss per share

Basic

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

	Six months ended 30th September	
	2017	2016
(Loss)/profit for the period attributable to equity holders of the Company (<i>HK\$'000</i>)	<u>(36,581)</u>	<u>46,355</u>
Weighted average number of ordinary shares in issue	<u>579,367,720</u>	<u>579,367,720</u>
Basic (loss)/earnings per share (<i>HK cents</i>)	<u>(6.3)</u>	<u>8.0</u>

Diluted

Diluted (loss)/earnings 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 six months ended 30th September 2017 and 2016. Therefore, the diluted (loss)/earnings per share are the same as the basic (loss)/earnings per share.

9. Dividends

	Six months ended 30th September	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend, declared, of HK3 cents (2016: HK5 cents) per ordinary share	<u>17,358</u>	<u>28,968</u>

At a meeting held on 22nd November 2017, the directors declared an interim dividend of HK3 cents (2016: HK5 cents) per share for the six months ended 30th September 2017.

10. Trade and other receivables

	30th September 2017 HK\$'000	31st March 2017 HK\$'000
Non-current		
Prepayments, deposits and other receivables (<i>Note</i>)	<u>41,780</u>	<u>23,070</u>
Current		
Trade receivables	841,856	697,222
Prepayments, deposits and other receivables (<i>Note</i>)	<u>42,361</u>	<u>45,471</u>
	<u>884,217</u>	<u>742,693</u>
Total	<u>925,997</u>	<u>765,763</u>

Note:

As at 30th September 2017, other receivables included HK\$14,301,000 (31st March 2017: HK\$28,629,000) consideration receivable from PVI Global Corporation (a subsidiary of E Ink Holdings Inc. ("E Ink")) for the disposal of the corporate bond of Hydys Technologies Company Limited. A guarantee was granted by E Ink to cover the entire receivable amount.

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

	30th September 2017 HK\$'000	31st March 2017 HK\$'000
0 – 30 days	221,476	102,368
31 – 60 days	38,770	95,899
61 – 90 days	110,153	132,720
Over 90 days	<u>471,457</u>	<u>366,235</u>
	<u>841,856</u>	<u>697,222</u>

As at 30th September 2017, trade receivables of HK\$370,234,000 (31st March 2017: HK\$163,543,000) were past due with reference to the credit terms offered.

The overdue sum is not considered impaired and the directors are of the opinion that the recoverable amounts of such receivables are not less than the carrying values.

11. Trade and other payables

	30th September 2017 HK\$'000	31st March 2017 HK\$'000
Trade payables	400,591	250,407
Other payables and accruals	81,713	70,332
	<u>482,304</u>	<u>320,739</u>

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

	30th September 2017 HK\$'000	31st March 2017 HK\$'000
0 – 30 days	343,913	215,469
31 – 60 days	43,362	28,703
61 – 90 days	8,967	1,650
Over 90 days	4,349	4,585
	<u>400,591</u>	<u>250,407</u>

12. Borrowings

	30th September 2017 HK\$'000	31st March 2017 HK\$'000
Non-current		
Bank borrowings, unsecured (<i>Note</i>)	–	58,200
Current		
Bank borrowings, unsecured (<i>Note</i>)	117,450	116,400
Total borrowings	<u>117,450</u>	<u>174,600</u>

Note:

The bank borrowings are unsecured and are supported by corporate guarantees given by the Company (*Note 14*). The borrowings were denominated in USD and interest bearing at a margin over LIBOR.

12. Borrowings (continued)

The maturity of bank borrowings is as follows:

	30th September 2017 HK\$'000	31st March 2017 HK\$'000
Within one year	117,450	116,400
In the second year	–	58,200
	<u>117,450</u>	<u>174,600</u>

The carrying amounts of the bank borrowings approximated to their fair values.

13. Share capital

	Company Ordinary Shares	
	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1st April 2016, 31st March 2017 and 30th September 2017	<u>800,000,000</u>	<u>80,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st April 2016, 31st March 2017 and 30th September 2017	<u>579,367,720</u>	<u>57,937</u>

14. Contingent liabilities

The Company provided corporate guarantees in favour of the banks to secure general banking facilities granted to certain of its subsidiaries (*Note 12*).

15. Commitments

(a) Capital commitments

	30th September 2017 HK\$'000	31st March 2017 HK\$'000
Property, moulds, plant and machinery and renovation contracted but not provided for	111,056	5,189

(b) Operating lease commitments (as lessee)

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

	30th September 2017 HK\$'000	31st March 2017 HK\$'000
Not later than one year	37,461	33,713
Later than one year and not later than five years	134,503	128,998
Later than five years	228,868	232,852
	400,832	395,563

(c) 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:

	30th September 2017 HK\$'000	31st March 2017 HK\$'000
Not later than one year	3,026	3,841
Later than one year and not later than five years	126	1,234
	3,152	5,075

The lease terms are from one to two years.

DIVIDEND

The directors have resolved to declare an interim dividend of HK3 cents (2016: HK5 cents) per share for the six months ended 30th September 2017 to the shareholders whose names are on the register of members of the Company on 8th December 2017. The dividend warrants are expected to be despatched on 22nd December 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 7th December 2017 to Friday, 8th December 2017, 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, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 6th December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Group results

For the six months ended 30th September 2017, the Group recorded turnover of HK\$0.91 billion (2016: HK\$0.93 billion), with loss attributable to shareholders amounting to HK\$36.6 million (2016: profit attributable to shareholders of HK\$46.4 million). The decline in performance was principally the result of increases in the costs of certain critical components that have affected virtually all electronics manufacturers world-wide, and in particular, memory ICs that are used by the Group in the production of its electronic products. Furthermore, the decline was to a lesser extent the result of costs incurred in setting up the Group's commercial notebook business.

Business review

During the review period, increases in the costs of certain critical components such as memory ICs continued to impact on the profitability of the Group's tablets and personal computing products, a situation that has persisted since the second half of the previous financial year. As had been noted, the price rise limited the Group's capacity to accept orders since such cost increases could not be readily transferred to its customers.

Despite the unfavourable conditions, the Group nonetheless persisted in its efforts to develop tablets and personal computing products as well as B2B/Commercial Notebook PCs. In the case of the latter, a technical team has been established in Taiwan together with a branding and marketing operation in Hong Kong that is in charge of building channel relationships and formulating strategies for product launches scheduled in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business review *(continued)*

With regard to the Group's personal computing products, progress has been made in penetrating the consumer notebook PC categories. Under the Group's AVITA brand are the new LIBER notebook series, which are offered in 13.3-inch and 14-inch models. Available with choices of Intel's Kabylake CPUs and up to 8 GB of RAM, the notebooks are able to cater for a wide range of customers' requirements and budgets. What is more, the LIBER series notebooks boast a variety of vibrant colours and a sophisticated modern design that will appeal to young adults and prosumers. Also consistent with the Group's interest in tapping the youth demographic with AVITA branded products, a dedicated AVITA website and Facebook account have been established, as well as advertisements created for AVITA LIBER notebooks that have appeared in relevant media outlets and technical magazines and publications with high youth readerships.

While tablets and computing products clearly represent the Group's key revenue sources going forward, its AV products, which include sound bar systems and home theatre products, are no less essential in providing a stable source of revenue, as has been the case during the latest review period. The management will therefore continue to timely enhance relevant products based on customers' demands, current trends and market dictates.

Timely enhancement can also be used to describe the Group's efforts in improving production. While the Houjie Town production facility has been operating efficiently and effectively since its opening in 2013, the management has continued to invest in technologies to advance production. More recently, this has involved the installation of robotic arms that, besides reducing the need for low-skill labour, has also enabled the Group to have greater flexibility in meeting different production parameters and/or products mix quickly and effectively. Apart from and in addition to lessening the Group's reliance on unskilled labour and providing greater flexibility in adapting production arrangements to market changes, robotization has also allowed the Group to further elevate the already high quality of its products.

Yet another development that will result in the reduction of fixed overhead in the future involves the purchase of property, specifically, the entire 11th floor of Metropole Square, 2 On Yiu Street, Shatin, New Territories, which will serve as the Group's new Hong Kong headquarters. The Group will vacate its currently leased premises in Quarry Bay and relocate to the New Territories office in 2018.

Prospects

The sudden and sharp rise in the costs of certain critical components such as memory ICs is a powerful reminder of the stern challenges that are part and parcel of operating in the consumer electronics industry. While such developments are often cyclical in nature, the management of the Group is mindful of the need to be constantly vigilant, and to be both proactive and decisive in taking actions to best protect the Group's long-term growth.

Consistent with this long-term development approach, the Group will be taking further steps in developing its Consumer Notebook PCs and B2B/Commercial Notebook PCs. Subsequent to the review period, i.e. October 2017, the Group introduced AVITA LIBER consumer notebook PCs to the Hong Kong market via several renowned retail chain stores. The initial small-volume launch will later be followed by additional distribution arrangements involving retailers in Taiwan, Singapore, Malaysia, Indonesia and other parts of Asia. As for commercial notebook PCs, they remain on schedule for market introduction in 2018.

To complement the Group's goal of introducing increasingly sophisticated, higher value-add products to the market, the management will seek to further strengthen both soft and hard assets. In the case of the former, it will continue to hire highly skilled individuals, as evidenced by the rising number of tertiary education graduates joining the Group, especially on the production floor. At the same time, automation will remain an ongoing process which extends beyond robotization and include the adoption of technologies that optimises all facets of the Group's operation.

With close to five decades in the consumer electronics industry, the Group has experienced various troughs and has time and again grown stronger by overcoming associated challenges. The recent price pressure faced by the Group will undoubtedly be yet another instance where it will move forward from the experience even more motivated in achieving long-term and sustainable progress and delivering returns that are equitable to all shareholders.

Liquidity and financial resources

The Group's total equity and total equity per share as at 30th September 2017 were HK\$1,790 million (31st March 2017: HK\$1,846 million) and HK\$3.09 (31st March 2017: HK\$3.19) respectively.

The Group maintains a strong financial position. As at 30th September 2017, we had cash and deposits of HK\$638 million. After deducting bank loans of HK\$368 million, we had net cash of HK\$270 million. The Group has adequate liquidity for future working capital requirements.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity and financial resources *(continued)*

As at 30th September 2017, our inventory was HK\$729 million (31st March 2017: HK\$474 million). We take a cautious approach to monitor the inventory level especially during this environment with uncertainty.

Trade receivables balance as at 30th September 2017 was HK\$842 million (31st March 2017: HK\$697 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 balance as at 30th September 2017 was HK\$401 million (31st March 2017: HK\$250 million).

Capital expenditure on fixed assets during the six months ended 30th September 2017 was HK\$58 million (2016: HK\$23 million). As at 30th September 2017, we had capital commitments contracted but not provided for in respect of property, moulds, plant and machinery and renovation amounting to HK\$111,056,000 (31st March 2017: HK\$5,189,000).

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 was no gain or loss from speculative activities during the reporting period.

To naturally hedge against the potential cost impact caused by RMB, the Group has diversified its cash portfolio by investing in RMB denominated deposits. As at 30th September 2017, the amount totalled RMB83 million.

Employees

As at 30th September 2017, the Group had approximately 2,700 (2016: 3,000) 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

(a) Long positions in ordinary shares of HK\$0.10 each of the Company

As at 30th September 2017, the interests and short positions of each director and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) were as follows:

	Number of shares held			Percentage of the issued share capital of the Company
	Personal interest	Corporate interest	Total	
Mr LEUNG Kai Ching, Kimen	20,150,000	225,911,400 <i>(note)</i>	246,061,400	42.47%
Mr LEUNG Wai Sing, Wilson	47,072,000	–	47,072,000	8.12%
Mr LEUNG, Jimmy	1,144,000	–	1,144,000	0.20%
Mr LI Wah Ming	260,000	–	260,000	0.04%

Note:

These shares were owned by Shunde Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen was the sole shareholder.

(b) Long positions in underlying shares of the Company

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executives or their spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above, as at 30th September 2017, other than one ordinary share each in certain Hong Kong incorporated subsidiaries of the Company held in trust for the Group by Mr LEUNG Kai Ching, Kimen, none of the directors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 30th September 2017, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name	Capacity in which shares were held	Number of shares – Long position	Percentage of the issued share capital of the Company
Shundeian Investments Limited	Beneficial owner	225,911,400 <i>(note i)</i>	38.99%
Mr Webb David Michael	Beneficial owner	58,085,400 <i>(note ii)</i>	10.03%
Preferable Situation Assets Limited	Beneficial owner	38,435,000 <i>(note ii)</i>	6.63%
Mr LEUNG Wai Lap, David	Beneficial owner	34,828,190	6.01%

Notes:

- (i) These shares were owned by Shundeian Investments Limited, a company incorporated in the British Virgin Islands with limited liability, of which Mr LEUNG Kai Ching, Kimen was the sole shareholder.
- (ii) Mr Webb David Michael beneficially owned 19,650,400 shares, and in addition he held 38,435,000 shares through Preferable Situation Assets Limited, which was 100% directly owned by him.

Save as disclosed above, as at 30th September 2017, according to the register of interests required to be kept by the Company under Section 336 of Part XV of the SFO, there was no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, who had any interest or short position in the shares or underlying shares of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September 2017, the Company repurchased a total of 772,000 ordinary shares of the Company at a consideration of HK\$1,472,500 on The Stock Exchange of Hong Kong Limited. All the 772,000 repurchased shares were cancelled after the end of the reporting period. Details of the repurchases are as follows:

Month of repurchases	Number of shares repurchased	Price per share		Aggregate consideration HK\$
		Highest HK\$	Lowest HK\$	
September 2017	772,000	1.95	1.83	1,472,500

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to enhance clarity and transparency of business activities. 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 30th September 2017, except with deviation from code provision E.1.2.

The chairman of the Board had not attended the annual general meeting of the Company on 25th August 2017, which deviated from code provision E.1.2. The chairman will endeavour to attend all future annual general meetings of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry to the directors by the Company, 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 30th September 2017.

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 2017.

The audit committee comprises three independent non-executive directors of the Company, namely Mr CHEUNG, Johnson, Mr LI Wah Ming and Mr LEE Tak Chi.

LIST OF DIRECTORS

As at the date of this report, the Board of Directors comprises five executive directors, namely Mr LEUNG Kai Ching, Kimen, Mr LEUNG Wai Sing, Wilson, Mr KUOK Kun Man, Mr LEUNG, Jimmy and Mr LIU Lup Man and three independent non-executive directors, namely Mr LI Wah Ming, Mr LEE Tak Chi and Mr CHEUNG, Johnson.

By order of the Board

Alco Holdings Limited
LEUNG Wai Sing, Wilson

Executive Director and Chief Executive Officer

Hong Kong, 22nd November 2017