ALCO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 328)

INTERIM REPORT 2019

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 30 September 2019, as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2019

		Unaudited Six months ended 30 September	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**462,113**	836,096
Cost of goods sold	*5*	**(552,017)**	(867,806)
Gross loss		**(89,904)**	(31,710)
Other income	*4*	**1,697**	5,767
Selling expenses	*5*	**(56,034)**	(86,472)
Administrative expenses	*5*	**(59,797)**	(65,199)
Other operating expenses	*5*	**(4,468)**	(4,073)
Operating loss		**(208,506)**	(181,687)
Finance income		**857**	2,941
Finance costs		**(8,182)**	(5,084)
Loss before income tax		**(215,831)**	(183,830)
Income tax (expense)/credit	*6*	**(1,194)**	3,054
Loss for the period		**(217,025)**	(180,776)
Loss for the period attributable to:			
– Equity holders of the Company		**(216,786)**	(180,598)
– Non-controlling interests		**(239)**	(178)
		(217,025)	(180,776)
Loss per share attributable to equity holders of the Company			
– Basic	*7*	**(HK30.0 cents)**	(HK31.2 cents)
– Diluted	*7*	**(HK30.0 cents)**	(HK31.2 cents)
Dividends	*8*	**–**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	Note	Unaudited Six months ended 30 September **2019** **HK$'000**	2018 *HK$'000*
Loss for the period		**(217,025)**	(180,776)
Other comprehensive income/(loss), net of tax:			
Item that may be reclassified subsequently to profit or loss			
Currency translation differences		**12,907**	(16,521)
Item that will not be reclassified to profit or loss			
Revaluation gain on transfer of owner-occupied property to investment property	*9*	**–**	65,423
Total comprehensive loss for the period		**(204,118)**	(131,874)
Total comprehensive loss for the period attributable to:			
– Equity holders of the Company		**(203,879)**	(131,696)
– Non-controlling interests		**(239)**	(178)
		(204,118)	(131,874)

CONSOLIDATED BALANCE SHEET

As at 30 September 2019

	Note	**Unaudited 30 September 2019 HK$'000**	Audited 31 March 2019 HK$'000
Non-current assets			
Property, plant and equipment		**245,831**	316,797
Investment properties		**73,510**	78,238
Intangible assets		**3,938**	2,004
Right-of-use assets		**293,693**	–
Deferred income tax assets		**19,425**	8,153
Prepayments, deposits and other receivables	10	**8,727**	11,560
		645,124	416,752
Current assets			
Inventories		**651,285**	480,248
Trade and other receivables	10	**608,752**	531,304
Other current assets		**6,276**	7,986
Current income tax recoverables		**13,123**	13,075
Cash and cash equivalents		**102,455**	277,474
		1,381,891	1,310,087
Current liabilities			
Trade and other payables	11	**292,992**	205,340
Current income tax liabilities		**336**	3,396
Lease liabilities		**25,848**	–
Borrowings	12	**301,200**	143,397
		620,376	352,133
Net current assets		**761,515**	957,954
Total assets less current liabilities		**1,406,639**	1,374,706

	Note	**Unaudited 30 September 2019 *HK$'000***	Audited 31 March 2019 *HK$'000*
Capital and reserves attributable to equity holders of the Company			
Share capital		**72,324**	72,324
Reserves		**1,029,216**	1,257,744
		1,101,540	1,330,068
Non-controlling interests		**(837)**	(598)
Total equity		**1,100,703**	1,329,470
Non-current liabilities			
Other payables	*11*	**4,289**	4,720
Lease liabilities		**244,181**	–
Borrowings	*12*	**57,466**	40,516
		305,936	45,236
Total equity and non-current liabilities		**1,406,639**	1,374,706

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

	Unaudited									
	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital redemption reserve	Exchange and other reserves	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 1 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 30 September 2018	57,860	308,278	1,089	(18,903)	11,783	65,423	1,161,000	1,586,530	(747)	1,585,783
At 1 April 2019 (audited)	**72,324**	**417,679**	**1,089**	**(14,794)**	**11,783**	**65,423**	**776,564**	**1,330,068**	**(598)**	**1,329,470**
Adjustment on adoption of HKFRS 16	**-**	**-**	**-**	**-**	**-**	**-**	**(24,649)**	**(24,649)**	**-**	**(24,649)**
At 1 April 2019 (restated)	**72,324**	**417,679**	**1,089**	**(14,794)**	**11,783**	**65,423**	**751,915**	**1,305,419**	**(598)**	**1,304,821**
Comprehensive income/(loss)										
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(216,786)**	**(216,786)**	**(239)**	**(217,025)**
Other comprehensive income										
Currency translation differences	**-**	**-**	**-**	**12,907**	**-**	**-**	**-**	**12,907**	**-**	**12,907**
Total comprehensive income/(loss)	**-**	**-**	**-**	**12,907**	**-**	**-**	**(216,786)**	**(203,879)**	**(239)**	**(204,118)**
At 30 September 2019	**72,324**	**417,679**	**1,089**	**(1,887)**	**11,783**	**65,423**	**535,129**	**1,101,540**	**(837)**	**1,100,703**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 September 2019

	Unaudited Six months ended 30 September 2019 HK$'000	2018 HK$'000
Net cash used in operating activities	**(339,146)**	(571,134)
Net cash used in investing activities	**(10,627)**	(34,509)
Net cash generated from financing activities	**174,754**	523,419
Net decrease in cash and cash equivalents	**(175,019)**	(82,224)
Cash and cash equivalents at the beginning of the period	**277,474**	279,520
Cash and cash equivalents at the end of the period	**102,455**	197,296
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**102,455**	197,296

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 31 March 2019.

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 31 March 2019, except the Group has adopted certain HKASs and Hong Kong Financial Reporting Standards ("HKFRS") which are mandatory for the financial year beginning 1 April 2019.

2. Changes in accounting policies

The following new and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2019:

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

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. Except for HKFRS 16, the adoption of other new and amendments to standards has no material impact on the Group.

2. Changes in accounting policies *(continued)*

Details of the changes in accounting policies for HKFRS 16 is outlined below.

(i) Adjustments recognised on adoption of HKFRS 16

The Group has adopted HKFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules for lessees are therefore recognised in the opening unaudited consolidated balance sheet on 1 April 2019. On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases" ("HKAS 17"). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 3.68%. In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with remaining lease term of less than 12 months as at 1 April 2019 as short-term lease;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease".

2. Changes in accounting policies *(continued)*

(i) Adjustments recognised on adoption of HKFRS 16 (continued)

As a lessee, the Group's leases are mainly rentals of offices and land use rights. The right-of-use assets for leases were measured on a modified retrospective basis as if new rules had always been applied and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The change in accounting policy affected the following items in the unaudited consolidated balance sheet at 1 April 2019:

Balance sheet (extracted)	**31 March 2019 As originally presented** *HK$'000*	**Adjustments on adoption of HKFRS 16** *HK$'000*	**1 April 2019 Restated** *HK$'000*
Non-current assets			
Property, plant and equipment	316,797	(68,070)	248,727
Prepayments, deposits and other receivables	11,560	(6,198)	5,362
Right-of-use assets	–	324,934	324,934
Deferred income tax assets	8,153	11,548	19,701
Non-current liabilities			
Lease liabilities	–	275,842	275,842
Current liabilities			
Trade and other payables	205,340	(16,055)	189,285
Lease liabilities	–	27,076	27,076
Equity			
Reserves	1,257,744	(24,649)	1,233,095

2. Changes in accounting policies *(continued)*

(i) Adjustments recognised on adoption of HKFRS 16 (continued)

The reconciliation between the operating lease commitments as disclosed by applying HKAS 17 as at 31 March 2019 and the lease liabilities recognised in the interim condensed consolidated balance sheet as at 1 April 2019 (date of initial application of HKFRS 16) is as follows:

	Unaudited *HK$'000*
Operating lease commitments disclosed as at 31 March 2019	378,842
Discounted using the lessee's incremental borrowing rate at the date of initial application	305,553
Less: short-term leases recognised on a straight-line basis as expense	(2,131)
Less: low-value leases recognised on a straight-line basis as expense	(504)
Lease liabilities recognised as at 1 April 2019	302,918
Of which are:	
Current lease liabilities	27,076
Non-current lease liabilities	275,842
	302,918

2. Changes in accounting policies *(continued)*

(ii) The Group's leasing activities and how these are accounted for

The Group's leases are mainly rentals of offices. Rental contracts of offices are typically made for fixed periods of 1 to 16 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but certain leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of office were classified as operating leases and the payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments)
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liability,

– any lease payments made at or before the commencement date less any lease incentives received,

– any initial direct costs, and

– restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

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 consumer electronic products, including audio, video and tablet 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							
	2019				2018			
	AV products	**Notebook products**	**Elimination**	**Group**	AV products	Notebook products	Elimination	Group
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue								
External sales	**367,356**	**94,757**	**-**	**462,113**	742,761	93,335	–	836,096
Inter-segment sales	**4,881**	**30,905**	**(35,786)**	**-**	4,375	10,158	(14,533)	-
	372,237	**125,662**	**(35,786)**	**462,113**	747,136	103,493	(14,533)	836,096
Segment results	**(105,932)**	**(102,574)**		**(208,506)**	(84,931)	(96,756)		(181,687)
Finance income				**857**				2,941
Finance costs				**(8,182)**				(5,084)
Loss before income tax				**(215,831)**				(183,830)
Income tax (expense)/credit				**(1,194)**				3,054
Loss for the period				**(217,025)**				(180,776)
Loss for the period attributable to								
– Equity holders of the Company				**(216,786)**				(180,598)
– Non-controlling interest				**(239)**				(178)
				(217,025)				(180,776)

3. Segment information *(continued)*

(b) *Segment analysed by geographical areas*

The segment revenue for the six months ended 30 September 2019 and 2018 are as follows:

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
North America	**355,319**	749,386
Asia	**97,919**	69,641
Europe	**8,334**	14,953
Others	**541**	2,116
	462,113	836,096

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 30 September 2019 and 2018 were located or utilised in the PRC, Taiwan or Hong Kong.

4. Other income

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Fair value gain on investment properties	**–**	3,180
Rental income from investment properties	**1,223**	2,569
Others	**474**	18
	1,697	5,767

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 30 September	
	2019	2018
	HK$'000	*HK$'000*
Amortisation of intangible assets	**–**	6,770
Depreciation of property, plant and equipment	**23,334**	23,648
Depreciation of right-of-use assets	**13,291**	–
Employee benefit expenses	**109,782**	114,184
Severance pay	**8,976**	2,017

6. Income tax (expense)/credit

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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	
	2019	2018
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	**–**	(20)
– PRC corporate income tax	**(918)**	(1,554)
– Overseas corporate income tax	**–**	(48)
– Under provision in prior years	**–**	(35)
Deferred income tax (expense)/credit	**(276)**	4,711
Income tax (expense)/credit	**(1,194)**	3,054

7. 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 30 September	
	2019	2018
Loss for the period attributable to equity holders of the Company *(HK$'000)*	**(216,786)**	(180,598)
Weighted average number of ordinary shares in issue	**723,244,650**	578,595,720
Basic loss per share *(HK cents)*	**(30.0)**	(31.2)

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 30 September 2019 and 2018. Therefore, the diluted loss per share are the same as the basic loss per share.

8. Dividends

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Interim dividend: nil (2018: nil)	**–**	–

At a meeting held on 28 November 2019, the directors did not recommend an interim dividend for the six months ended 30 September 2019 (2018: nil).

9. Fair value gain

On 1 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 for the six months ended 30 September 2018.

10. Trade receivables, prepayments, deposits and other receivables

	30 September 2019 *HK$'000*	31 March 2019 *HK$'000*
Non-current		
Prepayments, deposits and other receivables	**8,727**	11,560
Current		
Trade receivables	**586,144**	512,054
Less: Loss allowance	**(1,480)**	(1,300)
Trade receivables, net	**584,664**	510,754
Prepayments, deposits and other receivables	**24,088**	20,550
	608,752	531,304
Total	**617,479**	542,864

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.

10. Trade receivables, prepayments, deposits and other receivables *(continued)*

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

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
0 – 30 days	**51,124**	41,899
31 – 60 days	**122,015**	62,159
61 – 90 days	**60,908**	69,602
Over 90 days	**350,617**	337,094
	584,664	510,754

11. Trade and other payables

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
Non-current		
Other payables	**4,289**	4,720
Current		
Trade payables	**196,903**	94,128
Other payables and accruals	**82,947**	95,979
Refund liabilities *(Note i)*	**13,142**	15,233
	292,992	205,340
Total	**297,281**	210,060

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

(i) When a customer has a right to return product within a given period, the Group recognises a refund liability for the amount of consideration received for which the entity does not expect to be entitled. The Group also recognises a right to the returned goods.

11. Trade and other payables *(continued)*

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

	30 September 2019 HK$'000	31 March 2019 HK$'000
0 – 30 days	**131,482**	76,763
31 – 60 days	**61,547**	8,446
61 – 90 days	**3,680**	2,008
Over 90 days	**194**	6,911
	196,903	94,128

12. Borrowings

	30 September 2019 HK$'000	31 March 2019 HK$'000
Non-current		
Borrowings, secured *(Note i)*	**57,466**	40,516
Current		
Borrowings, secured *(Note i)*	**1,694**	1,705
Borrowings, unsecured *(Note ii)*	**299,506**	141,692
	301,200	143,397
Total borrowings	**358,666**	183,913

Notes:

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

ii) The borrowings are unsecured and are supported by corporate guarantees given by the Company *(Note 14)*.

As at 30 September 2019, the borrowings were denominated in USD or HKD (31 March 2019: same) and interest bearing at a margin over HIBOR, LIBOR or Lender's Costs of Funds (31 March 2019: same).

12. Borrowings *(continued)*

The maturity of borrowings is as follows:

	30 September 2019 *HK$'000*	31 March 2019 *HK$'000*
Within one year	**301,200**	143,397
In the second year	**8,392**	1,758
In the third to fifth year	**23,187**	5,607
Over five years	**25,887**	33,151
	358,666	183,913

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

13. Share capital

	Company Ordinary Shares *Number of shares*	*HK$'000*
Authorised:		
Ordinary shares of HK$0.10 each		
At 1 April 2018, 31 March 2019 and 30 September 2019	**800,000,000**	**80,000**
Issued and fully paid:		
Ordinary shares of HK$0.10 each		
At 1 April 2018	**578,595,720**	**57,860**
Issuance of rights shares	**144,648,930**	**14,464**
At 31 March 2019 and 30 September 2019	**723,244,650**	**72,324**

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*

	30 September 2019 **HK$'000**	31 March 2019 *HK$'000*
Property, moulds, plant and machinery and renovation contracted but not provided for	**6,870**	8,815

(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:

	30 September 2019 **HK$'000**	31 March 2019 *HK$'000*
Not later than one year	**2,619**	2,280
Later than one year and not later than five years	**6,039**	6,806
	8,658	9,086

The lease terms are from one to five years.

Group results

For the six months ended 30 September 2019, the Group recorded turnover of HK$462 million (2018: HK$836 million), and loss attributable to shareholders of HK$217 million (2018: loss of HK$181 million). One of the most significant factors for the decline was the on-going trade war between China and the United States, which affected a substantial portion of the Group's AV business.

As the China-US trade war dragged on, many China-based electronics manufacturers had to fight for an ever smaller slice of the export business. In fact, many of these manufacturers were willing to accept orders at below material costs, thus undermining gross margins for all industry players. Such dire conditions significantly affected the Group's ability to take on orders as highly fierce price competition made many of these orders unacceptable. To make matter worse, the Group was also unable to pass on the impact of additional US tariffs that took effect on 15 October to its retail customers. In certain cases, the Group had to absorb the extra import duties entirely, because the after-tariff retail prices would have been unacceptable to consumers; in some other cases, the price increases were too high to be absorbed by either the Group or its retail customers and hence would slow down the pace of re-ordering; and then there were customers who simply adopted a wait-and-see attitude, thus continuously delaying their purchase decisions.

Even though the Group's notebook PC business made progress in terms of number of units sold when compared with the same period last year, it did not grow as significantly as it could have due to a weakened economy in China, social incidents in Hong Kong, and relatively weak consumption sentiment in Taiwan (It would appear that an important part of Taiwan's economy remains dependent on the manufacturing industries, with many participants in one way or another reliant on links with China, hence were affected by the Mainland's current economic situation). Nonetheless, to further raise awareness of the Group's notebook PC brands and capture market shares, during the period under review, continuous investments were made in advertising and promotions, product development and R&D, and penetration into new markets.

The directors do not recommend the payment of an interim dividend (2018: nil) for the six months ended 30 September 2019.

Business review

To the disappointment of many business leaders on both sides of the Pacific and around the world, the China-US trade dispute has worn on for more than a year, creating stiff headwinds for many companies and industries, thus hindering both micro and macroeconomic growth.

The Group's AV business, consisting of audio, visual and tablet products, was severely impacted by the toxic trading environment. When the US government began imposing tariffs against made-in-China goods, they also started targeting specific industry leaders in China, such as ZTE and Huawei. Many manufacturers directly or indirectly connected to such industry leaders' supply chains began to collapse causing some to desperately fight for orders regardless of cost. Such hysterical competition made it virtually impossible for the Group to find or secure profitable orders, leading eventually to a severe erosion in gross margin.

Tariffs imposed on 15 October mainly affected the Group's audio and visual products. And as aforementioned, the Group was forced to absorb all of the extra import duties for certain models (as the after-tariff retail prices made such products unappealing to consumers); some of the Group's products had yet to receive any re-order because the extra import duties for them were too high to absorb by the Group or its customers, leading to loss of revenue as well as profit. Still other challenges faced include delayed purchases by some customers who took a wait-and-see approach, while other customers elected to source similar products from other parts of Asia, Mexico, South America, or Eastern Europe.

As far back as 2016, the Group was already aware of the need to establish alternative revenue streams to enable it to diversify its business segment and territory. Such awareness served as catalyst for the Group's development of AVITA Consumer Laptops and Nexstgo B2B/Commercial Laptops. As at 30 September 2019, the Group offered 13 models of Consumer Laptops and Commercial Laptops, including the AVITA ADMIROR flagship laptop and Nexstgo PRIMUS NX301 ultra lightweight business-grade laptop, both of which were launched in May at COMPUTEX 2019 in Taipei, Taiwan. The Group's involvement in the distribution of Commercial Notebook PCs for VAIO Corporation of Japan via Nexstgo Company Limited, a wholly owned subsidiary, has also been progressing with a line-up under Nexstgo's distribution expanding to a total of six models, including the newly launched A12, SX12, SX14 and SE14.

Business review *(continued)*

Even though the Group's notebook PC business made progress in terms of the number of units sold when compared with the same period last year, it however did not grow as quickly as it could have been. Among the factors impeding its growth included a weakened Chinese economy which resulted in many popular local Chinese notebook PC brands competing purely based on price; social incidents in Hong Kong (– one of the most important markets for AVITA laptops,) that led to a substantial drop in consumer traffic to electronics and I.T. stores, especially those in traditionally high-tourists traffic districts; and relatively cooled consumers spending in Taiwan (– yet another important market for AVITA laptops), due likely to the fact that an important part of the Taiwan economy is still dependent on the manufacturing industries where many participants have varying links with China, hence are susceptible to the PRC's slowing economy.

Despite the aforementioned developments, the Group has continued to invest in advertising and promotions, product development and R&D, with a view to further raise awareness and increase market shares for its notebook PC brands. In addition, the Group has made towards penetrating untapped markets. As regard to operations for the period under review, efforts were made to reduce overall fixed costs and headcount in the Group. Furthermore, resources allocated to the different Asia markets for the Group's notebook PC business were re-focused with the majority of the investments concentrated on the top 5 markets.

Prospects

Based on the latest information available, negotiations aimed at defusing the trade dispute between China and the United States have made some progress. However, as negotiation tactics are constantly changing, there are no guarantees that the anti-Chinese-goods tariffs will be lowered in the immediate future. After visiting some South East Asia based ODM/OEM manufacturing candidates last year, the Group has started in-depth price negotiations with some of them, especially those in Vietnam and Malaysia. The expectation is to have ODM/OEM manufacturers in South East Asia possibly producing AV products on behalf of the Group starting in the year 2020.

In addition to the defensive action outlined above, the Group will proactively leverage its many years of experience in audio-visual technologies, together with its know-how in the latest IoT features, such as wireless charging, app controls and the like, to create "Smart Home Products" that possess much higher value add than those of the Group's traditional AV products. Already, some of these products are set to make their debut at the upcoming Consumer Electronics Show ("CES") in January 2020, in Las Vegas.

Prospects *(continued)*

Also set to premiere at CES will be the Group's new AVITA Consumer Laptops and Nexstgo B2B/Commercial Laptops, with their official launch dates to be during the Group's last financial quarter of 2020. Apart from the constant enhancement and uprating of the AVITA and Nexstgo laptop line-ups, the Group has also been examining for new markets to enter, while concurrently continuing to strengthen its presence in existing markets. In fact, as recently as October, the Group launched both AVITA and VAIO laptops in the Middle East markets and is also pursuing distributors in Pakistan, Bangladesh and Australia. Besides market expansion, owing to the Group's growing expertise and reputation in the notebook PC industry, it has been approached by brand-name laptop companies to co-develop as well as to produce on ODM/OEM basis laptops for general consumers as well as laptops for gaming applications.

In view of the likelihood that the adverse trading environment will last for a while into the future, the Group will constantly review to find ways to reduce its overall fixed costs and restructure its organization if necessary. Furthermore, resources allocated to the various markets for the Group's notebook PC business will also be constantly reviewed and re-allocated, with the majority of the investments going to the most promising markets.

With the on-going trade war between China and the US, un-resolved Brexit timetable, seesawing diplomatic relations between North Korea and the US, as well as threats of potential tariffs to be imposed by the United States on imports of European cars and parts, many companies around the world and especially manufacturers based in China are battling some of the strongest headwinds they have ever seen in decades. In particular, many China based manufacturers is also faced with the imminent challenge of a 15% tariff that is to be imposed on the 15th of December, if no full or even partial agreement is to be reached between China and the USA from now to then. Under such circumstance, even though the Group's management is convinced that the current business and operational reforms are in the right direction, but conditions going forward are indeed very difficult to predict so the Group will need to always be ready to adjust its operations and products strategies as the trading environment evolves.

Liquidity and financial resources

The Group's total equity and total equity per share as at 30 September 2019 were HK$1,101 million (31 March 2019: HK$1,329 million) and HK$1.52 (31 March 2019: HK$1.84) respectively.

As at 30 September 2019, we had cash and deposits of HK$102 million. After deducting bank and other borrowings of HK$358 million, we had net borrowings of HK$256 million (31 March 2019: net cash of HK$93 million). Following the settlement of Christmas orders in December, our cash is expected to improve.

As at 30 September 2019, our inventory was HK$651 million (31 March 2019: HK$480 million). We take a cautious approach to monitor the inventory level especially during this environment with uncertainty.

Trade receivables as at 30 September 2019 were HK$585 million (31 March 2019: HK$511 million). It is our policy to deal with creditworthy customers and to adopt a prudent credit policy, and we have been closely monitoring credit risk.

Trade payables as at 30 September 2019 were HK$197 million (31 March 2019: HK$94 million).

Capital expenditure on fixed assets during the six months ended 30 September 2019 was HK$5 million (2018: HK$17 million). As at 30 September 2019, we had capital commitments contracted but not provided for in respect of property, moulds, plant and machinery and renovation amounting to HK$6,870,000 (31 March 2019: HK$8,815,000).

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.

Employees

As at 30 September 2019, the Group had approximately 1,100 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 30 September 2019, 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	68,311,153	–	68,311,153	9.45%
Mr LEUNG, Jimmy	1,660,179	–	1,660,179	0.23%

(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 30 September 2019, 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 30 September 2019, 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 (deceased)	Beneficial owner	293,000,000 *(note i)*	40.51%
Shundean Investments Limited	Beneficial owner	267,812,500 *(note i)*	37.03%
Mr Webb David Michael	Beneficial owner	75,344,884 *(note ii)*	10.42%
Mr LEUNG Wai Lap, David	Beneficial owner	52,280,631	7.23%
Preferable Situation Assets Limited	Beneficial owner	48,080,841 *(note ii)*	6.65%

Notes:

(i) Mr LEUNG Kai Ching, Kimen (deceased) beneficially owned 25,187,500 shares, and in addition he held 267,812,500 shares through Shundean Investments Limited, which was 100% directly owned by him.

(ii) Mr Webb David Michael beneficially owned 27,264,043 shares, and in addition he held 48,080,841 shares through Preferable Situation Assets Limited, which was 100% directly owned by him.

Save as disclosed above, as at 30 September 2019, 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 30 September 2019 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 2019, except with deviation from code provision A.2.1.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by 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 2019.

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 30 September 2019.

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

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 LEUNG, Jimmy, Mr LIU Lup Man and Mr LEUNG Kam Fai, Peter and three independent non-executive directors, namely Mr LEE Tak Chi, Mr CHEUNG, Johnson and Mr CHEUNG Ka Wing.

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

Hong Kong, 28 November 2019