ALCO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 328)

INTERIM REPORT 2018

The directors of Alco Holdings Limited (the "Company") announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2018, as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2018

		Unaudited Six months ended 30th September	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**836,096**	911,435
Cost of goods sold	*5*	**(867,806)**	(866,936)
Gross (loss)/profit		**(31,710)**	44,499
Other income	*4*	**5,767**	11,092
Selling expenses	*5*	**(86,472)**	(41,271)
Administrative expenses	*5*	**(65,199)**	(50,698)
Other operating expenses	*5*	**(4,073)**	(8,549)
Operating loss		**(181,687)**	(44,927)
Finance income		**2,941**	5,458
Finance costs		**(5,084)**	(3,157)
Loss before income tax		**(183,830)**	(42,626)
Income tax credit	*6*	**3,054**	5,884
Loss for the period		**(180,776)**	(36,742)
Loss for the period attributable to:			
– Equity holders of the Company		**(180,598)**	(36,581)
– Non-controlling interests		**(178)**	(161)
		(180,776)	(36,742)
Loss per share attributable to equity holders of the Company			
– Basic	*8*	**(HK31.2 cents)**	(HK6.3 cents)
– Diluted	*8*	**(HK31.2 cents)**	(HK6.3 cents)
Dividends	*9*	**–**	17,358

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September 2018

		Unaudited Six months ended 30th September	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Loss for the period		**(180,776)**	(36,742)
Other comprehensive loss, net of tax:			
Item that may be reclassified subsequently to profit or loss			
Currency translation differences		**(16,521)**	9,321
Item that will not be reclassified subsequently to profit or loss			
Fair value gain on transfer of owner-occupied property to investment property	*10*	**65,423**	–
Total comprehensive loss for the period		**(131,874)**	(27,421)
Total comprehensive loss for the period attributable to:			
– Equity holders of the Company		**(131,696)**	(27,260)
– Non-controlling interests		**(178)**	(161)
		(131,874)	(27,421)

CONSOLIDATED BALANCE SHEET

As at 30th September 2018

	Note	**Unaudited 30th September 2018 HK$'000**	Audited 31st March 2018 HK$'000
Non-current assets			
Property, plant and equipment		**330,977**	350,007
Investment properties		**168,008**	93,988
Leasehold land and land use rights		**–**	5,926
Intangible assets		**48,569**	36,652
Deferred income tax assets		**20,929**	16,790
Prepayments, deposits and other receivables	11	**21,598**	17,677
		590,081	521,040
Current assets			
Inventories		**789,195**	403,591
Trade and other receivables	11	**1,011,534**	864,157
Current income tax recoverables		**13,068**	13,090
Cash and cash equivalents		**197,296**	279,520
		2,011,093	1,560,358
Current liabilities			
Trade and other payables	12	**337,539**	215,090
Contract liabilities		**2,400**	–
Current income tax liabilities		**4,342**	3,361
Trust receipt loan		**594,565**	–
Borrowings	13	**32,778**	91,615
		971,624	310,066
Net current assets		**1,039,469**	1,250,292
Total assets less current liabilities		**1,629,550**	1,771,332

	Note	**Unaudited 30th September 2018 HK$'000**	Audited 31st March 2018 HK$'000
Capital and reserves attributable to equity holders of the Company			
Share capital	*14*	**57,860**	57,860
Reserves		**1,528,670**	1,671,938
		1,586,530	1,729,798
Non-controlling interests		**(747)**	(569)
Total equity		**1,585,783**	1,729,229
Non-current liabilities			
Contract liabilities		**2,400**	–
Borrowings	*13*	**41,367**	42,103
		43,767	42,103
Total equity and non-current liabilities		**1,629,550**	1,771,332

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2018

	Unaudited									
	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital redemption reserve	Exchange reserve	Staff compensation reserve	Revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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
At 1st April 2018	**57,860**	**308,278**	**1,089**	**(2,382)**	**11,783**	**-**	**1,353,170**	**1,729,798**	**(569)**	**1,729,229**
Comprehensive income/(loss)										
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(180,598)**	**(180,598)**	**(178)**	**(180,776)**
Other comprehensive income										
Currency translation differences	**-**	**-**	**-**	**(16,521)**	**-**	**-**	**-**	**(16,521)**	**-**	**(16,521)**
Fair value gain on transfer of owner-occupied property to investment property	**-**	**-**	**-**	**-**	**-**	**65,423**	**-**	**65,423**	**-**	**65,423**
Total comprehensive income/(loss)	**-**	**-**	**-**	**(16,521)**	**-**	**65,423**	**(180,598)**	**(131,696)**	**(178)**	**(131,874)**
Transaction with owners										
2018 final dividend	**-**	**-**	**-**	**-**	**-**	**-**	**(11,572)**	**(11,572)**	**-**	**(11,572)**
Total transaction with owners	**-**	**-**	**-**	**-**	**-**	**-**	**(11,572)**	**(11,572)**	**-**	**(11,572)**
At 30th September 2018	**57,860**	**308,278**	**1,089**	**(18,903)**	**11,783**	**65,423**	**1,161,000**	**1,586,530**	**(747)**	**1,585,783**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th September 2018

	Unaudited Six months ended 30th September **2018** ***HK$'000***	2017 *HK$'000*
Net cash used in operating activities	**(571,134)**	(241,214)
Net cash used in investing activities	**(34,509)**	(70,808)
Net cash generated from financing activities	**523,419**	162,446
Net decrease in cash and cash equivalents	**(82,224)**	(149,576)
Cash and cash equivalents at the beginning of the period	**279,520**	787,201
Cash and cash equivalents at the end of the period	**197,296**	637,625
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**197,296**	637,625

1. Basis of preparation and accounting policies

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

These consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31st March 2018.

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 2018, except the Group has adopted certain HKASs and Hong Kong Financial Reporting Standards ("HKFRS") which are mandatory for the financial year beginning 1st April 2018.

2. Changes in accounting policies

The following new and amendments to standards are mandatory for the first time for the financial year beginning 1st April 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

2. Changes in accounting policies *(continued)*

The new and amendments to standards have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures. The adoption of these new and amendments to standards has no material impact on the Group.

Details of the changes in accounting policies for HKFRS 9 and HKFRS 15 are outlined below.

Adoption of HKFRS 9

HKFRS 9 replaces HKAS 39. HKFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit losses ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than the "incurred loss" under the accounting model in HKAS 39. The Group applies the ECL model to the financial assets measured at amortised cost (i.e. trade and other receivables and cash).

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls. Cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Where the effect of discounting is material, the expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof for trade and other receivables.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

2. Changes in accounting policies *(continued)*

Adoption of HKFRS 9 (continued)

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowance for trade and other receivables is always measured at an amount equal to lifetime ECL. ECLs are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

The Group has not restated comparative information for financial instruments in the scope of HKFRS 9. Therefore, the comparative information is reported under HKAS 39 and is not comparable to the information presented as at and for the period ended 30th September 2018.

The adoption of the ECL model under HKFRS 9 has no material impact on the Group.

2. Changes in accounting policies *(continued)*

Adoption of HKFRS 15

HKFRS 15 replaces HKAS 18, HKAS 11 and the related interpretation. HKFRS 15 establishes a comprehensive framework for recognising revenue arising from contracts with customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the distinct good or service. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the distinct good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- When the Group's performances creates or enhances an asset that the customer controls as the asset is created or enhanced;

- When the Group's performance does not create an asset with an alternative use to the entity and the Group has an enforceable right to payment for performance completed to date.

If the contract terms and the Group's activities do not fall into any of these three situations, then under HKFRS 15 the Group recognises revenue for the sale of that good or service at a single point in time, being when control has passed to the customer. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

In accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard only to contracts that were not completed before 1st April 2018. Comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18.

The adoption of HKFRS 15 has no material impact on the Group.

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.

AV products	–	Design, manufacture and sale of audio, video and tablet products
Notebook products	–	Design, manufacture and sale of notebook products

The Group's inter-segment transactions mainly consist of sale of assembly parts and notebook products 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 30th September							
	2018				2017 (Restated)			
	AV products HK$'000	**Notebook products HK$'000**	**Elimination HK$'000**	**Group HK$'000**	AV products HK$'000	Notebook products HK$'000	Elimination HK$'000	Group HK$'000
Segment revenue								
External sales	**742,761**	**93,335**	**-**	**836,096**	910,912	523	–	911,435
Inter-segment sales	**4,375**	**10,158**	**(14,533)**	**-**	143	1,434	(1,577)	-
	747,136	**103,493**	**(14,533)**	**836,096**	911,055	1,957	(1,577)	911,435
Segment results	**(84,931)**	**(96,756)**		**(181,687)**	(28,105)	(16,822)		(44,927)
Finance income				**2,941**				5,458
Finance costs				**(5,084)**				(3,157)
Loss before income tax				**(183,830)**				(42,626)
Income tax credit				**3,054**				5,884
Loss for the period				**(180,776)**				(36,742)
Loss for the period attributable to								
– Equity holders of the Company				**(180,598)**				(36,581)
– Non-controlling interest				**(178)**				(161)
				(180,776)				(36,742)

3. Segment information *(continued)*

(b) *Segment analysed by geographical areas*

The segment revenue for the six months ended 30th September 2018 and 2017 are as follows:

	Six months ended 30th September	
	2018	2017
	HK$'000	*HK$'000*
North America	**749,386**	895,211
Asia	**69,641**	5,259
Europe	**14,953**	10,176
Others	**2,116**	789
	836,096	911,435

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 2018 and 2017 were located or utilised in the PRC, Taiwan or Hong Kong.

4. Other income

	Six months ended 30th September	
	2018	2017
	HK$'000	*HK$'000*
Fair value gain on investment properties	**3,180**	–
Rental income from investment properties	**2,569**	1,958
Amortisation of deferred gain *(Note 7)*	**–**	8,724
Others	**18**	410
	5,767	11,092

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	
	2018	2017
	HK$'000	*HK$'000*
Amortisation of intangible assets	**6,770**	3,900
Depreciation	**23,648**	18,020
Employee benefit expenses	**114,184**	110,539
Severance pay	**2,017**	5,098

6. Income tax credit

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the period. 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.

The amount of taxation credited to the consolidated income statement represents:

	Six months ended 30th September	
	2018	2017
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	**(20)**	(3)
– PRC corporate income tax	**(1,554)**	(79)
– Overseas corporate income tax	**(48)**	(149)
– Under provision in prior years	**(35)**	(2)
Deferred income tax credit	**4,711**	6,117
Income tax credit	**3,054**	5,884

7. Deferred gain

In January 2016, the Group disposed of a self-occupied property and certain investment properties in Hong Kong with carrying values of HK$23,791,000 and HK$236,310,000, respectively, at a total net consideration of HK$533,769,000 to an independent third party. The Group subsequently leased back such self-occupied property for its own use for 3 years commencing from the completion date of the aforesaid transaction. The excess of consideration over fair value of such leased property has been deferred and amortised over the lease period.

Since the lease was early terminated in February 2018, the remaining deferred gain was fully recognised in the financial year ended 31st March 2018 and, as a result, there was no amortisation of deferred gain in this period.

8. Loss per share

Basic

Basic loss per share is calculated by dividing the loss 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	
	2018	2017
Loss for the period attributable to equity holders of the Company *(HK$'000)*	**(180,598)**	(36,581)
Weighted average number of ordinary shares in issue	**578,595,720**	579,367,720
Basic loss per share *(HK cents)*	**(31.2)**	(6.3)

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 six months ended 30th September 2018 and 2017. Therefore, the diluted loss per share are the same as the basic loss per share.

9. Dividends

	Six months ended 30th September	
	2018	2017
	HK$'000	*HK$'000*
Interim dividend: nil (2017: HK3 cents per ordinary share)	**–**	17,358

At a meeting held on 26th November 2018, the directors did not recommend the payment of an interim dividend (2017: HK3 cents per share) for the six months ended 30th September 2018.

10. Fair value gain

During the period, on 1st June 2018, the Group transferred an owner-occupied property located in the PRC to an investment property and rented it out. The carrying amount and the fair value of the property were HK$10,345,000 and HK$75,768,000 on the date of transfer, respectively. The excess of the fair value over the carrying amount was HK$65,423,000 and was recorded in other comprehensive income (or revaluation reserve in the consolidated balance sheet) as fair value gain.

11. Trade and other receivables

	30th September 2018	31st March 2018
	HK$'000	*HK$'000*
Non-current		
Prepayments, deposits and other receivables *(Note)*	**21,598**	17,677
Current		
Trade receivables	**990,599**	826,632
Less: Provision for doubtful debt	**(2,908)**	(2,908)
Trade receivables, net	**987,691**	823,724
Prepayments, deposits and other receivables *(Note)*	**23,843**	40,433
	1,011,534	864,157
Total	**1,033,132**	881,834

11. Trade and other receivables *(continued)*

Note:

As at 30th September 2018, other receivables did not include any consideration (31st March 2018: HK$14,300,000) receivable from PVI Global Corporation (a subsidiary of E Ink Holdings Inc. ("E Ink")) for the disposal of the corporate bond of Hydis Technologies Company Limited. The amount was fully repaid during the six months ended 30th September 2018.

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

	30th September 2018 *HK$'000*	31st March 2018 *HK$'000*
0 – 30 days	**349,917**	103,685
31 – 60 days	**137,258**	153,351
61 – 90 days	**70,594**	111,182
Over 90 days	**429,922**	455,506
	987,691	823,724

As at 30th September 2018, trade receivables of HK$309,156,000 (31st March 2018: HK$351,444,000) were past due with reference to the credit terms offered.

The overdue sum was not considered as impaired since the overdue sum had been fully settled by the end of November 2018.

12. Trade and other payables

	30th September 2018 *HK$'000*	31st March 2018 *HK$'000*
Trade payables	**269,295**	149,876
Other payables and accruals	**68,244**	65,214
	337,539	215,090

12. Trade and other payables *(continued)*

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

	30th September 2018 HK$'000	31st March 2018 HK$'000
0 – 30 days	**205,281**	118,621
31 – 60 days	**47,315**	18,497
61 – 90 days	**12,515**	5,809
Over 90 days	**4,184**	6,949
	269,295	149,876

13. Borrowings

	30th September 2018 HK$'000	31st March 2018 HK$'000
Non-current		
Bank borrowings, secured *(Note i)*	**41,367**	42,103
Current		
Bank borrowings, secured *(Note i)*	**1,698**	1,810
Bank borrowings, unsecured *(Note ii)*	**31,080**	89,805
	32,778	91,615
Total borrowings	**74,145**	133,718

Notes:

i) The borrowing is secured by the Group's land and buildings.

ii) The bank borrowings are unsecured and are supported by corporate guarantees given by the Company (Note 15).

As at 30th September 2018, the borrowings were denominated in HKD (31st March 2018: USD or HKD) and interest bearing at a margin over HIBOR (31st March 2018: LIBOR or HIBOR).

13. Borrowings *(continued)*

The maturity of bank borrowings is as follows:

	30th September 2018	31st March 2018
	HK$'000	*HK$'000*
Within one year	**32,778**	91,615
In the second year	**1,749**	1,850
In the third to fifth year	**5,566**	5,796
Over five years	**34,052**	34,457
	74,145	133,718

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

14. Share capital

	Company Ordinary Shares	
	Number of shares	*HK$'000*
Authorised:		
Ordinary shares of HK$0.10 each		
At 1st April 2017, 31st March 2018 and 30th September 2018	**800,000,000**	**80,000**
Issued and fully paid:		
Ordinary shares of HK$0.10 each		
At 1st April 2017	**579,367,720**	**57,937**
Cancellation of shares repurchased	**(772,000)**	**(77)**
At 31st March 2018 and 30th September 2018	**578,595,720**	**57,860**

15. 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)*.

16. Commitments

(a) *Capital commitments*

	30th September 2018	31st March 2018
	HK$'000	*HK$'000*
Property, moulds, plant and machinery and renovation contracted but not provided for	**8,179**	13,030

(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 2018	31st March 2018
	HK$'000	*HK$'000*
Not later than one year	**38,375**	36,062
Later than one year and not later than five years	**140,848**	143,075
Later than five years	**202,494**	233,274
	381,717	412,411

(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 2018	31st March 2018
	HK$'000	*HK$'000*
Not later than one year	**2,405**	396
Later than one year and not later than five years	**8,175**	1,217
	10,580	1,613

The lease terms are from one to five years.

Group results

For the six months ended 30th September 2018, the Group recorded turnover of HK$836 million (2017: HK$911 million), with loss attributable to shareholders amounting to HK$181 million (2017: HK$37 million). One of the main reasons contributing to the loss was the high costs of critical components, resulting in a continuous erosion of gross margin. In addition, several of the Group's customers adopted a more cautious approach due to the ongoing trade war between the United States and China, further dampening the sentiment of buyers in placing large-quantity orders. Other factors that impacted on the Group's profitability include the advertising and promotion expenses of notebook products as well as the set up costs and operating expenses for offices located in Hong Kong, Taiwan, Singapore and Malaysia for notebook business.

The directors do not recommend the payment of an interim dividend (2017: HK3 cents per share) for the six months ended 30th September 2018.

Business review

During the review period, prices for certain critical components remained at high levels. However, severe price competition prevented the Group in transferring such high costs to its customers, resulting in continuous erosion of the Group's gross margin. In addition to the aforementioned price competition, business sentiment has gradually shifted from cautious optimism to increasing concern in the wake of the continuously escalating trade tensions between China and the United States. Even though tariffs imposed by the USA on China made goods have so far not affected directly any products manufactured by the Group, customers have become increasingly apprehensive about placing large-quantity orders in fear of being caught out by sudden changes in government policies. Instead, customers have been placing orders in more piece-meal fashion, thus affecting the Group both in terms of costs of components (in response to buyers' orders coming in at lower quantity each time, the Group have had to buy components in smaller quantity batches, reducing the Group's bargaining power when placing orders to vendors) and in terms of production efficiency (customers' orders coming in more piece-meal resulted in more starts and stops in the Group's production lines), eroding the overall economy of scale. During the period under review, employing sufficient high-caliber workers for peak production months had also been extremely challenging (even though the Group has already implemented a high level of automation and many robots in its production processes), thus resulting in extra costs needed to attract high-skilled workers from other provinces. Compounding the situation was the recent interest rate hikes by the Federal Reserve of the United States in March, June and September, resulting in higher borrowing costs.

Business review *(continued)*

While the aforementioned developments are outside the control of the Group, the management has nonetheless continued to pursue and invest heavily in activities to stimulate the Group's long-term growth. In particular, the promotion of the AVITA Consumer Notebook PCs and Nexstgo B2B/Commercial Notebook PCs to key markets in South East Asia has been ongoing. Also, efforts to further diversify the notebook portfolio have continued. It is worth noting that progress has been made by Nexstgo Company Limited (the wholly owned subsidiary of the Group responsible for Notebook PC business) in assisting its cooperative partner VAIO Corporation of Japan in distributing VAIO S11 and S13 B2B/Commercial Notebook PCs to markets including Hong Kong, Macau, Taiwan and Singapore. Furthermore, according to market intelligence, AVITA's 13-Inch Consumer Notebook PCs have gained a market share of a few percentage points in Taiwan even though it was debuted there only in December 2017. The Group has also continued to develop RCA and Venturer branded Android/Windows tablets, particularly those targeted at the pre-secondary education segment.

With regard to the Group's AV products, they continue to generate stable revenue in proportion to total sales. During the review period, the Group's sound bar systems and home theatre products performed consistently, while demand for traditional DVD products declined significantly.

Even though the Group's production lines are already highly automated (with almost 100 robots), especially those for the assembly of tablets, but there was still a shortage of high-skilled workers during the peak production months, resulting in the Group having to incur extra expenses to recruit technically trained employees from other provinces. Consequently, the Group has continued to make investments in automation at the Houjie Town production facility. Apart from enabling the Group to lower its expenditure on direct labour, which as mentioned earlier has been spiralling upwards continuously, automation also allows the Group to benefit from greater flexibility in terms of meeting changes in capacity or new product specifications. It is therefore to be expected that in the foreseeable future, the Group will continue to further automate and streamline its many processes (in addition to its highly automated final assembly lines) in order to maintain its competitive edge.

As a result of weighing various options for increasing capital reserves, the Group has entered into an agreement subsequent to the review period, i.e. on 12th October 2018, to dispose of its property located at 7th Floor, Block 1 and car parks on ground floor of Kwai Tak Industrial Centre, 15-33 Kwai Tak Street, Kwai Chung, New Territories. The disposal will enable the Group to earn a reasonable return on investment and the proceeds will be used for general working capital.

Prospects

The escalation of the trade war between China and the United States and further interest rate hikes by the Federal Reserve are becoming increasingly likely in the second half of the financial year. The Group will closely monitor how such developments will affect the consumer electronics industry.

Undaunted by possible headwinds on the horizon, the management will persist in efforts aimed at moving the Group away from serving mainly discount retail channels and more towards higher value-added and upscale segments of the market, particularly through the development of products geared toward this plan. The Group's current line-up of Consumer Notebook PCs and B2B/Commercial Notebook PCs are a reflection of this strategy, and it is the Group's aim to bolster their respective range of products going forward.

In the second half of the financial year, there will be a total of almost 10 Consumer Notebook PCs and B2B/Commercial Notebook PCs from the Group to be introduced to markets in Asia. Furthermore, in the second half of the year, the Group's AVITA and Nexstgo Notebook PCs are going to be launched to more countries in Asia, including China, Thailand, India, Vietnam, Indonesia, and the Philippines. It is important to note that the contribution to the Group's revenue by Consumer Notebook PCs and B2B/Commercial Notebook PCs has already increased from around HK$13 million in the whole last financial year to around HK$93 million in the six months ended 30th September 2018.

The period under review has for sure been one of the most challenging the Group has ever faced in its almost 50 years history, but the many efforts underway to further upgrade various facets of its operation, such as the development of more high value-added products, the promotion of its own brands, the continuous introduction of advanced technologies and automation to the production plant, the recruitment of more skilled men and women to join its high-caliber workforce, and most important of all, the evolution and expansion of its business model to include providing products to upscale segments of the market, will stand the Group in good stead for stable and long-term growth.

Liquidity and financial resources

The Group's total equity and total equity per share as at 30th September 2018 were HK$1,586 million (31st March 2018: HK$1,729 million) and HK$2.74 (31st March 2018: HK$2.99) respectively.

As at 30th September 2018, we had cash and deposits of HK$197 million. After deducting bank loans of HK$669 million, we had net borrowings of HK$472 million (31st March 2018: net cash of HK$146 million). Following the settlement of Christmas orders in December, our cash position is expected to improve. However, to cope with our future growth of notebook business, we are considering various possibilities in strengthening our financial capabilities.

Liquidity and financial resources *(continued)*

As at 30th September 2018, our inventory was HK$789 million (31st March 2018: HK$404 million). We take a cautious approach to monitor the inventory level especially during this environment with uncertainty.

Trade receivables balance as at 30th September 2018 was HK$988 million (31st March 2018: HK$824 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 2018 was HK$269 million (31st March 2018: HK$150 million).

Capital expenditure on fixed assets during the six months ended 30th September 2018 was HK$17 million (2017: HK$58 million). As at 30th September 2018, we had capital commitments contracted but not provided for in respect of property, moulds, plant and machinery and renovation amounting to HK$8,179,000 (31st March 2018: HK$13,030,000).

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 2018, the amount totalled RMB74 million.

Employees

As at 30th September 2018, the Group had approximately 1,400 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 2018, 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 Wai Sing, Wilson	47,072,000	–	47,072,000	8.14%
Mr LEUNG, Jimmy	1,144,000	–	1,144,000	0.20%
Mr LI Wah Ming	260,000	–	260,000	0.04%

(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 2018, 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 2018, 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**
Mr LEUNG Kai Ching, Kimen	Beneficial owner	246,061,400 *(note i)*	42.53%
Shundean Investments Limited	Beneficial owner	225,911,400 *(note i)*	39.04%
Mr Webb David Michael	Beneficial owner	58,085,400 *(note ii)*	10.04%
Preferable Situation Assets Limited	Beneficial owner	38,435,000 *(note ii)*	6.64%
Mr LEUNG Wai Lap, David	Beneficial owner	34,828,190	6.02%

Notes:

(i) Mr LEUNG Kai Ching, Kimen beneficially owned 20,150,000 shares, and in addition he held 225,911,400 shares through Shundean Investments Limited, which was 100% directly owned by him.

(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 2018, 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

Neither the Company nor its subsidiary companies has purchased or sold any of the Company's shares for the six months ended 30th September 2018 and the Company did not redeem any of its shares during the same period.

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 2018, 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 15th 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 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 30th September 2018.

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 2018.

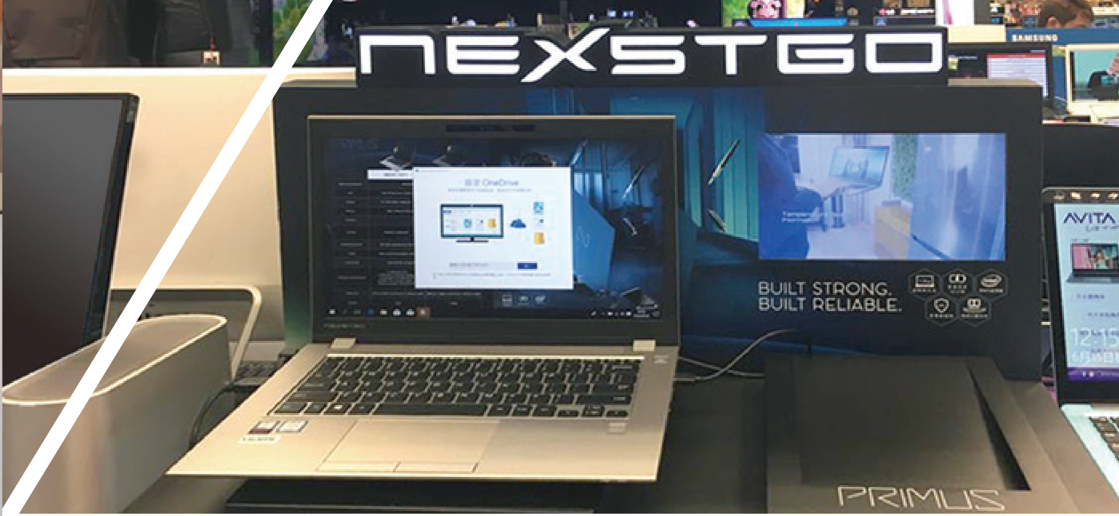
The audit committee comprises three independent non-executive directors of the Company, namely Mr CHEUNG, Johnson, Mr LI Wah Ming and Mr LEE Tak Chi.

LIST OF DIRECTORS

As at the date of this report, the Board of Directors comprises four executive directors, namely 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
Chairman and Chief Executive Officer

Hong Kong, 26th November 2018



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$3,490
$4,490

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