ALCO HOLDINGS LIMITED

Stock Code 股份代號：328

ANNUAL REPORT

年報 2020

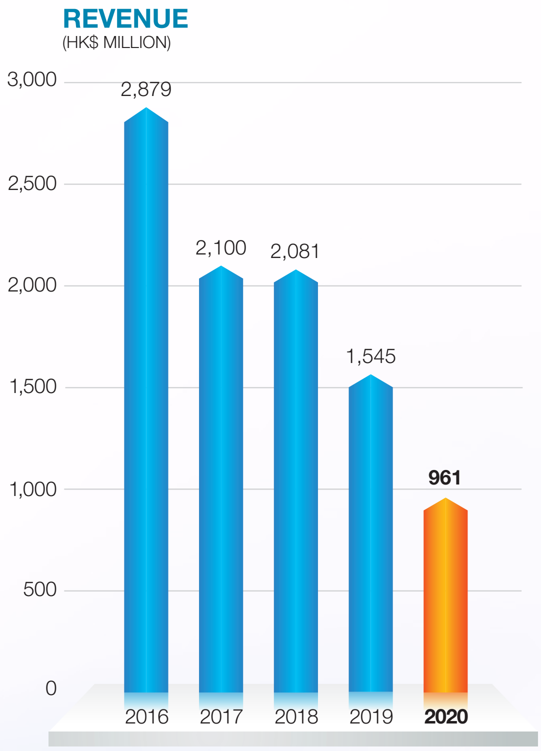
Contents

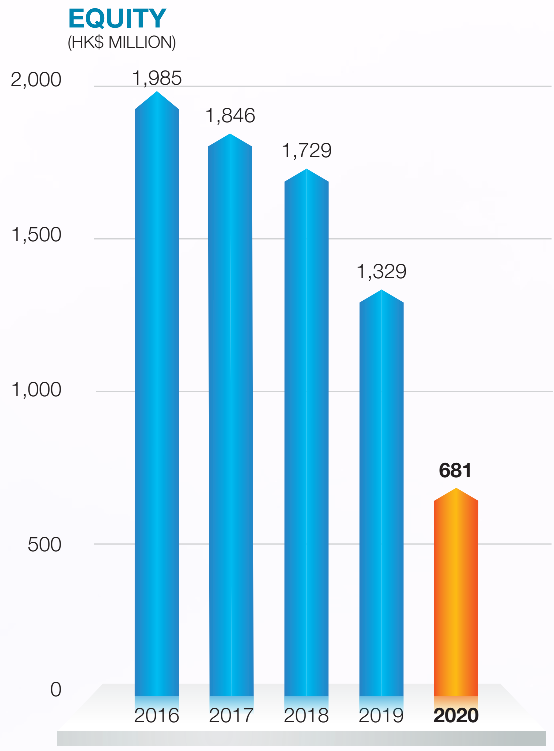
	Pages
Corporate Information	2
Financial Highlights	3
Chairman's Statement	4-11
Biographical Details of Directors and Senior Management	12-13
Corporate Governance Report	14-18
Environmental, Social and Governance Report	19-38
Report of the Directors	39-48
Independent Auditor's Report	49-58
Consolidated Income Statement	59
Consolidated Statement of Comprehensive Income	60
Consolidated Balance Sheet	61-62
Consolidated Statement of Changes in Equity	63
Consolidated Statement of Cash Flows	64
Notes to the Consolidated Financial Statements	65-138
Principal Properties	139
Five-year Financial Summary	140

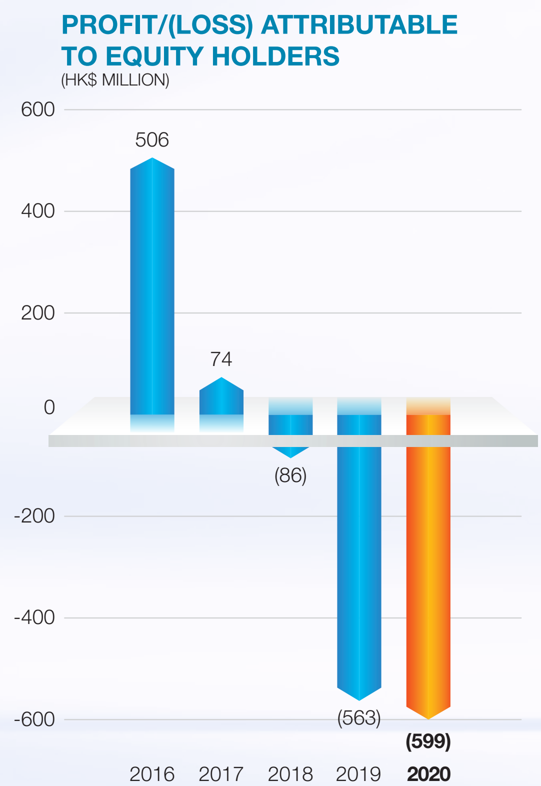
Corporate Information

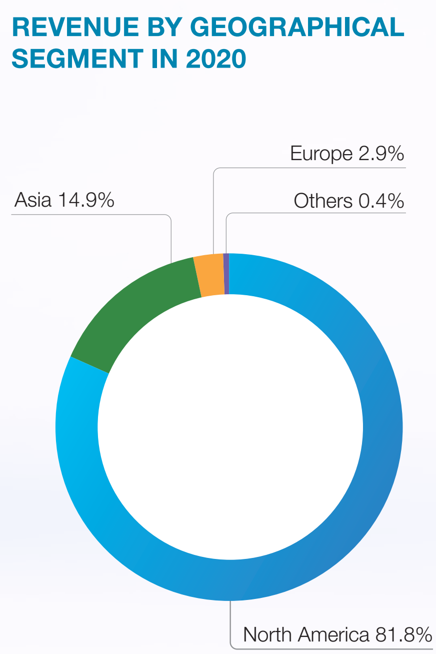
Directors	Mr LEUNG Wai Sing, Wilson *(Chairman)* Mr LEUNG, Kam Fai, Peter Mr LIU Hoi Keung Mr LEE Tak Chi* Mr CHEUNG, Johnson* Mr CHEUNG Ka Wing* * *Independent non-executive directors*
Company Secretary	Mr LIU Hoi Keung
Principal Bankers	Hang Seng Bank Limited Shanghai Commercial Bank Limited Chong Hing Bank Limited
Auditor	PricewaterhouseCoopers *Certified Public Accountants* *Registered Public Interest Entity Auditor*
Legal Advisers on Bermuda Law	Conyers
Registered Office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Head Office and Principal Place of Business	11/F, Metropole Square 2 On Yiu Street Sha Tin New Territories Hong Kong
Principal Registrars	Conyers Corporate Services (Bermuda) Limited Clarendon House 2 Church Street Hamilton HM11 Bermuda
Registrars in Hong Kong	Tricor Abacus Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Website	http://www.alco.com.hk
Stock Code	328

Financial Highlights









Chairman's Statement

GROUP RESULTS AND DIVIDENDS

On behalf of the Board of Directors, I hereby present the financial results of Alco Holdings Limited and its subsidiaries (collectively the "Group") for the year ended 31 March 2020.

For the year under review, the Group recorded turnover of HK$961 million (2019: HK$1,545 million) and net loss attributable to shareholders of HK$599 million (2019: net loss attributable to shareholders of HK$563 million). The net loss was partly the result of a decline in sales of approximately 38%, due mainly to the uncertainty created by the on-going China and US trade war that has dampened the desire of buyers in the United States (which is the key market for the Group's tablet and audio visual products) in placing large quantity orders as well as orders for models likely to be impacted by sudden imposition of tariffs. Furthermore, the outbreak of COVID-19 at the beginning of the year had devastated our production and delivery of products for February and March of this year. Continuous and substantial investments in advertising and promotions for AVITA, Nexstgo and VAIO notebook computers together with costs incurred in developing more variety of notebook models for different price points in different markets further impacted profitability.

Other reasons for the net loss was the impairment of inventories and certain non-current assets. For inventories, in addition to the provision of HK$153 million made in prior years, a further impairment of HK$24 million was made. As the Group's business has incurred losses. The Group has to assess the recoverable amounts of its underlying assets, pursuant to requirements of relevant accounting standards, an impairment provision of HK$136 million was made further on certain property, plant and equipment, right-of-use assets, intangible assets and receivables. Finally, there was a fair value loss of approximately HK$18 million of investment properties.

The directors do not recommend the payment of a final dividend (2019: Nil) for the financial year ended 31 March 2020.

Chairman's Statement

REVIEW OF OPERATIONS

Since the start of the financial year under review, overall macroeconomic conditions deteriorated further. The on-going and ever escalating China and US trade war together with a weakened global economy especially in the second half of the financial year have continued to erode the confidence of retailers, many of whom deciding to place orders in piecemeal fashion with small quantities and short lead time as their countermeasures against possible and unpredictable imposition of new tariffs. This resulted in the double damage to the Group of increases in production costs and reduced sales.

Moreover, the outbreak of COVID-19 since the last quarter of the financial year devastated the operation of our production facilities and our supply chains. A number of provinces and municipalities in Mainland China have taken emergency public health measures and various actions to prevent the spread of the virus. Some workers were not able to return to our Dongguan factory after the extended Chinese New Year Holiday. In addition, many of our suppliers in Mainland China also could not resume work immediately following the extended New Year Holiday period, leading to major disruptions in our supply chains. Such unprecedented conditions created by the COVID-19 pandemic resulted in a virtual shutdown of our Dongguan factory in the last quarter of the financial year, substantially delaying and reducing our delivery to customers, thus putting a significant dent to the Group's last-quarter revenue. Nevertheless, due to unrelenting efforts by our factory management and the positive development of the coronavirus in Mainland China since April 2020, the production capacity of our Dongguan facilities has resumed to almost 80%. However, since the Group's supply chains have not yet fully recovered, we would still be facing shortages of certain components at least in the months of July to September 2020.

Chairman's Statement

As has been widely reported, due to COVID-19, many countries implemented large scale lockdown, quarantine measures and the virtual stoppage of many economic activities. In view of significant drop in consumer demand and economic slump, many companies across different industries and even global corporations have had to adjust their earnings forecasts, with quite a few even declaring bankruptcy protection. Under such unprecedented circumstance, our retail customers' already fragile confidence receded further, with many of them adopting a conservative approach to sales and forecast. Most severely impacted were the Group's AV products that have traditionally been most popular with and dependent on US retailers. The anticipated growth of our notebook computer business was also not realized (even though the same quantity of units were shipped in the first 9 months of 2019 compared to the quantity shipped from 1 April 2018 to 31 March 2019) due to the shutdown of many technology partners' operations, resulting in delays of models originally planned to be launched in the last quarter of the financial year under review.

Despite such severe and unprecedented challenges during the year, the Group has continued to implement a long-term growth strategy that centers on the development and promotion of notebook computers under the AVITA, Nexstgo, Venturer and Vaio brands. As at the year under review, there are a total of more than 20 notebook computer models in the Group's portfolio. Besides the 10 key Asian markets which the Group has entered last year, namely Hong Kong, Taiwan, Singapore, Malaysia, China, India, Indonesia, Vietnam, Thailand and the Philippines, we have also entered the markets of Bangladesh, Middle East (Bahrain, Qatar and Saudi Arabia), the United Kingdom, Ireland, USA, Africa (Mauritius), Australia and Papua New Guinea in the year under review.

MAGUS 11.6"

LIBER V 14"

Moreover, in order to increase consumers' awareness of our notebook computer brands, we actively participated in different computer exhibitions worldwide during the year under review, e.g. CES in Las Vegas (Jan 2020), COMEX in Singapore (Sep 2019); Hong Kong Computer & Communications Festival (Aug 2019), and COMPUTEX in Taiwan (Jun 2019). In particular, AVITA notebook received global recognition and obtained international awards such as 2020 CES Innovation Awards and 2019 Computex Best Choice Award. One of the most exciting and encouraging news during the year under review was that according to industry survey, one of AVITA's notebooks became the bestselling model in Hong Kong in March of 2020, regardless of screen size, technical configuration, or retail price.

CES 2020


CHKCI 2019


CORPHUB 2019

EZONE MAGAZINE 2019

COMPUTEX TAIPEI 2019


CAPITAL MAGAZINE 2019

PC3 MAGAZINE 2019

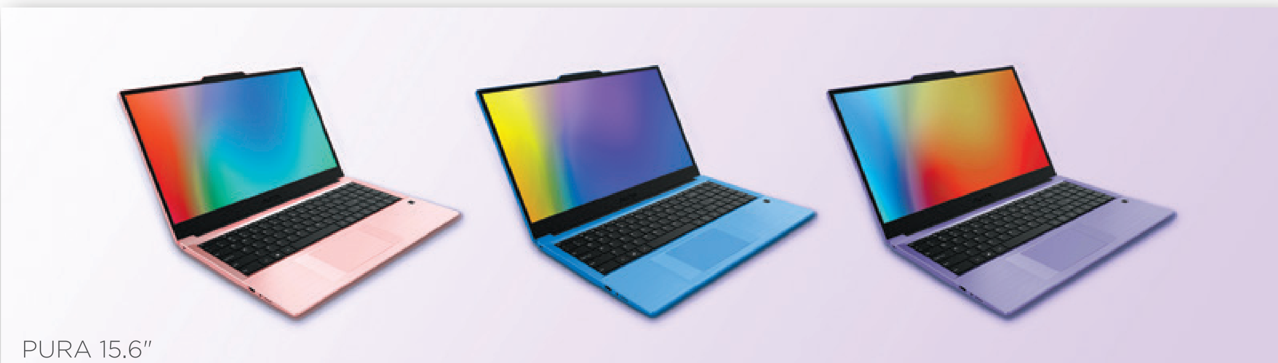
Chairman's Statement

PROSPECTS

Even though the coronavirus pandemic is gradually slowing and receding around the world, it won't be much of an exaggeration to say that financial year 2020/21 is and will be full of challenges, especially in view of the on-going and ever worsening trade dispute between China and the United States. It is therefore all the more important for the Group to remain committed to implementing our strategy of products and markets expansion based squarely on the strength and competitiveness of products under our own brands.

Consistent with this strategy, and with the Group's supply chains gradually recovering, a number of new notebook computer models have been launched in the first quarter of the 2020/2021 financial year, with all of them receiving very good feedback from retail channels in various markets. In fact, we have already shipped almost the same quantity of notebook computers in the first quarter of 2020/2021 compared to the entire year of 2019/2020. Furthermore, based on the latest forecasts from all the markets in which the Group's notebook computers are currently sold, and it will very much depend on our supply chains returning to normal, the quantity of notebook computers to be shipped in the second quarter of 2020/2021 should at least double the quantity shipped in the entire year of 2019/2020.

Such a surge in the demand for the Group's notebook computers is partly a result of an increasing number of companies looking at work from home (WFH) options and partly a result of students setting themselves up to study remotely at home. Furthermore, the recent surge in demand for our notebook computers is a direct consequence of the Group's unwavering determination to continuously promote and develop more variety of notebook models to suit different price points in different markets.



PURA 15.6"

ESSENTIAL 14"

As direct results of the above, we are now working very closely with large distributors and international chain stores in their interests to place large-quantity orders for our notebook computers. Based on substantial increase in the sales of our notebook business in the coming year, we are also working very closely with our supply chains in volume discount on component purchases, which in turn will help to increase our gross margin.

Since online shopping has become ever more popular and essential under COVID-19 in many countries, in addition to working with traditional brick-and-mortar retail channels, we are also actively channeling more and more of our sales online. We will continue to invest more resources in our direct online shops and digital marketing activities, with the aim that in the not-too-distant future, online sales will be a major contributor to the Group's overall revenue.


NEXSTGO NP15N2 15.6"

Chairman's Statement

Besides constantly bolstering our product portfolio and market presence, the Group is also mindful of the importance of strengthening our production capabilities. We have continued to automate and streamline our manufacturing operations, in order to reduce the reliance on direct labour, thus further boosting efficiency of our Dongguan facilities and the quality/reliability of our products. Despite already having more than 100 robots, the Group will continue to invest in automation, control manufacturing expenses, and ensure greater flexibility, which is particularly essential for handling the increasing demand of our notebook products.

For AV products, in addition to our regular line-up such as soundbars and home theatre systems, the Group is developing a series of Smart Furniture that incorporates audio and visual elements as well as wireless communication features. With our capabilities in AV and notebook computer technologies, we aim to develop a line-up of unique and attractive digital furniture products for the new generation of internet savvy consumers.

Chairman's Statement

Considering the political instability between China and the United States and the impact of COVID-19, the financial year 2020/21 remains extremely challenging to say the least. It is unknown to us when the pandemic will truly end and how the economic recovery will take place. However, we are certain that we will continue to take decisive measures, including streamlining various aspects of operations to lower costs, continuing to invest in developing new products and making good use of marketing costs to explore new markets and customers, further enhancing our online business and last but not least incessantly continue to automate our production activities. Backed by an experienced and dedicated management team, we have absolute confidence in the Group's long-term business prospects and success.

APPRECIATION

On behalf of the Board of Directors, I want to express my appreciation to the management team for their commitment and contributions over the past years. Furthermore, I would like to thank all members of Alco's Group of Companies for their trust, perseverance, and unwavering dedication. Equally important, I want to extend my sincere gratitude to our customers, business partners and shareholders, all of whom are greatly valued by the Group.

LEUNG Wai Sing, Wilson
Chairman and Chief Executive Officer

Hong Kong, 29 June 2020

Biographical Details of Directors and Senior Management

Executive Directors

Mr LEUNG Wai Sing, Wilson, aged 60, joined the Group in 1985 and is the Chairman and the Chief Executive Officer of the Group and takes full charge of the Group's overall strategy and operations. He holds a master of science degree in electrical engineering from Queen's University, Canada.

Mr LEUNG Kam Fai, Peter, aged 63, joined the Group in 1979 and was appointed as an executive director of the Company in 2019. He has more than 30 years of experience in the field of audio and visual products and he oversees the Group's supply chain function.

Mr LIU Hoi Keung, aged 55, joined the Group in 2020 and was appointed as an executive director and the company secretary. He holds a professional diploma in accountancy of the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) and a Master of Science degree in electronic commerce and internet computing of the University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He has over 30 years of experience in the field of auditing, accounting, finance, management and secretarial work, over 15 years of which were gained from working as directors in manufacturing companies listed on the Stock Exchange. He is an independent non-executive director of China Leon Inspection Holding Limited (stock code: 1586).

Independent Non-executive Directors

Mr LEE Tak Chi, aged 65, joined the Group in 2011 and was previously Associate Dean and Professor of School of Design, The Hong Kong Polytechnic University. He served as Board of Director of Automotive Parts and Accessory Systems R&D Centre and currently serves as Member of Assessment Panel of the Innovation and Technology Fund for Better Living established by the Hong Kong Government.

Mr CHEUNG, Johnson, aged 54, joined the Group in 2016 and holds a Bachelor of Science Degree (Hons) in Biology and a Master of Arts Degree in Economics from the University of British Columbia. He has more than 28 years of experience in the equity market and presently is the Director of Research at China Galaxy International Securities (Hong Kong) Co., Ltd.

Mr CHEUNG Ka Wing, aged 59, joined the Group in May 2019 and holds a Bachelor's Degree in Management Science from the Taiwan National Chiao Tung University. He has more than 35 years of experience in various well-known computer and electronic companies and is currently a special assistant to President of Heronelite Inc.

Biographical Details of Directors and Senior Management

Senior Management

Mr LEUNG Wai Lap, David, aged 59, is a brother of the Chairman of the Group. He joined the Group in 2005 and is the senior sales manager of the Group. He oversees the sales and marketing for the Group's products and services in North America.

Mr YIP Wing Shing, David, *S.B.S., M.H., J.P.*, aged 62, joined the Group in 1973. He is the Group's general manager and oversees the whole operation of the Dongguan factory. He has over 36 years of experience in the field of consumer electronic products.

Mr CHUNG Hau Yeung, Alex, aged 50, joined the Group in 2016 as CEO of Nexstgo Company Limited, a wholly owned subsidiary carring the business of notebook trading. He has over 23 years of experience in technology, IT, mobile and consumer electronics sectors. Prior to joining NEXSTGO, Mr Chung served as Country General Manager in Lenovo HK. He also held various senior management positions at the Shun Hing Group, Samsung Electronics and Sony Corporation. He holds an Executive Master of Business Administration from The University of Western Ontario, Canada. He is currently a Councilor of the Hong Kong Information Technology Federation, a fellow member of the Chartered Institute of Marketing (UK) and a Chartered Marketer. He also serves as an Advisory committee member of the School of Business in Hong Kong Baptist University and member of the Major Sports Events Committee under the Sports Commission.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the 12 months ended 31 March 2020, 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 and has been with the Group for 35 years.

THE BOARD

The Board is responsible for the formulation of the Group's business and strategic decisions and monitoring the performances of the management team.

The Board currently comprises three executive directors, namely Mr LEUNG Wai Sing, Wilson, Mr LEUNG, Kam Fai, Peter and Mr LIU Hoi Keung and three independent non-executive directors, namely Mr LEE Tak Chi, Mr CHEUNG, Johnson and Mr CHEUNG Ka Wing.

Six Board meetings were held during the year ended 31 March 2020. The attendance of each director is set out as follows:

Members of the Board	Attended/Eligible to attend
Executive Directors	
Mr LEUNG Wai Sing, Wilson	6/6
Mr LEUNG Kam Fai, Peter (appointed on 24 September 2019)	3/3
Mr LIU Hoi Keung (appointed on 1 February 2020)	0/0
Mr LEUNG, Jimmy (resigned on 13 December 2019)	5/5
Mr LIU Lup Man (resigned on 1 February 2020)	6/6
Independent Non-executive Directors	
Mr LEE Tak Chi	6/6
Mr CHEUNG, Johnson	6/6
Mr CHEUNG Ka Wing (appointed on 9 May 2019)	5/5
Mr LI Wah Ming (resigned on 30 June 2019)	2/2

The Company has received an annual confirmation of independence from each of the independent non-executive directors in accordance with rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all independent non-executive directors are independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr LEUNG Wai Sing, Wilson is both the chairman and the chief executive officer.

RE-ELECTION OF DIRECTORS

Mr LEUNG Kam Fai, Peter and Mr LIU Hoi Keung will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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 the directors of the Company. Having made specific enquiry of 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 12 months ended 31 March 2020.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee with written terms of reference in accordance with the Code provisions.

The Remuneration Committee currently comprises Mr CHEUNG, Johnson (chairman of the Remuneration Committee), Mr LEE Tak Chi and Mr CHEUNG Ka Wing, all of whom are independent non-executive directors.

The primary duties of the Remuneration Committee are to make recommendation on the policy and structure for the remuneration of the directors and senior management, and to consider and approve remuneration of the directors and senior management by reference to corporate goals and objectives. The existing remuneration package contains a combination of basic salary, discretionary performance bonus and fringe benefits. For the year, the Remuneration Committee was of the opinion that the remuneration packages were fair and commensurate with the market.

One Remuneration Committee meeting was held during the year ended 31 March 2020 and the attendance of each Committee member is set out as follows:

Members of the Remuneration Committee	Attended/Eligible to attend
Mr CHEUNG, Johnson	1/1
Mr LEE Tak Chi	1/1
Mr CHEUNG Ka Wing (appointed on 9 May 2019)	1/1
Mr LI Wah Ming (resigned on 30 June 2019)	0/0

Corporate Governance Report

AUDIT COMMITTEE

The Audit Committee currently comprises Mr CHEUNG, Johnson (chairman of the Audit Committee), Mr LEE Tak Chi and Mr CHEUNG Ka Wing, all of whom are independent non-executive directors.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the financial statements of the Group for the year ended 31 March 2020.

Two Audit Committee meetings were held during the year ended 31 March 2020 and the attendance of each Committee member is set out as follows:

Members of the Audit Committee	Attended/Eligible to attend
Mr CHEUNG, Johnson	2/2
Mr LEE Tak Chi	2/2
Mr CHEUNG Ka Wing (appointed on 9 May 2019)	2/2
Mr LI Wah Ming (resigned on 30 June 2019)	1/1

NOMINATION COMMITTEE

The Company established a Nomination Committee with written terms of reference in accordance with the Code provisions.

The Nomination Committee currently comprises Mr LEUNG Wai Sing, Wilson (chairman of the nomination committee), Mr LEE Tak Chi, Mr CHEUNG, Johnson and Mr CHEUNG Ka Wing.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, and to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorship. Besides, the Nomination Committee has adopted a board diversity policy in which the diversity of board members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, skills, knowledge and professional experience. The above aspects will be taken into account when the selection of board members is necessary.

Three Nomination Committee meetings were held during the year ended 31 March 2020 and the attendance of each Committee member is set out as follows:

Members of the Nomination Committee	Attended/Eligible to attend
Mr LEUNG Wai Sing, Wilson	3/3
Mr LEE Tak Chi	3/3
Mr CHEUNG, Johnson	3/3
Mr CHEUNG Ka Wing (appointed on 9 May 2019)	2/2
Mr LI Wah Ming (resigned on 30 June 2019)	1/1

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for the preparation of the financial statements of the Group. In preparing the financial statements, the Hong Kong Financial Reporting Standards have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

The auditor's responsibilities are set out in the Independent Auditor's Report.

AUDITOR'S REMUNERATION

For the year ended 31 March 2020, the remuneration paid to the Company's auditor, PricewaterhouseCoopers, is set out as follows:

Services rendered	Fees paid/payable HK$'000
Audit-related services	2,380
Non audit-related services	
Tax compliance services	233

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the ultimate responsibility for the risk management and internal control systems of the Company, and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The audit committee is responsible for overseeing the Company's risk management and internal control systems and procedures, and to report to the Board on any material issues and make recommendations to the Board.

The audit committee and management are responsible for identifying the risks of the Group and discussing those risks with management board. Management board shall evaluate whether the risks are significant and shall manage them according to a level that is acceptable to the Group when achieving its strategic objective.

The internal audit department is responsible for assisting the Board in evaluating the various components of the internal control system under the framework of control environment, risk assessment, control activities, information and communication, and monitoring, co-ordinating the implementation of the Group's risk management and internal control systems and reviewing the effectiveness of the systems regularly.

Corporate Governance Report

During the year, the internal audit department conducted reviews of the effectiveness and adequacy of the internal controls over sale and purchase cycles, inventory, payroll and fixed assets management of the Group. Recommendations for internal control were communicated with management and proper improvement plans had been implemented after due consideration.

The Company holds at least two audit committee meetings in a financial year, with the participation of external auditors. External auditors prepare audit committee reports and discuss the issues with the audit committee. Deficiencies or weaknesses in internal control (if any) are identified and appropriate corrective actions are to be taken.

The Board evaluates whether the information is inside information and requires disclosure according to the requirements of Securities and Futures Ordinance and the Listing Rules. Inside information shall be handled strictly confidential on a need-to-know basis and shall be disclosed to the public as soon as reasonably practicable.

DIRECTOR'S TRAINING

During the year under review, all directors have participated in professional training relevant to business developments and regulatory updates. All directors have provided the Company with their records of training which they received during the financial year.

DIVIDEND POLICY

The Company does not have any pre-determined dividend payout ratio. The Board considers a number of factors in declaration and payment of dividends, including the financial condition, results of operation and level of cash; statutory and regulatory restrictions; future prospects and any other factors that the Board may consider relevant. The Board has the discretion to declare and distribute dividends to the shareholders of the Company to the extent that the Company shall maintain adequate cash reserve for meeting its working capital requirements and future growth.

COMMUNICATION WITH SHAREHOLDERS

In order to allow shareholders and potential investors to make enquiries and provide comments in an informed manner, the Company has established a Shareholders' Communication Policy which sets out the ways shareholders and potential investors may communicate with the Company.

Shareholders and potential investors may send written enquiries to the Company Secretary of the Company by email to investor.enquiry@alco.com.hk, by fax to (852) 2597 8700 or by mail to 11/F, Metropole Square, 2 On Yiu Street, Sha Tin, New Territories, Hong Kong.

SHAREHOLDERS TO CONVENE A SPECIAL GENERAL MEETING

Under the Company's Bye-laws, shareholders holding not less than one-tenth of the paid-up capital of the Company can, by deposit a written requisition signed by the shareholders concerned to the Board or the Company Secretary to the principal place of business of the Company at 11/F, Metropole Square, 2 On Yiu Street, Sha Tin, New Territories, Hong Kong, require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

CONCLUSION

The Board believes that good corporate governance can safeguard the effective allocation of resources and protect shareholders' interest. The management will try to maintain, strengthen and improve the standard and quality of the Group's corporate governance.

Environmental, Social and Governance Report

ABOUT THIS REPORT

This report is to outline the performances on environmental, social and governance aspects of the Group ("ESG Report"). This ESG Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") under Appendix 27 to the Rules Governing the Listing of Securities on the Main Board of Stock Exchange ("Listing Rules"), and the provisions of "comply or explain" set out therein.

Reporting Principle and Scope

As identified by the materiality assessment, this ESG report covers the Group's overall performance, risks, strategies, measures and commitment in terms of quality of workplace environment, environmental protection, operating practice and community involvement for the business operations in Hong Kong and China during the reporting period for the year ended 31 March 2020 ("Reporting Period").

During the Reporting Period, the Group's main business scope remained unchanged as it was principally engaged in design, manufacturing and sale of AV and notebook products. Therefore, there was no significant change in our ESG management approach, strategy, priorities and objectives and this ESG report mainly covers the above operations.

Information about corporate governance structure of the Group and other relevant disclosure, please refer to page 14 to 18 of this annual report.

Materiality Assessment

Management and employees of the Group participated in preparing this ESG Report and assessing and reviewing its operating practices with regards to environment, social and governance aspects, as well as how these operating practices are material to our business operations and stakeholders. Pursuant to the ESG Guide, the ESG Report provides a quantitative description of the effectiveness of our ESG-related practices, together with general disclosure of these practices. During the Reporting Period, no KPI target was set; however, to the best knowledge of the Board, our environmental and social impact was, if any, within the industry standard and maximum limit placed by the government authorities.

Environmental, Social and Governance Report

CORPORATE SOCIAL RESPONSIBILITY – APPROACH AND POLICY

As a manufacturer, we uphold a high moral standard and are committed to operating in a socially and environmentally responsible manner while remaining economically sustainable. We have made corporate social responsibility ("CSR") as an integral part of our business practices as we seek various ways in communicating with stakeholders, with a view to balancing their interests. We review our initiatives of enhancing environmental protection, employee relationships, community involvement, corporate governance and other aspects from time to time, to maintain the best practices that contribute to a more sustainable world. In order to meet this commitment, both individual and collective efforts of our staff and the Group are needed. Hence, we ensure that all employees follow relevant guidelines. The Group's CSR policies are applicable to all directors, senior executives and other employees.

STAKEHOLDER ENGAGEMENT

We welcome opinions on the Group's approaches on the environmental, social, and governance aspects upon reading the ESG Report. Please share with us via email at investor.enquiry@alco.com.hk.

ENVIRONMENTAL ASPECT

The Group is mindful of the environmental impact of its business operations, as it establishes new goals and performance indicators every year based on its environmental approaches, results of impact and risk assessment, as well as other internal and external factors. The Group's environmental goals are centred around saving of water, electricity and energy, legal and proper disposal of waste, environmental safety and other areas.

The Group has enacted the Risk and Opportunities Control Procedures, which specifies internal measures for identifying potential risks and taking coping efforts, understanding needs and expectations from stakeholders, fulfilling compliance requirements, as well as preparing for contingencies. We evaluate the effectiveness of various measures with records being kept in order to developing a continuous improvement process.

Internal environmental policies, approaches and objectives will be set forth in internal guidelines, checklists and solutions, notice boards and other document as we ensure that all employees are made aware of them. All of these efforts in environmental protection are initiated and monitored by our devoted Environmental Control Committee, which is formed by members with qualifications of ISO 14001:2015 Environmental Management Systems: Internal Auditor and some of them obtained qualifications of EHS Manager from Lingnan College, Sun Yat-Sen University.

During the Reporting Period, there was no incident of non-compliance with local relevant environmental laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that have a significant impact on the Group, and therefore no penalties was imposed on the Group during the Reporting Period.

ENVIRONMENTAL ASPECT (CONTINUED)

Emissions

We have a manufacturing facility based in Houjie Town, Dongguan City, Guangdong Province in the People's Republic of China ("PRC") ("Houjie Factory"). Upon an acceptance inspection of the facility's construction and a thorough environmental assessment, Houjie Factory has received the Receipt on the Registration of Pollution Discharge for Fixed Pollution Sources (《固定污染源排污登記回執》) from the Environmental Protection Bureau of Dongguan City, which is a prerequisite for commencement of manufacturing activities. Houjie Factory has also obtained the certification of ISO14001:2015 for meeting the required standards for environmental management system.

Air Pollution – Exhaust Gas and Greenhouse Gas

We perform air quality inspection at workplace, encompassing benzene, methylbenzene, p-Xylene and so on, whereby results show that all emissions were within maximum levels allowed by the law, including the Emission Limits of Air Pollutants (《大氣污染物排放限值》)(DB44/27-2001) of Guangdong Province. Our Houjie Factory has passed the environmental performance evaluation by the Environmental Protection Bureau of the Dongguan Municipal Government and has obtained the Receipt on the Registration of Pollution Discharge for Fixed Pollution Sources (《固定污染源排污登記回執》).

We ensure that exhaust gases produced by operations of manufacturing machineries are filtered through scrubbers before they are released into the sky. Besides, we carry maintenance and repair on equipment and environmental check to monitor emission levels on a regular basis. Our other initiatives of reinforcing environmental control include establishing an energy-saving and emission reduction system, streamlining production procedures, enhancing employees' awareness, replacing machines with low-efficiency and installing energy-saving equipment.

Waste Management

Handling processes for all waste generated from production and daily operations are in strict compliance with internal guidelines such as Waste Control Procedures. In general, recycling and reuse of waste are encouraged under feasible circumstances. Hazardous and non-hazardous wastes are disposed of by qualified collectors, whilst electronic solid wastes including electronic devices, electronic parts and printed circuit boards are collected by companies approved by the government. Internal guidelines are in place to promote efficiency in consuming resources and reducing waste. To reduce electronic solid waste, there is a designated department responsible for the repair and maintenance of electronic hardware, so that computers and other electronic devices are functioning well in longer lifespan.

ENVIRONMENTAL ASPECT (CONTINUED)

Emissions (Continued)

Waste Management *(Continued)*

During the Reporting Period, our hazardous waste included waste engine oil, waste plastic pipes, waste sponge containing tin, and so on. Our non-hazardous waste consisted of paper board, paper tape, etc.

Emission Data:

Emissions	Unit	2020 Quantity	2019 Quantity
Greenhouse gas			
– Scope 1 – direct emission – fuel consumption		64,284	120,770
– Scope 2 – indirect emission – electricity consumption	kg of CO_2 equivalents	4,867,154	5,359,698
– Scope 3 – other indirect emission			
(i) paper consumption		6,672	17,184
(ii) water consumption		151,000	199,275
Exhaust gas			
– Nitrogen Oxide (NO_x)	gram	259,250	571,580
– Sulfur Oxide (SO_x)	gram	398	747
– Particulate matter (PM)	gram	25,444	54,622
Others			
– Wastewater	tonnes	151,000	199,275
– Non-hazardous waste	tonnes	123	218
– Other domestic waste	tonnes	180	254
– Hazardous waste	tonnes	1	2

ENVIRONMENTAL ASPECT (CONTINUED)

Emissions (Continued)

Waste Management *(Continued)*

Summary of KPI disclosure of Aspect A1 under the ESG Reporting Guide:

KPI A1.1	The types of emissions and respective emissions data (if applicable) are set forth above.
KPI A1.2	Emissions of indirect greenhouse gases are set forth above.
KPI A1.3	Data and type of hazardous wastes are set forth above.
KPI A1.4	Data and type of non-hazardous wastes are set forth above.
KPI A1.5	Measures to mitigate emissions can be referred to in the above paragraphs.
KPI A1.6	Description of how wastes are handled, reduction initiatives can be referred to in the Use of Resources – Waste Management.

Use of Resources

The Group's environmental efforts extend to its product design and introduction, production processes, and other areas. We strive to reduce carbon emissions through a more efficient use of resources in every business process. Electricity was used as the main energy sources for production and heat. In light of this, we focus our efforts on improving operating efficiency and strengthening conservation of energy, water and other raw materials.

The Group has prepared the Resources and Energy Saving Management Guidelines. Monthly statistics for our water, electricity and other energy consumption are maintained, to ensure that it is within our management targets. Our measures include:

– constantly checking whether our equipment and machines function properly, and replacing them when necessary;

– switching off machines, lights and air-conditioners after working hours to save electrical power;

– making detailed assessment on environmental impact prior to using new materials, equipment or production technique;

– setting production volume according to client orders, so as to avoid overstocking;

– promoting paperless office by using electronic documents

ENVIRONMENTAL ASPECT (CONTINUED)

Use of Resources (Continued)

In addition, we have built an energy management centre, enabling us to collect and monitor online data of energy consumption in real time. This helps us improve our energy saving efforts by replacing obsolete technology and technique with more efficient and advanced ones. For instance, replacing old and low-efficiency air compressor with new one with inverter allows us to save 80,000 kwh of electricity consumption a year.

Our Houjie Factory is strategically located whereby transportation distance is shortened and indirectly reduces our fuel consumption of vehicles.

Resource Consumption Data

Resources Consumed	Unit	2020 Quantity	2019 Quantity
Electricity	kWh	6,083,942	6,699,623
Paper	kg	1,390	3,580
Water	tonnes	188,789	249,094
Fuel – vehicles	litre	25,612	47,828
Packaging materials – plastic	tonnes	51	42
Packaging materials – corrugate	tonnes	730	1,711

ENVIRONMENTAL ASPECT (CONTINUED)

Use of Resources (Continued)

Summary of KPI disclosure of Aspect A2 under the ESG Reporting Guide:

KPI A2.1	Details of electricity consumption are set forth above.
KPI A2.2	Details of water consumption are set forth above.
KPI A2.3	Description of energy use efficiency initiatives can be referred to in the above paragraphs.
KPI A2.4	There is no issue in sourcing water that is fit for purpose whereas the Group considers its water consumption level is reasonable.
KPI A2.5	Details of packaging materials are set forth above.

Environment and Natural Resources

We stress the importance of protecting biodiversity and ecosystems and learn from our decades of experience in the manufacturing sector to promote green practices. We are devoted to minimise negative impact from our business operations as we step up our efforts in raising employees' awareness and enhancing our environmental control.

We have built, followed and maintained an effective environmental management system in accordance with the ISO 14001:2015 standards. We begin with our product design as environmental considerations are incorporated. Where applicable, our products meet the environmental and safety requirements of Restriction of Hazardous Substances Directive (RoHS), Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), Federal Communications Commission (FCC) and Edison Testing Laboratories (ETL); whilst materials used in products are inspected against harmful substances and durability at design stage.

In addition, we strive to promote environmental awareness amongst our staff. Besides green practices that we have been implementing in our workplace, we also provide relevant information and updates of latest environmental issues to our staff from time to time.

Summary of KPI disclosure of Aspect A3 under the ESG Reporting Guide:

KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them can be referred to in the above paragraphs.

SOCIAL ASPECT

Employment and labour practices

Employment

Employment Data (As at 31 March):

	Unit	2020 Quantity	2019 Quantity
Total employees	No. of people	961	1,296
By gender			
– male	percentage	59.0	58.6
– female		41.0	41.4
By employment type			
– permanent	percentage	100	100
– temporary/part-time		0	0
By rank			
– executives	percentage	12.5	11.1
– others		87.5	88.9
By age			
– below 30	percentage	23.3	25.8
– 30-39		29.9	30.2
– 40-49		35.2	34.5
– 50-59		10.9	9.0
– 60 or above		0.7	0.5
Average service tenure			
By rank			
– executives	No. of years	11.2	11.8
– others		9.1	8.1
By gender			
– male		9.4	8.3
– female		9.4	8.3
New employees			
– male	No. of people	83	190
– female		47	99
Employee turnover			
– male	No. of people	295	291
– female		170	222

SOCIAL ASPECT (CONTINUED)

Employment and labour practices (Continued)

Employment *(Continued)*

Recruitment and remuneration policies

The Group had 961 employees as at 31 March 2020. We undertake to provide a workplace where our staff is respected. We maintain a healthy balance between male and female employees. Our employment and labour practices were made in compliance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), Labour Law of the People's Republic of China（《中華人民共和國勞動法》）, Labour Contract Law of the People's Republic of China（《中華人民共和國勞動合同法》）and other applicable laws, as well as industry practices. All employees, upon joining the Group, are given briefing sessions, which cover terms of employment, remuneration packages, working hours, rest periods and holidays, termination, confidentiality and other areas.

During our recruitment process, we ensure that we take only work experiences, job-related knowledge and skills and capabilities into consideration. Such indications have been included in our recruitment policy manual and we do not allow any form of discrimination to any potential candidates.

References to the market condition and industry benchmark are made when determining the reasonable remuneration packages of our staff. Employees' job nature and experience, results of work appraisal, financial results of the Group are also considered. Annual discretionary bonuses are given to employees to acknowledge their hard work and reward those with outstanding performance. In accordance with relevant laws, we provide other benefits to employees, such as mandatory provident fund, medical insurance and social insurance. Factory employees are provided with dormitory and meals.

We tend to recruit short-term temporary workers during the peak season as supply of permanent, long-term workers is relatively limited in the market. Nevertheless, we offer healthy and safe work environment and salaries at a level shared with other long-term, permanent workers. As at 31 March 2020, there were no short-term temporary workers in the Group.

SOCIAL ASPECT (CONTINUED)

Employment and labour practices (Continued)

Employment *(Continued)*

Recruitment and remuneration policies (Continued)

During the Reporting Period, we experienced a higher voluntary turnover rate of employees, mainly attributable to the increasing job opportunities in certain provinces and cities in Mainland China which enjoy a rapid development. The Group does not deem the turnover rate worth concerning as it is in-line with the industry level.

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

Equal opportunities, diversity and inclusion

While we tend to employ local citizens living near Houjie Factory to support local employment, we embrace diversity and inclusion. Employees of all backgrounds are entitled to fair and adequate promotion opportunities. Our recruitment and development programs are supervised under our human resources management system to ensure no discrimination in any forms such as gender, age, nationality, sexual orientation, family status, race or religion, within the Group as we hire suitable candidates based on their work experience, knowledge and capabilities.

Employee communication

We value opinions from our staff. We encourage communication with and among employees. We ensure that opinions from work are heard and handled in a fair and appropriate manner. Employees are also encouraged to share their views and aspirations for their career and the Group's development. We also arrange group activities such as ball games, gatherings, to reinforce teamwork and build sense of belonging.

SOCIAL ASPECT (CONTINUED)

Employment and labour practices (Continued)

Employment *(Continued)*

Dismissal policies

For termination of employment contract, our human resources department will follow all procedures under the human resources management system and applicable labour laws. Termination clauses are set out in all employees' contracts. In case of complex situation, human resources department will consult our legal advisors and/or management to ensure such employment termination is in compliance with applicable laws.

Health and Safety

The Group is dedicated to offering a healthy and safe workplace for our staff and strives to eliminate potential health and safety hazards. Our employees at Houjie Factory might be exposed to certain occupational safety risks as operating of machines and equipment is involved. Therefore, we have a strict safety protocols for daily operations and handling of emergency in reference to Work Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) and other international standards. Supervisors will oversee every stage of the production processes to ensure that the protocols have been followed.

Work safety

Houjie Factory is equipped with adequate protective gear and equipment, including first-aid equipment, protective helmets, gloves and goggles, fire extinguishers, ear mugs and plugs, and particulate respirators. We also have regular fire drills and qualified fire aiders as well as an onsite medics, who will also be responsible for personal hygiene education. We perform regular check on production machines and equipment to make sure they function safely. Provision of annual body check is in place for workers in designated positions and provide insurance to cover possible injuries and death from work-related accidents. For certain job positions, we require our employees to obtain professional qualifications or licenses, such as drivers, forklift drivers, lifts operators, electrician, and chemical substance handlers. These employees are also provided with extra occupational health check.

With strengthened orientation training and safety prevention for manufacturing equipment, as well as reinforced regular inspection and safety awareness, we witnessed a lower rate of work-related injuries.

SOCIAL ASPECT (CONTINUED)

Employment and labour practices (Continued)

Health and Safety *(Continued)*

Work safety (Continued)

Throughout our operations, we encourage our employees, together with our Safe Production Committee, through constant communication, to react to any risks promptly so that they can be addressed as they arise.

In addition, the Group carries out, through site visit and telephone and email communication, an annual evaluation and review of suppliers on their workplace safety, corporate social responsibility, among others, to ensure that our business partners share the same value and safeguard their employees' health.

Employee care

We have been encouraging our employees to achieve work-life balance through activities sponsored or organised by the Group such as interest classes, ball games, and so on. We aspire that our employees are able to value physical and mental health as we strive to create a harmonious working environment to help relieve their stress. Meanwhile, we provide our employees with information about health and safety to improve their health consciousness.

During the Reporting Period, there was no significant incident of safety and work-related injury. There was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.

SOCIAL ASPECT (CONTINUED)

Employment and labour practices (Continued)

Development and Training

Training statistics

	Unit	2020 Quantity	2019 Quantity
Participating employees	No. of people	723	936
Participating employees as % of total employees	percentage	75.2	72.2
By gender			
– male	Total hours	15,300	20,698
– female		10,728	15,245
By gender			
– male	Average hours per employee	36	38.4
– female		36	38.4
By rank			
– executives	Total hours	2,448	3,725
– others		23,580	32,218
By rank			
– executives	Average hours per employee	36	38.4
– others		36	38.4

The Group introduces talents who suit our operating condition and development needs. Through a series of target-oriented and systematic development and training programs, we are devoted to nurture their growth. The Group organises and subsidises various internal and external staff training to enhance their skills and knowledge, including machine operating, work safety and production environment management, industry and market knowledge, business administration and so on. In Houjie Factory, employees have to go through at least 32 hours of required annual training.

SOCIAL ASPECT (CONTINUED)

Employment and labour practices (Continued)

Development and Training *(Continued)*

Training statistics (Continued)

We adjust our training courses based on business needs. For instance, due to change of our product mix, participation rates of training of Robotic Process Automation ("RPA") and laptop project-related training increased during the Reporting Period. Relevant qualifications and certificates are required for employees to perform certain duties. The Group will help arrange trainings for these employees. For other employees, we promote continuous learning, whereby we encourage our staff to obtain professional qualifications, such as engineering, human resources management, etc.

Meanwhile, the Group also updates the latest information of the industry and laws and regulations which are essential to the Group's operations and their job responsibilities from time to time. Training on obligations, duties and responsibilities of directors and senior management of publicly listed companies are also in place. This training is in line with the Securities and Futures Ordinance and the Listing Rules.

To retain talent and reward employee with good performance and high potential, we offer internal promotion prospects within the Group. We also encourage open communication and discussion between management and other employees about working condition, promotion and career goal, with a view to supporting their development and growth with the Company.

Labour Standard

The Group's internal rules and labour system are made in strict adherence to the Employment Ordinance（《僱傭條例》）and the Regulation on Labour Security Supervision（《勞動保障監察條例》）, the Labour Standards Law（《勞動基準法》）and other applicable laws and regulations. All recruitment process and promotion activities are closely monitored under the Group's human resources management scheme to prevent child labour, forced labour, or any discrimination by race, religion, age or disability. The Group will conduct investigations, punishment or dismissal of relevant employees immediately when any noncompliance is being discovered. If necessary, the Group will further improve the labour mechanism against illegal behaviors.

During the Reporting Period, there was no child or forced labour in the Group's operations.

OPERATING PRACTICES

Supply Chain Management

The Group had approximately 300 suppliers during the Reporting Period, who mainly supplied us with TFT Displays, ICs, mechanical components,etc. We did not witness any significant change in geographical locations of suppliers. Our suppliers are mainly from the PRC, Hong Kong and Taiwan.

The Group endeavours to maintain an appropriate and legitimate supply chain management to promote sound practices in our supply chain. We have a set of supplier management procedures and supplier evaluation standards which are from time to time perform site inspection at suppliers' premises in order to evaluate and maintain the quality of the suppliers.

We maintain a long-term business relationship with our suppliers. China-based suppliers are preferred due to cost advantage in transportation. However, we make strict assessment of our suppliers on cost, quality, and delivery performance as required to fulfill their responsibilities under the procurement contracts. Our goal is to maintain a healthy balance of suppliers on a comparable platform so that they can compete each other and ultimately providing benefits to our company.

We also maintain close communications with our suppliers through telephone conference, site visits, and email, to align them with the Group's standards on legal compliance, social responsibilities, labour standards, work safety and health, environmental protection and other aspects. We will evaluate internally any suppliers who do not meet our requirements or fail to fulfill contract liability. These suppliers will be replaced immediately and compensate any losses arising from their failure to fulfill contract liability.

Product Responsibility

Through strict implementation of the guidelines and policies, we undertake to provide quality products to consumers. While we make products that satisfy consumer needs, we also carry out quality and safety assurance work during manufacturing processes to ensure the products are able to pass the safety and environmental standards of respective sale regions. We will promptly handle and investigate customer complaints to facilitate improvement of our service and product quality.

Environmental, Social and Governance Report

OPERATING PRACTICES (CONTINUED)

Product Responsibility (Continued)

Customer satisfaction

To improve customer satisfaction, it is our policy to respond and handle quickly to customer complaints. Customers' feedback on our products is valuable as a driving force to keep us working better.

During the Reporting Period, there were no material complaints or damage claim on our product and service quality from our clients.

Data privacy and intellectual property

Due to our business nature, we might be handling intellectual property owned by our clients or other parties, such as certain patented technology. Therefore, we have formulated strict guidelines and prevent employees from dishonest or inappropriate use of intellectual property. Such guidelines are communicated to our employees and are reinforced from time to time.

Our operation does not involve data privacy. Nevertheless, the Group has a clear set of rules in handling and protecting data privacy and all of our employees are required to follow such rules.

Advertising and labeling

While we engaged in large-scale marketing campaigns or advertisement to promote our business or products, we also have designated sales representatives to meet with customers from time to time to endorse our products and services. We ensure that all relevant sales and marketing efforts are made in compliance with all applicable laws and standards enacted by the government and industry associations.

During the Reporting Period, the Group complied with all relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters.

OPERATING PRACTICES (CONTINUED)

Anti-corruption

The Group complies with all relevant anti-corruption laws and regulations, such as the Prevention of Bribery Ordinance (《防止賄賂條例》) of Hong Kong Laws, the Criminal Law of the People's Republic of China (《中華人民共和國刑法》) and the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), and other relevant laws and regulations that are related to corruption, bribery, extortion, money-laundering and other frauds.

To reinforce corporate governance, we have formed an audit committee, while hiring external lawyers and auditors to offer opinions on our financial reporting and other compliance issues. While we have complied with Stock Exchange's corporate governance requirements on listing companies, we will continue to review and improve our internal control and corporate governance.

We have abstracted relevant sections of the Prevention of Bribery Ordinance in Hong Kong into the code of conduct. Our employees are required to be aware of and declare if they have personal interests which may conflict with the company's interests.

Whistle-blowing policy

The Group encourages its employees, suppliers, customers and other stakeholders to report any misconduct. We will promptly carry inspection and take necessary measures while protecting the identity of the whistle-blower.

During the Reporting Period, we had not identified any non-compliance in relation to corruption, bribery, extortion, fraud and money laundering, which had a significant impact on the Group. The Group will regularly review its internal anti-corruption system and improve it when necessary.

COMMUNITY

Community Investment

The Group strives to fulfill our responsibilities as a corporate citizen and undertake to make positive contribution to society. The Group will continue to look into ways of promoting the spirit of corporate social responsibility within the company by organizing or participating in appropriate community activities, donations or scholarship programs. We, through this kind of events, aspire to create the idea of giving back from our employees, foster closer relationships among the Group, our employees and the communities by caring for and helping those in need.

During the Reporting Period, we participated in blood donation event, youth volunteer activities, as well as took part in and provided venue for community basketball games. Meanwhile, we have employed 20 people from the community where we operate.

Environmental, Social and Governance Report

REFERENCES TO HKEX ESG REPORTING GUIDE

Subject Areas	Content	Section in This ESG Report
A. Environmental Aspect		
A1 Emissions		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Aspect – Emissions
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental Aspect – Use of Resources
A3 Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental Aspect – Environment and Natural Resources
B. Social Aspect		
Employment and Labour Practices		
B1 Employment		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Social Aspect – Employment and Labour Practices – Employment
B2 Health and Safety		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Social Aspect – Employment and Labour Practices – Health and Safety

Subject Areas	Content	Section in This ESG Report
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Social Aspect – Employment and Labour Practices – Development and Training
B4 Labour Standard		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Social Aspect – Employment and Labour Practices – Labour Standards
Operating Practices		
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Social Aspect – Operating Practices – Supply Chain Management
B6 Product Responsibility		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Social Aspect – Operating Practices – Product Responsibility
B7 Anti-corruption		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Social Aspect – Operating Practices – Anti-corruption

Environmental, Social and Governance Report

Subject Areas	Content	Section in This ESG Report
Community		
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Social Aspect – Community – Community Investment

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 March 2020.

PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 19 to the consolidated financial statements.

Analysis of the Group's performance for the year by product and geographical area is set out in Note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 59.

The directors did not declare an interim dividend.

The directors did not recommend the payment of a final dividend.

BUSINESS REVIEW

A review of the business of the Group during the year as required by Schedule 5 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) is included in the Chairman's Statement and covered by different sections in this annual report. Those sections form part of this Report of the Directors.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to managing and, where possible, minimizing environmental impacts attributable to its operation. The Group actively controls and endeavors to reduce emissions and waste, and uses energy and resources in an efficient manner. It also uses environmental-friendly production parts in its manufacturing operation. In addition, the Group's management team constantly reviews the effectiveness of the environmental protection measures and makes improvement where necessary.

Report of the Directors

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes the importance of good relationships with its employees, customers and suppliers to meet long-term business goals.

Employees are considered valuable assets of the Group and are reasonably remunerated according to performance, qualification and market trend. Remuneration packages, including medical insurance and education subsidies, will be reviewed regularly.

The Group has been building long-term relationships with customers and suppliers. A good relationship with suppliers helps develop practices of punctual delivery of raw materials with good condition. With reliable production parts, we are able to produce products with high quality and reliability for our customers. These all in turn benefit the Company and its shareholders as a whole.

IMPORTANT EVENTS AFTER YEAR END

As far as the Company is aware, no important events affecting the Company that have occurred since the end of the financial year.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Company is aware, there was no material breach of or non-compliance with relevant laws and regulations that have a significant impact on the business and operation of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total equity and total equity per share as at 31 March 2020 were HK$681 million (2019: HK$1,329 million) and HK$0.94 (2019: HK$1.84) respectively.

As at 31 March 2020, we had cash and deposits of HK$104 million. After deducting bank borrowings of HK$157 million, we had net bank borrowing of HK$53 million. With unused banking facilities of HK$376 million, the Group has adequate liquidity for future working capital requirements. In addition, we had long term loans from shareholders of HK$161 million and lease liability of HK$78 million.

LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

As at 31 March 2020, our inventory was HK$337 million (2019: HK$480 million). We take a cautious approach to monitor the inventory level especially during an unstable business environment. As at year end, apart from the opening provision, the Group had made an additional provision of certain slow moving and obsolete raw materials and finished goods totalling HK$24 million (2019: HK$34 million).

Trade receivables as at 31 March 2020 was HK$387 million (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 31 March 2020 was HK$40 million (2019: HK$94 million).

Capital expenditure on fixed assets during the year was HK$39 million (2019: HK$47 million). As at 31 March 2020, we had capital commitments contracted but not provided for in respect of moulds, plant and machinery and renovation amounting to HK$3 million (2019: HK$9 million).

Due to peg-rate system, we have limited exposure to trade-related foreign exchange risk as substantially all of our sales, purchases and borrowings are denominated in United States dollars and Hong Kong dollars. Adhering to the policy of not engaging in currency speculation, there were no speculative activities during the reporting financial year.

EMPLOYEES

As at 31 March 2020, the Group had approximately 960 (2019: 1,300) employees in the PRC, Taiwan and Hong Kong. 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.

Report of the Directors

MAJOR SUPPLIERS AND CUSTOMERS

The purchases and sales attributable to the Group's major suppliers and customers expressed as a percentage of total purchases and sales of the Group for the year ended 31 March 2020 are as follows:

Purchases	
– the largest supplier	11%
– five largest suppliers combined	30%
Sales	
– the largest customer	76%
– five largest customers combined	81%

None of the directors, their associates or shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above at any time during the year.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 29 and Note 35 to the consolidated financial statements respectively.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$20,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 14 to the consolidated financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on page 139.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 March 2020 amounted to HK$178,045,000 (2019: HK$772,835,000), comprising retained earnings and contributed surplus.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 140.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31 March 2020 and the Company has not redeemed any of its shares during the same financial year.

BANK LOANS AND OTHER BORROWINGS

An analysis of the Group's bank borrowings at 31 March 2020 and 2019 is set out below:

	Bank borrowings	
	2020	2019
	HK$'000	HK$'000
Within one year	**157,370**	143,397
In the second to fifth year	**–**	7,365
Over five years	**–**	33,151
	157,370	183,913

Report of the Directors

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 March 2020 are set out in Note 19 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the Group's retirement benefit schemes are set out in Note 8 to the consolidated financial statements.

Directors

The directors during the year and up to the date of this report were:

Mr LEUNG Wai Sing, Wilson
Mr LEUNG, Jimmy (resigned on 13 December 2019)
Mr LIU Lup Man (resigned on 1 February 2020)
Mr LEUNG Kam Fai, Peter (appointed on 24 September 2019)
Mr LIU Hoi Keung (appointed on 1 February 2020)
Mr LI Wah Ming, *S.B.S., J.P.* [1] (resigned on 30 June 2019)
Mr LEE Tak Chi [1]
Mr CHEUNG, Johnson [1]
Mr CHEUNG Ka Wing [1] (appointed on 9 May 2019)

[1] *Independent non-executive directors*

In accordance with clauses 87(1) and 86(2) of the Company's Bye-laws, Mr LEUNG Kam Fai, Peter and Mr LIU Hoi Keung will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACT

Each of the executive directors has entered into a service contract with the Company for a term of 3 years and such contract shall continue until terminated by either party giving to the other not less than 3 months notice in writing.

Each of the independent non-executive directors has entered into a service contract with the Company for a term of 3 years and such contract shall continue until terminated by either party giving to the other not less than 2 months notice in writing.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 12 and 13.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company has an interest in a business which competes or may compete with the business of the Group.

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws of the Company, Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty.

The Company has arranged Directors' liability insurance, which provides appropriate insurance cover for the Directors.

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 31 March 2020, 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%

(b) Long positions in underlying shares of the Company

At no time during the year 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 31 March 2020, 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 31 March 2020, 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. Mr. LEUNG's interests are now undergoing probate.

(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 31 March 2020, 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.

Report of the Directors

SHARE OPTION SCHEME

There was no share option scheme for the year ended 31 March 2020.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

CORPORATE GOVERNANCE

The Company is maintaining a high standard of corporate governance practices. Details of the corporate governance practices adopted by the Company are set out in Corporate Governance Report on pages 14 to 18.

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 year ended 31 March 2020.

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to and within the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at all times during the year ended 31 March 2020 and up to the date of this report.

AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming Annual General Meeting of the Company.

By order of the Board

LEUNG Wai Sing, Wilson
Chairman and Chief Executive Officer

Hong Kong, 29 June 2020

Independent Auditor's Report

羅兵咸永道

TO THE SHAREHOLDERS OF ALCO HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Alco Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 59 to 138, which comprise:

- the consolidated balance sheet as at 31 March 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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Independent Auditor's Report

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw your attention to Note 2.1(c) to the consolidated financial statements, which states that, the Group incurred a net loss of HK$599,430,000 and an operating cash outflow of HK$242,475,000 for the year ended 31 March 2020. As at 31 March 2020, the Group had total bank borrowings of HK$157,370,000 while its cash and cash equivalents was HK$104,481,000. The Group failed to comply with certain financial covenants in respect of the Group's facilities with three banks totaling HK$437,150,000, of which HK$88,272,000 was utilised by the Group as bank borrowings as of 31 March 2020. The Group's production and its customers are also adversely affected by the COVID-19 pandemic. These events or conditions, along with other matters as set forth in Note 2.1(c) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Provision for slow-moving and obsolete inventories
- Impairment of non-financial assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for slow-moving and obsolete inventories	
Refer to Notes 21 "Inventories" and Note 4 "Critical accounting estimates and judgements" to the consolidated financial statements.	We understood and tested the controls by which management identified obsolescence and determined the net realisable value of inventories.
At 31 March 2020, the carrying value of the Group's inventories amounted to HK$336,572,000 which was after the impairment provision for slow-moving and obsolete inventories of HK$176,467,000. Inventories are stated at the lower of cost and net realisable value in the consolidated financial statements.	We tested, on a sample basis, by comparing the estimated selling price with post year-end sales data of the selected items and tested the inventory aging by comparing the inventory records with the underlying documents. In addition, we discussed with management and inspected the latest sales pattern for both price and quantity for potential orders, and other factors, including the product change and the market trend.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for slow-moving and obsolete inventories (Continued)	
Management assessed the provision at each period end for slow-moving and obsolete inventories based on consideration of obsolescence of raw materials and work in progress, and the net realisable value of finished goods. The identification of inventory obsolescence and determination of estimated selling price less cost to sell require the use of significant judgement and estimates on factors such as their nature, ageing, latest selling price, and expectation of future sales orders. The estimates are also subject to uncertainty of market trends, customer demands and technological development. We focused on this area due to the significance of the balance and of the management judgement and estimates involved in determining the provision for impairment of slow-moving and obsolete inventories.	On a sample basis, we have further corroborated management's explanations and estimates with underlying documents and analysis of inventory aging and sales records. Based on the procedures performed above, we considered the estimates made by management in assessing the impairment provision for slow-moving and obsolete inventories to be supported by available evidence.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of non-financial assets	
Refer to Note 4 "Critical accounting estimates and judgements", Note 14 "Property, plant and equipment", Note 17 "Leases" and Note 18 "Intangible assets" to the consolidated financial statements. As at 31 March 2020, the carrying amount before impairment provision of property, plant and equipment, right-of-use assets and intangible assets amounted to HK$235,981,000, HK$96,003,000 and HK$810,000 respectively. During the year ended 31 March 2020, the business development and operation of both AV products and Notebook products segments were impacted by the trade war between China and United States, intensive market competition and the outbreak of Coronavirus Disease 2019 ("COVID-19") in the second half of the year. The Group incurred substantial operating loss compared to budget. Management review for impairment whenever events or changes in circumstances indicate that carrying amount of the assets may not be recoverable. In view of the business performance had been below management's expectation and other situation described above, management consider there were impairment indicators for these non-financial assets.	We tested management's impairment assessment of the non-financial assets by assessing the DCF used in the calculations as set out below. Comparing the key input data in management's DCF to the Board's approved budget and business plan; Assessing the methodology adopted and the mathematical accuracy of the underlying DCF calculations; Assessing the reasonableness of management's key assumptions and judgements exercised in DCF in relation to: AV products and notebook products revenue growth rates and material cost ratio by comparing them to historical performance and business plan, as well as benchmarking against industry forecast; and Discount rates by comparing with the cost of capital of comparable companies with assistance of our in house valuation specialists. We assessed the reasonableness of management determined recoverable amount of individual assets within the CGU by reference to the market prices available.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of non-financial assets (Continued)	
In carrying out the impairment assessment on a cash-generating unit ("CGU") basis as required by HKAS 36 "Impairment of assets", management identified and determined there is only one CGU given both AV products segment and Notebook products segment share the same group of non-financial assets. The Group assessed the recoverable amount of the CGU, which is the higher of the value-in-use ("VIU") and fair value less cost of disposal ("FVLCD"). Management adopted the income approach to prepare a 5-year discounted cash flow forecast ("DCF") to determine the recoverable amounts of the CGU under the VIU method. Individual assets are then further assessed for its recoverable amount if impairment is necessary for the CGU. Preparation of the DCF required the use of many assumptions and exercise of significant judgements in determining these assumptions.	Based on the above procedures performed, we found the judgements and estimates made by management in determining the recoverable amounts of these non-financial assets to be supportable based on the evidence we gathered.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of non-financial assets (Continued) Key assumptions adopted and judgements exercised in the preparation of the DCF included: – AV products revenue growth rates and material cost ratio – Notebook products revenue growth rates and material cost ratio – Discount rates The recoverable amount of the CGU determined were lower than their carrying amount, and management assessed the recoverable amount of property, plant and equipment and right-of-use assets based on quoted prices in secondary market to be HK$140,681,000 and HK$65,661,000, respectively. As a result, provision for impairment of HK$95,758,000, HK$30,342,000 and HK$810,000 in respect of property, plant and equipment, right-of-use assets and intangible assets, respectively were made for the year ended 31 March 2020. We focused on this area due to the significance of the carrying amounts of these non-financial assets to the consolidated balance sheet and high level of judgements and estimations are required by management in determining the recoverable amounts of these non-financial assets at the date of consolidated balance sheet.	

Independent Auditor’s Report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group’s financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Johnny Ka Keung Wong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 June 2020

Consolidated Income Statement

For the year ended 31 March 2020

	Note	2020 HK$'000	2019 HK$'000
Revenue	5	**961,246**	1,545,212
Cost of goods sold	7	**(1,136,174)**	(1,752,912)
Gross loss		**(174,928)**	(207,700)
Other (loss)/income, net	6	**(8,452)**	11,028
Selling expenses	7	**(123,181)**	(155,199)
Administrative expenses	7	**(120,202)**	(140,070)
Other operating expenses	7	**(5,668)**	(6,815)
(Provision for)/reversal of impairment losses on trade and other receivables		**(9,585)**	600
Provision for impairment of property, plant and equipment	14	**(95,758)**	(20,000)
Provision for impairment of right-of-use assets	17	**(30,342)**	–
Provision for impairment of intangible assets	18	**(810)**	(21,761)
Operating loss		**(568,926)**	(539,917)
Finance income	10	**1,109**	4,867
Finance costs	10	**(26,169)**	(16,165)
Loss before income tax		**(593,986)**	(551,215)
Income tax expense	11	**(5,444)**	(11,948)
Loss for the year		**(599,430)**	(563,163)
Loss attributable to:			
Equity holders of the Company		**(599,374)**	(563,134)
Non-controlling interests		**(56)**	(29)
		(599,430)	(563,163)
Loss per share attributable to equity holders of the Company			
– Basic	12	**(HK82.9 cents)**	(HK94.8 cents)
– Diluted	12	**(HK82.9 cents)**	(HK94.8 cents)
Dividends	13	**–**	–

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2020

	2020 HK$'000	2019 HK$'000
Loss for the year	**(599,430)**	(563,163)
Other comprehensive loss, net of tax:		
Item that may be subsequently reclassified to profit or loss		
Currency translation differences	**(6,734)**	(12,412)
Item that will not be reclassified to profit or loss		
Revaluation gain on transfer of owner occupied property to investment properties	**–**	65,423
Total comprehensive loss for the year	**(606,164)**	(510,152)
Attributable to:		
Equity holders of the Company	**(606,108)**	(510,123)
Non-controlling interests	**(56)**	(29)
	(606,164)	(510,152)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 March 2020

	Note	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment	14	**140,223**	316,797
Investment properties	15	**55,800**	78,238
Right-of-use assets	17	**65,661**	–
Intangible assets	18	**–**	2,004
Deferred income tax assets	30	**–**	8,153
Prepayments, deposits, and other receivables	22	**56,817**	11,560
		318,501	416,752
Current assets			
Inventories	21	**336,572**	480,248
Trade and other receivables	22	**442,155**	531,304
Other current assets	24	**459**	7,986
Current income tax recoverable		**13,856**	13,075
Cash and cash equivalents	23	**104,481**	277,474
		897,523	1,310,087
Current liabilities			
Trade and other payables	25	**128,679**	205,340
Current income tax liabilities		**4,961**	3,396
Lease liabilities	17	**31,050**	–
Bank borrowings	26	**157,370**	143,397
		322,060	352,133
Net current assets		**575,463**	957,954
Total assets less current liabilities		**893,964**	1,374,706

Consolidated Balance Sheet

As at 31 March 2020

	Note	2020 HK$'000	2019 HK$'000
Capital and reserves attributable to equity holders of the Company			
Share capital	28	**72,324**	72,324
Reserves	29	**609,250**	1,257,744
		681,574	1,330,068
Non-controlling interests		**(654)**	(598)
Total equity		**680,920**	1,329,470
Non-current liabilities			
Other payables	25	**4,666**	4,720
Lease liabilities	17	**47,178**	–
Bank borrowings	26	**–**	40,516
Loans from shareholders	27	**161,200**	–
		213,044	45,236
Total equity and non-current liabilities		**893,964**	1,374,706

The consolidated financial statements on pages 59 to 138 were approved by the Board of Directors on 29 June 2020 and were signed on its behalf.

LEUNG Wai Sing, Wilson
Director

LIU Hoi Keung
Director

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2020

	Attributable to equity holders of the Company					
	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 April 2018	57,860	318,768	1,353,170	1,729,798	(569)	1,729,229
Change in accounting policy	–	–	(1,900)	(1,900)	–	(1,900)
Restated as at 1 April 2018	57,860	318,768	1,351,270	1,727,898	(569)	1,727,329
Comprehensive loss						
Loss for the year	–	–	(563,134)	(563,134)	(29)	(563,163)
Other comprehensive (loss)/income						
Currency translation differences	–	(12,412)	–	(12,412)	–	(12,412)
Revaluation gain on transfer of owner occupied property to investment property	–	65,423	–	65,423	–	65,423
Total comprehensive income/(loss)	–	53,011	(563,134)	(510,123)	(29)	(510,152)
Transactions with owners						
2018 final dividend	–	–	(11,572)	(11,572)	–	(11,572)
Issuance of right shares	14,464	109,401	–	123,865	–	123,865
	14,464	109,401	(11,572)	112,293	–	112,293
Balance at 31 March 2019	72,324	481,180	776,564	1,330,068	(598)	1,329,470
Balance at 1 April 2019	**72,324**	**481,180**	**776,564**	**1,330,068**	**(598)**	**1,329,470**
Change in accounting policy (Note 2.2)	**–**	**–**	**(42,386)**	**(42,386)**	**–**	**(42,386)**
Restated as at 1 April 2019	**72,324**	**481,180**	**734,178**	**1,287,682**	**(598)**	**1,287,084**
Comprehensive loss						
Loss for the year	**–**	**–**	**(599,374)**	**(599,374)**	**(56)**	**(599,430)**
Other comprehensive loss						
Currency translation differences	**–**	**(6,734)**	**–**	**(6,734)**	**–**	**(6,734)**
Total comprehensive loss	**–**	**(6,734)**	**(599,374)**	**(606,108)**	**(56)**	**(606,164)**
Balance at 31 March 2020	**72,324**	**474,446**	**134,804**	**681,574**	**(654)**	**680,920**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 March 2020

	Note	2020 HK$'000	2019 HK$'000
Cash flows from operating activities			
Cash used in operations	31(a)	**(223,235)**	(186,894)
Interest received		**1,109**	4,867
Interest paid		**(19,337)**	(15,831)
Income tax paid		**(1,012)**	(3,644)
Net cash used in operating activities		**(242,475)**	(201,502)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(38,983)**	(46,776)
Proceeds from disposal of property, plant and equipment	31(b)	**3,095**	1,916
Payments for intangible assets		**(657)**	(1,186)
Net proceeds from disposal of investment property		**–**	88,350
Net cash (used in)/generated from investing activities		**(36,545)**	42,304
Cash flows from financing activities			
Proceeds from trust receipt loans		**671,857**	895,867
Repayments of trust receipt loans		**(690,094)**	(778,299)
Repayments of bank borrowings		**(8,306)**	(67,077)
Dividends paid to the Company's shareholders		**–**	(11,572)
Proceeds from loans from shareholders		**181,200**	93,840
Repayments of loans from shareholders		**(20,000)**	(93,840)
Repayments of principal element of leases liabilities		**(23,426)**	–
Net proceeds from issuance of right shares		**–**	123,865
Net cash generated from financing activities		**111,231**	162,784
Net (decrease)/increase in cash and cash equivalents		**(167,789)**	3,586
Cash and cash equivalents at the beginning of the year		**277,474**	279,520
Effect of foreign exchange rate change		**(5,204)**	(5,632)
Cash and cash equivalents at the end of the year	23	**104,481**	277,474

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION

Alco Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

During the year ended 31 March 2020, the Company and its subsidiaries (together, the "Group") are engaged in designing, manufacturing and selling of consumer electronic products including AV products and notebook products.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars ("HK$'000"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) New standard, amendments to standards and interpretation adopted by the Group

The following new standard, amendments to standards and interpretation are mandatory for the financial year beginning 1 April 2019:

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

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 April 2019. This is disclosed in Note 2.2. Other amendments to standards and interpretation listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) *New standard, amendments to standards, interpretation and conceptual framework not yet adopted*

The new standard, amendments to standards, interpretation and conceptual framework relevant to the Group which have been issued, but not effective for the financial year beginning 1 April 2020 and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions:

		Effective for accounting year beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of material	1 April 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest rate benchmark reform	1 April 2020
HKFRS 3 (Amendments)	Definition of business	1 April 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 April 2020
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Hedge accounting (Amendments)	1 April 2020
HKFRS 17	Insurance contracts	1 April 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be announced

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(c) Going concern basis

During the year ended 31 March 2020, the Group incurred loss for the year of HK$599,430,000 and reported a net cash used in operation of HK$242,475,000.

As at 31 March 2020, the Group had total bank borrowings of HK$157,370,000 while its cash and cash equivalents was HK$104,481,000. The Group failed to comply with certain financial covenants in respect of the Group's facilities with three banks totaling HK$437,150,000, of which HK$88,272,000 was utilised by the Group as bank borrowings as of 31 March 2020. Such non-compliance of covenants may give the relevant banks a right to cancel or suspend the facilities.

The performance of the Group's AV products segment had declined since 2017 due to intensive competition in the AV products industry which eroded the gross margin significantly. The China and US trade war has further adversely affected the sales of the Group's AV products during the year, as the Group is having more difficulty in securing profitable order after the additional tariffs imposed by the US government. In view of the decline in profitability of the AV products segment, the Group has started to invest in research and development of notebook products since 2017 in order to diversify its business. The decline in profit in AV products segment, together with the large upfront investment required for the development and marketing of notebook products have brought pressure to the profitability and working capital of the Group.

Furthermore, the outbreak of Coronavirus Disease 2019 ("COVID-19") had led to the suspension of production of the Group's factory in China from February to March 2020. The production has gradually resumed since March 2020. With the outbreak of COVID-19 in the US and other countries since March 2020, certain of the Group's customers postponed their purchase orders due to the uncertain market situation.

The above conditions indicate the existence of material uncertainties which may cast a significant doubt about the ability of the Group to continue as a going concern.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(c) Going concern basis (Continued)

In view of such circumstances and the uncertainties related to the possible impact of the COVID-19 pandemic, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The directors have reviewed the Group's cash flow forecast prepared by management covering a period of twelve months from 31 March 2020. The directors have taken certain plans and measures to mitigate the liquidity pressure, to improve its financial position and to deal with the potential impact of COVID-19, which include, but are not limited to, the following:

(i) On 18 June 2020 and 23 June 2020, the Group obtained written waivers from two banks mentioned above from complying with the relevant financial covenants for the year ended 31 March 2020. For the remaining banking facility of HK$41,200,000 with financial covenant breached, the Group has not obtained a waiver from the bank as such facility was not utilised as at 31 March 2020 and the Group does not plan to use that facility before the relevant financial covenant is met or waived. The Group will continue to monitor its compliance with the covenant requirements. Management will also discuss and negotiate with the respective banks to seek for revision of the terms and the restrictive undertaking requirements as and when necessary. Based on the communication with the banks, the directors are confident that the existing banking facilities will be renewed upon its annual review and continued to be available to the Group in view of the long-established relationships with the banks.

(ii) On 31 March 2020, the Group has entered into two amendments to the original loan agreements with the shareholders to extend the repayment date of the shareholders loan of HK$161,200,000 to 31 December 2021.

(iii) On 15 June 2020, the Group entered into a deed of funding undertakings with one of its major shareholders, Chairman and Chief Executive Director, Mr. Leung Wai Sing, Wilson ("Mr. Leung") to provide additional funding to the Group. The funding request notice could be issued at the discretion of the Company to Mr. Leung within eighteen months from the date of the deed, i.e. 15 December 2021. The total amount of funding undertakings shall not exceed HK$170,000,000.

    The funding when provided shall be treated as an advance to the Company and be repayable by the Company at a suitable time to be agreed between the Company and Mr. Leung, but in any event shall only be repaid after at least twelve months from the funding draw down date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(c) Going concern basis (Continued)

(iii) (Continued)

The undertakings shall cease to have effect after eighteen months from the date of the deed or upon the Company or any member of the Group having obtained additional long-term external bank borrowings or other sources of long-term financing with an aggregated principal amount of not less than HK$170,000,000, whichever is earlier.

On 16 June 2020, the Group drew down a loan of HK$50,000,000 from Mr. Leung under the terms of the deed. The loan is unsecured and repayable after eighteen months from the date of draw down and interest bearing at 1.3% over 1-month HIBOR per annum. The amount of available funding under the deed of funding undertakings was HK$120,000,000 as at 29 June 2020.

(iv) Based on the sales orders on hand for the notebook products up to June 2020, the directors have seen significant increase in sales comparing to the corresponding period in FY2019. In addition, sales orders for the AV products received up to June 2020 have also been in line with the forecast. The directors will continue with its effort in sales and marketing to promote the Group's notebook products in the market. Under the COVID-19 situation, the Group will focus more of its effort on online sales and OEM customers in the current year. The Group also closely monitors the market developments, review collection performance and bolster collection capability under the COVID-19 situation. The directors are confident that the Group would be able to obtain more sale orders going forward and further expand its production scale of its notebook products to improve the profit margin in order to improve its operating performance and reduce the Group's operating cash outflow.

(v) The Group will continue to take active measures to improve profitability and cash flow through various initiatives including further leveraging on capital investments made in the automation of manufacturing process to reduce production costs, improve efficiency and further strengthening its relationships with major suppliers to negotiate for lower cost of critical components and for better trading terms, and negotiate with its landlord for rental concession to mitigate the impact of COVID-19.

(vi) The Group will also continue to seek for other alternative financing and bank borrowings to finance the settlement of the existing financial obligations and future operating and capital expenditure.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(c) Going concern basis (Continued)

(vii) In light of the COVID-19 outbreak, the Group is closely monitoring the latest development and will continue to assess the impact of the pandemic on the Group's operations from time to time and to adjust its plan for the business to generate sufficient cash from its operations.

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to achieve its plans and measures as described above which have incorporated assumptions about future events and conditions that are subject to inherent uncertainties. Whether the Group will be able to continue as a going concern would depend upon the following:

(i) the successful implementation of the business plan to increase and accelerate the sales of notebook products and to collect the sales proceeds in the expected timeframe;

(ii) the successful implementation of measures over cost control and capital expenditures so as to improve its profit margin and generate adequate net cash inflow to strengthen its working capital position;

(iii) continuous compliance by the Group of the existing terms and conditions of the bank borrowings and, where applicable, successful negotiation with the banks to obtain waiver or to revise the existing terms and conditions of the bank borrowings for the continuous compliance thereof as and when needed such that the existing bank borrowings will continue to be available to the Group and be repaid in accordance with the agreed repayment schedules;

(iv) whether Mr. Leung will be able to provide further funding advance of up to HK$120,000,000 to the Group, as and when needed, under the funding undertaking as mentioned above; and

(v) whether the Group can successfully contain the impact of the pandemic on the Group's operations from time to time and adjusting its business plan to generate sufficient cash from its operations.

Should the Group be unable to achieve the above-mentioned plans and measures and operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in Accounting Policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements.

As indicated in Note 2.1(a) above, the Group has adopted HKFRS 16 Leases retrospectively from 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 April 2019. The new accounting policies are disclosed in Note 2.25.

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. 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 4.88%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in Accounting Policies (Continued)

(ii) Measurement of lease liabilities

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

	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	282,940
Less: short-term leases not recognised as a liability	(3,093)
Less: low-value leases not recognised as a liability	(504)
Lease liabilities recognised as at 1 April 2019	279,343
Of which are:	
Current lease liabilities	22,780
Non-current lease liabilities	256,563
	279,343

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 31 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in Accounting Policies (Continued)

(iv) Adjustments recognised in the consolidated balance sheet at 1 April 2019

As a lessee, the Group's leases are mainly rentals of factory, offices and land use rights. The change in accounting policies affected the following items in the consolidated balance sheet at 1 April 2019:

Consolidated balance sheet (extracted)	31 March 2019 As previously stated 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	(2,253)	9,307
Right-of-use assets	–	295,059	295,059
Deferred income tax assets	8,153	(4,074)	4,079
Non-current liabilities			
Lease liabilities	–	256,563	256,563
Current liabilities			
Trade and other payables	205,340	(16,295)	189,045
Lease liabilities	–	22,780	22,780
Equity			
Reserves	1,257,744	(42,386)	1,215,358

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Consolidation

(a) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3 (b)).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(b) *Business combinations*

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Consolidation (Continued)

(b) Business combinations (Continued)

- fair value of any asset or liability resulting from a contingent consideration arrangement, and

- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred;

- amount of any non-controlling interest in the acquired entity; and

- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Consolidation (Continued)

(b) Business combinations (Continued)

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

(c) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

(d) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$" or "HKD"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement, within finance costs.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (Continued)

(c) Group companies (Continued)

(ii) income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Leasehold land and land use rights

Leasehold land and land use rights classified as operating leases are stated at cost less accumulated amortisation and accumulated impairment losses. Cost mainly represents consideration paid for the rights to use the land from the date the respective rights were granted. Amortisation of leasehold land and land use rights is calculated on a straight-line basis over the period of the rights.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on leasehold improvements, buildings and moulds is calculated using the straight-line method to allocate their costs over their estimated useful lives or, in the case of leasehold improvements the shorter lease term. Other property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a reducing balance basis. The principal depreciation rates are as follows:

Furniture, fixtures and equipment	20%
Plant and machinery	14.5% to 20%
Motor vehicles	20%
Moulds	25%
Land and buildings	2.5%
Leasehold improvements moulds	6.67%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. Those are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Investment properties

Investment properties, principally comprising leasehold land and buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are carried at fair value. Changes in fair values are recorded in profit or loss as part of "other income, net". Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

On the transfer of self-occupied property to investment property, increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against revaluation reserve directly in equity; all other decreases are charged to the consolidated income statement.

2.9 Intangible assets

(a) Acquired licence right

An acquired licence right is carried at cost less accumulated amortisation and impairment losses. The economic useful life of an acquired licence right is estimated at the time of purchase (Note 4(c)).

Amortisation is calculated using the straight-line method to allocate the cost of the acquired licence over its estimated useful life of 10 years.

(b) Deferred development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (directly attributable to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the developing/developed product so that it will be available for use or sale;

(ii) management intends to complete the developing/developed product and use or sell it;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets (Continued)

(b) Deferred development costs (Continued)

(iii) there is an ability to use or sell the developing/developed product;

(iv) it can be demonstrated how the developing/developed product will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the developing/developed product are available; and

(vi) the expenditure attributable to the developing/developed product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised over a period of 36 months to reflect the pattern in which the relevant economic benefits are recognised. Development assets are tested for impairment annually, in accordance with HKAS 36.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or change in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets

(a) *Classification*

The Group classifies its financial assets category as financial assets at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing the assets changes.

(b) *Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments as amortised cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(c) *Measurement (Continued)*

Debt instruments (Continued)

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other income, net". Impairment losses are presented as separate line item in the consolidated income statement.

(d) *Impairment*

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3(b) for further details.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 3.1(b) for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.19 Borrowing costs

All borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

2.20 Current and deferred income tax

The income tax expense or credit for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (Continued)

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is provided on full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) *Pension obligations*

The Group operates a number of defined contribution plans. Under defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present values.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Revenue recognition

Sales of goods

Sales of goods are recognised when control of the products has transferred, being a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group. It is the Group’s policy to sell its products to the customer with a right of return. Therefore, a refund liability (included in trade and other payables) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns. The Group’s obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.25 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 March 2019, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 33). Payments made under operating leases (net of any incentives received from the lessor) 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.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Leases (Continued)

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), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

A lessee shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that: (a) is within the control of the lessee; and (b) affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Leases (Continued)

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal 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.

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.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

Risk management is carried out by the Group's treasury function. The Group adopts a conservative and balanced treasury policy which focuses on the financial risks factors as below and seeks to minimise potential adverse effects on the Group's financial performance.

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Group's transactions are mainly denominated in HKD, United States dollars ("USD"), Renminbi ("RMB") and New Taiwan dollars ("NTD"). The majority of assets and liabilities are denominated in HKD, USD, RMB, NTD and Great British Pound ("GBP"), and there are no significant assets and liabilities denominated in other currencies.

Since HKD is pegged to USD, the Group does not have significant currency risks and it is the Group's policy not to engage in speculative activities. The Group has not entered into any contracts to hedge its exposure for foreign exchange risk.

At 31 March 2020, if RMB had strengthened/weakened by 10% against HKD with all other variables held constant, post-tax loss for the year would have been approximately HK$1,649,000 higher/lower (2019: HK$8,154,000 lower/higher), mainly as a result of the net foreign exchange differences on translation of RMB denominated cash and bank balances and other payables.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

At 31 March 2020, if NTD had strengthened/weakened by 10% against HKD with all other variables held constant, post-tax loss for the year would have been approximately HK$644,000 lower/higher (2019: HK$549,000 lower/higher), mainly as a result of the net foreign exchange differences on translation of NTD denominated cash and bank balances, trade and other receivables and other payables.

At 31 March 2020, if GBP had strengthened/weakened by 10 % against HKD with all other variables held constant, post-tax loss for the year would have been approximately HK$244,000 lower/higher (2019: HK$342,000 lower/higher), mainly as a result of the foreign exchange differences on translation of GBP denominated cash and bank balances.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, other than short-term bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from bank borrowings and loans from shareholders. The Group's bank borrowings and loans from shareholders are carried at floating rates which expose the Group to cash flow interest rate risk. The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 March 2020, the Group's bank borrowings and loans from shareholders at variable rates were denominated in HKD and USD.

At 31 March 2020, if interest rates on all borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been approximately HK$2,660,000 higher/lower (2019: HK$1,536,000 higher/lower), mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 March 2020, if interest rates on all interest-bearing bank and cash deposits had been 100 basis points higher/lower with all other variables held constant, post-tax loss (2019: loss) for the year would have been approximately HK$862,000 lower/higher (2019: HK$2,311,000 lower/higher) due to interest income earned on market interest rate.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

The total bank borrowings and loans from shareholders held by the Group as at 31 March 2020 and 2019 were all with floating rates.

(b) Credit risk

(i) Risk management

Credit risk arises from cash and cash equivalents, trade and other receivables and, deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's cash and cash equivalents are placed with reputable banks and financial institutions. The Group reviews regularly the recoverable amount of deposits and other receivable to ensure that adequate impairment losses are made for irrecoverable amounts. For trade receivables from customers, management assesses the credit quality of each individual major customer, taking into account its financial position, past experience and other factors.

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- Trade receivables
- Other financial assets carried at amortised cost.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, management considers that the impairment loss is immaterial.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

(i) Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Trade receivables in dispute are assessed individually for impairment allowance and determined whether specific provisions are required. Trade receivables are written off when there is no reasonable expectation of recovery.

The lifetime expected credit loss in respect of individually assessed trade receivables as at 31 March 2020 was nil (2019: nil).

The expected credit loss rates are assessed to be approximately 1.5% to 22.6% (2019: 0.1% to 26.3%) for trade receivables and the expected credit loss of these collectively assessed trade receivables as at 31 March 2020 are assessed to be approximately HK$7,770,000 (2019: HK$1,300,000).

(ii) Other financial assets at amortised cost

The Group applies a 12-month expected credit loss on other financial assets at amortised cost. Management considered among other factors, analysed historical pattern and concluded that the expected credit loss for other financial assets at amortised cost to as at 31 March 2020 was approximately HK$3,115,000 (2019: nil).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

The Group maintains its liquidity mainly through funding generated from its daily operations and maintaining funding availability under committed credit facilities and loans from shareholders.

Banking facilities have been put in place for contingency purposes. As at 31 March 2020, the Group's total available banking facilities amounted to approximately HK$553,750,000 (2019: HK$898,400,000), of which approximately HK$157,370,000 (2019: HK$183,913,000) has been utilised.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	On demand	Within one year	In the second year	In the third to fifth year	Over five years	Total	Carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 March 2020							
Bank borrowings	**159,803**	**–**	**–**	**–**	**–**	**159,803**	**157,370**
Loans from shareholders	**–**	**–**	**168,671**	**–**	**–**	**168,671**	**161,200**
Lease liabilities	**–**	**34,126**	**43,990**	**3,775**	**567**	**82,458**	**78,228**
Trade and other payables	**–**	**128,679**	**–**	**–**	**–**	**128,679**	**128,679**
At 31 March 2019							
Bank borrowings	142,990	2,969	2,969	8,908	40,580	198,416	183,913
Trade and other payables	–	205,340	–	–	–	205,340	205,340

The table below summarises the maturity analysis of the bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreement. The amounts included interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis contained below.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise their discretions to demand immediate repayment. The directors believe that such bank borrowing will be repaid in accordance with the scheduled repayment date set out in the loan agreements.

Maturity Analysis – Bank borrowings subject to a repayment on demand clause based on scheduled repayments:

	Within one year	In the second year	In the third to fifth year	Over five years	Total	Carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 March 2020	**109,394**	**9,857**	**13,876**	**39,016**	**172,143**	**157,370**
31 March 2019	124,639	6,797	11,554	–	142,990	141,692

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, raise or repay loans from shareholders and bank borrowings, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings net of cash and cash equivalents divided by total equity as shown in the consolidated balance sheet.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management (Continued)

The gearing ratios at 31 March 2020 and 2019 were as follows:

	2020 HK$'000	2019 HK$'000
Cash and cash equivalents (Note 23)	104,481	277,474
Less: Bank borrowings (Note 26)	(157,370)	(183,913)
Loans from shareholders (Note 27)	(161,200)	–
Lease liabilities (Note 17)	(78,228)	–
Net (debt)/surplus cash	(292,317)	93,561
Total equity	680,920	1,329,470
Gearing ratio	42.9%	Not applicable

The gearing ratio increased to 42.9% as at 31 March 2020 mainly resulted from the increase in loans from shareholders and adoption of HKFRS 16.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Provision for slow-moving and obsolete inventories

The Group makes provision for slow-moving and obsolete inventories based on consideration of obsolescence of raw materials and work in progress and the net realisable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of inventory and impairment provision in the year in which such estimate has been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Estimate of fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 15.

(c) Estimate of useful lives of property, plant and equipment and intangible assets

The Group has significant property, plant and equipment and intangible assets. The Group is required to estimate the useful lives of property, plant and equipment and intangible assets in order to ascertain the amount of depreciation and amortisation charges for each reporting period.

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

(d) Impairment of non-financial assets

At each balance sheet date, the Group and Company review internal and external sources of information to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment

– leasehold land and land use rights

– right-of-use assets

– intangible assets

– investments in subsidiaries

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amounts. If an indication of impairment is identified, the Group is required to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Changes in any of these estimates could result in a material change to the asset carrying amount in the financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Recognition of deferred income tax assets

According to the accounting policy as stated in Note 2.20, a deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised, and it is measured at the tax rates that are expected to apply when the related deferred income tax asset is realised.

In determining the deferred income tax asset to be recognised, management is required to estimate the realisation of deferred tax assets. Any difference between these estimates and the actual outcome will impact the Group's result in the period in which the actual outcome is determined.

(f) Provision for other liabilities and charges

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events. Significant judgement is required in determining the provision for liabilities and charges. The Group's management determines the provision for liabilities and charges by estimating the present value of the expenditures expected to be required to settle the obligation. This assessment requires the use of estimation. Nature and extent of significant provisions estimated and related changes on contingencies arising from the Group's production and other business activities are disclosed in the consolidated financial statements, except to the extent that such disclosures might seriously prejudice the Group's position in pending disputes with or possible claims from vendors or other counter parties.

(g) Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices and factory, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(g) Determination of the lease term (Continued)

- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

5 REVENUE AND SEGMENT INFORMATION

Revenues recognised during the year are as follows:

	2020 **HK$'000**	2019 HK$'000
AV products	**786,251**	1,387,713
Notebook products	**174,995**	157,499
	961,246	1,545,212

	2020 **HK$'000**	2019 HK$'000
Timing of revenue recognition		
– At a point in time	**961,246**	1,545,212

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(a) Segment analysed by products

The chief operating decision-makers have been identified as the executive directors and senior management who directly report to directors of the Group. The executive directors and senior management reviewed the Group's internal reporting to assess performance and allocate resources. No analysis of segment assets or segment liabilities is regularly provided to the chief operating decision-maker. A management approach has been used for the operating segment reporting.

The Group mainly operates in the PRC, Taiwan and Hong Kong and is principally engaged in designing, manufacturing and selling of consumer electronic product including AV products and notebook products.

During the year, the chief operating decision-makers examine the Group's performance both from a product and geographic perspective and has identified two reportable segments of its business:

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

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(a) Segment analysed by products (Continued)

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.

	2020				2019			
	AV products HK$'000	Notebook products HK$'000	Elimination HK$'000	Total HK$'000	AV products HK$'000	Notebook products HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue								
External sales	786,251	174,995	–	961,246	1,387,713	157,499	–	1,545,212
Inter-segment sales	6,919	30,916	(37,835)	–	5,620	34,557	(40,177)	–
	793,170	205,911	(37,835)	961,246	1,393,333	192,056	(40,177)	1,545,212
Segment results[1]	(205,064)	(237,762)	–	(442,826)	(205,570)	(314,347)	–	(519,917)
Provision for impairment of right-of-use assets				(30,342)				–
Provision for impairment of property, plant and equipment				(95,758)				(20,000)
Finance income				1,109				4,867
Finance costs				(26,169)				(16,165)
Loss before income tax				(593,986)				(551,215)
Income tax expense				(5,444)				(11,948)
Loss for the year				(599,430)				(563,163)
Loss for the year attributable to								
– Equity holders of the Company				(599,374)				(563,134)
– Non-controlling interest				(56)				(29)
				(599,430)				(563,163)

(1) Management assesses the performance of the operating segments based on a measure of operating profit. Other information provided is measured in a manner consistent with that in the consolidated financial statements.

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

(b) Segment analysed by geographical areas

The segment revenue for the years ended 31 March 2020 and 2019 are as follows:

	2020 HK$'000	2019 HK$'000
North America	**786,250**	1,379,523
Asia	**142,989**	132,909
Europe	**27,513**	29,042
Others	**4,494**	3,738
	961,246	1,545,212

The Company is domiciled in the Bermuda. The analysis of revenue by geographical segment is based on the destination to which the shipments are made. Substantially all non-current assets of the Group as at the end of the year are located in Asia.

Detail of the customer accounting for 10% or more of total revenue is as follows:

	2020 HK$'000	2019 HK$'000
Customer A	**725,788**	1,282,549

6 OTHER (LOSS)/INCOME, NET

	2020 HK$'000	2019 HK$'000
Rental income from investment properties (Note 15)	**2,436**	4,724
Fair value loss on investment properties (Note 15)	**(18,209)**	(2,726)
Net gain on disposal of investment property	**–**	2,650
Rent concession	**3,554**	–
Refund of royalties fee	**914**	6,256
Sub-contracting income	**2,095**	–
Loss on early termination of lease	**(53)**	–
Promotion allowance from suppliers	**516**	–
Others	**295**	124
	(8,452)	11,028

7 EXPENSES BY NATURE

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

	2020 HK$'000	2019 HK$'000
Amortisation of intangible assets (Note 18)	**1,785**	13,932
Amortisation of leasehold land and land use rights (Note 16)	**–**	47
Auditor's remuneration	**2,380**	2,280
Cost of inventories (Note 21)	**815,614**	1,342,403
Provision for impairment of inventories	**23,622**	34,413
Depreciation of property, plant and equipment (Note 14)	**42,731**	48,249
Depreciation of right-of-use assets (Note 17)	**24,876**	–
Employee benefit expenses (including directors' emoluments) (Note 8)	**183,098**	215,455
Severance pay (Note 8)	**10,495**	2,707
Loss on disposal of plant and equipment (Note 31)	**323**	433
Operating lease rental in respect of land and buildings (Note 17)	**2,232**	29,584
Research and development costs	**40,452**	84,578
Repairs and inspection costs	**9,849**	20,303
Promotion and exhibition expenses	**57,518**	74,710

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2020 HK$'000	2019 HK$'000
Wages and salaries	**162,434**	188,705
Other staff benefits and pension costs	**20,664**	26,750
	183,098	215,455
Severance pay	**10,495**	2,707

Notes:

(a) Pension costs – defined contribution retirement schemes

Before 1 December 2000, the Group operated a defined contribution retirement scheme (the "ORSO Scheme") in Hong Kong for all qualified employees. The rate of contribution payable by the Group was 5% of the individual employee's basic salaries.

With effect from 1 December 2000, the Mandatory Provident Fund Scheme (the "MPF Scheme") was set up under the MPF Scheme Ordinance for existing staff who opted for this scheme and eligible staff recruited on or after that date. The ORSO Scheme has remained in place with the introduction of the MPF Scheme. Under the MPF Scheme, eligible employees and the Group are required to contribute 5% on the employees' monthly net salaries with a maximum monthly contribution of HK$1,500 for employees' monthly contribution.

Contributions to the ORSO Scheme and MPF Scheme charged to the consolidated income statement for the year amounted to approximately HK$3,539,000 (2019: HK$4,199,000). No forfeited contribution in respect of the defined contribution retirement scheme was utilised during the year (2019: Same). No forfeiture contribution was available as at 31 March 2020 to reduce future contributions (2019: Nil). Contributions totaling approximately HK$545,000 (2019: HK$531,000) were payable to the ORSO Scheme and MPF Scheme at the year end and were included in other payables and accruals.

The Company's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement benefits scheme contributions of HK$5,122,000 (2019: HK$6,611,000), which are based on a certain percentage of the salaries of the subsidiaries' employees, are charged to the consolidated income statement in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

For both retirement benefits schemes, the Group has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)

Notes: (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2019: four) directors whose emoluments are reflected in the analysis presented in Note 9. The emoluments payable to the remaining two (2019: one) individuals during the year are as follows:

	2020 HK$'000	2019 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,758**	2,600
Contributions to pension schemes	**173**	120
	3,931	2,720

The emoluments fell within the following band:

	Number of individual	
	2020	2019
Emolument band		
HK$1,000,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$3,000,000	**1**	1
	2	1

(c) Senior management compensation

The emoluments of the senior management include the two (2019: one) individuals whose emoluments are reflected in the analysis presented in Note 8(b).

The emoluments of the remaining one (2019: three) senior management during the year are as follows:

	Number of individuals	
	2020	2019
Emolument bands		
HK$1 – HK$1,000,000	**1**	–
HK$1,000,001 – HK$2,000,000	**–**	3
	1	3

9 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives emoluments

Directors' remuneration, including remuneration of chief executive officer (Mr Leung Wai Sing, Wilson), for the year, disclosed pursuant to Appendix 14 to the Listing Rules and section 161 of the Hong Kong Companies Ordinance, is as follows:

For the year ended 31 March 2020:

Name	Fees HK$'000	Salary HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive directors:				
Mr LEUNG Wai Sing, Wilson	–	4,843	207	5,050
Mr LEUNG Kam Fai, Peter (i)	–	520	43	563
Mr LIU Hoi Keung (ii)	–	500	–	500
Mr LEUNG, Jimmy (iii)	–	2,698	96	2,794
Mr LIU Lup Man (iv)	–	2,770	118	2,888
Independent non-executive directors:				
Mr CHEUNG, Johnson	300	–	15	315
Mr LEE Tak Chi	300	–	–	300
Mr CHEUNG Ka Wing (v)	269	–	11	280
Mr LI Wah Ming (vi)	100	–	5	105
	969	11,331	495	12,795

9 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and chief executives emoluments (Continued)

For the year ended 31 March 2019:

Name	Fees HK$'000	Salary HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive directors:				
Mr LEUNG Kai Ching, Kimen (vii)	–	1,620	39	1,659
Mr LEUNG Wai Sing, Wilson	–	4,843	207	5,050
Mr KUOK Kun Man (viii)	–	3,600	141	3,741
Mr LEUNG, Jimmy (iii)	–	2,202	94	2,296
Mr LIU Lup Man (iv)	–	2,180	93	2,273
Independent non-executive directors:				
Mr LI Wah Ming (vi)	300	–	15	315
Mr CHEUNG, Johnson	300	–	15	315
Mr LEE Tak Chi	300	–	–	300
	900	14,445	604	15,949

Note:

(i) Appointed on 24 September 2019
(ii) Appointed on 1 February 2020
(iii) Resigned on 13 December 2019
(iv) Resigned on 1 February 2020
(v) Appointed on 9 May 2019
(vi) Resigned on 30 June 2019
(vii) Retired on 15 June 2018
(viii) Retired on 1 April 2019

(b) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertakings (2019: Nil).

(c) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year (2019: Nil).

9 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(d) Consideration provided to third parties for making available directors' services

No payment was made to the third parties for making available directors' services (2019: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

The information about loans, quasi-loans and other dealings entered into by the company or subsidiary undertaking of the company, where applicable, in favour of directors are set out in Note 27.

(f) Directors' material interests in transactions, arrangements or contracts

Other than those disclosed in Note 27, no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: Nil).

10 FINANCE INCOME AND FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Finance income:		
– Bank interest income	1,109	4,867
Finance costs:		
– Interest expense on bank borrowings	7,750	15,445
– Interest expense on loans from shareholders (Note 34)	2,377	720
– Interest expense on lease liabilities (Note 17)	11,076	–
– Imputed interest expenses on other receivables	4,966	–
	26,169	16,165

11 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year. Corporate income tax on profit from subsidiaries operating in the PRC have 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 profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2020 HK$'000	2019 HK$'000
Current income tax expense		
– Hong Kong profits tax	–	8
– PRC corporate income tax	1,549	3,631
– Overseas corporate income tax	–	35
– (Over)/under-provision in prior years	(4)	17
Deferred income tax charge (Note 30)	3,899	8,257
Income tax expense	5,444	11,948

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2020 HK$'000	2019 HK$'000
Loss before income tax	(593,986)	(551,215)
Tax calculated at a tax rate of 16.5% (2019: 16.5%)	(98,008)	(90,951)
Effect of different tax rates in other countries	(3,094)	(1,400)
Income not subject to tax	(992)	(1,280)
Expenses not deductible for tax purposes	56,802	42,470
(Over)/under provision in prior years	(4)	17
Reversal of tax losses previously recognised	–	7,927
Tax losses not recognised	50,740	55,199
Utilisation of previously recognised tax loss	–	(34)
Income tax expense	5,444	11,948

12 LOSS PER SHARE

Basic

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

	2020	2019
Loss attributable to equity holders of the Company *(HK$'000)*	**(599,374)**	(563,134)
Weighted average number of ordinary shares in issue	**723,244,650**	594,051,359
Basic loss per share *(HK cents)*	**(82.9)**	(94.8)

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 years ended 31 March 2020 and 2019. Therefore, the diluted loss per share are the same as basic loss per share.

13 DIVIDENDS

The directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2020 (2019: Nil).

14 PROPERTY, PLANT AND EQUIPMENT

(a) Details of movements in property, plant and equipment of the Group are as follows:

	Land and buildings HK$'000	Moulds HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 April 2018							
Cost	129,211	300,616	126,074	175,041	79,407	10,141	820,490
Accumulated depreciation and impairment	(3,851)	(271,147)	(36,795)	(115,118)	(38,536)	(5,036)	(470,483)
Net book amount	125,360	29,469	89,279	59,923	40,871	5,105	350,007
Year ended 31 March 2019							
Opening net book amount	125,360	29,469	89,279	59,923	40,871	5,105	350,007
Additions	–	14,992	13,727	15,023	2,307	727	46,776
Disposals	–	–	(181)	(1,676)	(314)	(178)	(2,349)
Depreciation	(4,169)	(14,181)	(9,866)	(12,289)	(6,688)	(1,056)	(48,249)
Impairment loss	–	(6,312)	(13,688)	–	–	–	(20,000)
Transfer to investment properties	(4,485)	–	–	–	–	–	(4,485)
Exchange differences	(16)	–	(3,397)	(1,092)	(346)	(52)	(4,903)
Closing net book amount	116,690	23,968	75,874	59,889	35,830	4,546	316,797
At 31 March 2019							
Cost	121,709	304,498	135,959	179,419	79,088	9,981	830,654
Accumulated depreciation and impairment	(5,019)	(280,530)	(60,085)	(119,530)	(43,258)	(5,435)	(513,857)
Net book amount	116,690	23,968	75,874	59,889	35,830	4,546	316,797

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Details of movements in property, plant and equipment of the Group are as follows: (Continued)

	Buildings HK$'000	Moulds HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 March 2020							
Opening net book amount	116,690	23,968	75,874	59,889	35,830	4,546	316,797
Adjustment for change in accounting policy (Note 2.2)	(68,070)	–	–	–	–	–	(68,070)
Restated opening net book amount	48,620	23,968	75,874	59,889	35,830	4,546	248,727
Additions	–	19,902	2,565	13,193	3,323	–	38,983
Disposals	–	–	(584)	(1,185)	(1,189)	(460)	(3,418)
Depreciation	(1,726)	(11,929)	(10,160)	(12,378)	(5,652)	(886)	(42,731)
Impairment loss (Note (c))	–	(31,941)	(63,817)	–	–	–	(95,758)
Exchange differences	–	–	(3,878)	(1,314)	(335)	(53)	(5,580)
Closing net book amount	46,894	–	–	58,205	31,977	3,147	140,223
At 31 March 2020							
Cost	50,762	324,351	130,796	184,810	79,799	8,227	778,745
Accumulated depreciation and impairment	(3,868)	(324,351)	(130,796)	(126,605)	(47,822)	(5,080)	(638,522)
Net book amount	46,894	–	–	58,205	31,977	3,147	140,223

(b) Depreciation expenses have been included in:

	2020 HK$'000	2019 HK$'000
Cost of goods sold	32,869	37,179
Administrative expenses	9,862	11,070
	42,731	48,249

(c) For impairment assessment, the Group assess the recoverable amount of the property, plant and equipment with reference to the higher of the assets' fair value less costs to disposal and value in use. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. As a result, the Group made an additional provision for impairment of approximately HK$95,758,000 for the year ended 31 March 2020.

(d) As at 31 March 2020, certain of the Group's bank borrowing is secured by land and buildings and right-of-use assets with carrying value of HK$112,065,000 (2019: HK$116,177,000) (Note 26).

15 INVESTMENT PROPERTIES

	2020 HK$'000	2019 HK$'000
Beginning of the year	**78,238**	93,988
Transfer from property, plant and equipment and leasehold land and land use rights after revaluation	**–**	75,767
Disposal	**–**	(85,700)
Fair value loss (Note 6)	**(18,209)**	(2,726)
Exchange difference	**(4,229)**	(3,091)
End of the year	**55,800**	78,238

Rental income derived from the investment properties amounted to approximately HK$2,436,000 (2019: HK$4,724,000) during the year (Note 6).

Valuation process of the Group

The Group measures its investment property at fair value. The fair value of the Group's investment property at 31 March 2020 has been determined on the basis of valuation carried out by an independent qualified valuer, LCH (Asia-Pacific) Surveyors Limited (the "Valuer") (2019: same). The valuation, which conforms to the valuation standards issued by Hong Kong Institute of Surveyors ("HKIS") was arrived at by reference to the current and forecast rental income, allowing for reversionary potential of the investment property.

The Group reviews the valuation performed by the Valuer for financial reporting purposes. Discussions of valuation processes and results are held between management and the Valuer at least once every year, which is in line with the Group's annual reporting date.

Fair value measurements using significant unobservable inputs

The table below analyses investment property carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's investment property is categorised as level 3 and there was no transfers between levels 1, 2 and 3 during the year.

15 INVESTMENT PROPERTIES (CONTINUED)

Fair value measurements using significant unobservable inputs (Continued)

Fair value of the Group's investment properties is mainly derived using the income approach, by taking into account the current rental income from the existing tenancy agreement and reversionary income potential by adopting appropriate term/reversionary yields, which are derived from analysis of sales transactions and Valuer's interpretation of prevailing investor requirements or expectations. For the reversionary potential of the property, the Valuer refers to market price of similar comparable properties. There was no change to the valuation technique with that of prior year.

Term and reversionary yields are estimated by the Valuer based on the risk profile of the type of investment properties being valued. The higher the yields, the lower is the fair value. At 31 March 2020, yields ranging from 4.7% to 7.0% (2019: 2.0% to 6.2%) were adopted in the term yields analysis for the Group's investment properties.

For the investment properties of the Group, the prevailing market price are estimated based on recent sales transactions nearby. The lower the prices, the lower is the fair value. At 31 March 2020, prevailing market prices ranged from HK$718 to HK$768 (2019: HK$442 to HK$1,742) per square foot on site area basis and from RMB19,608 to RMB23,533 (2019: RMB25,512 to RMB38,850) per square meter on saleable area basis were adopted in the term and reversionary analysis for the Group's investment properties location in Hong Kong and the PRC, respectively.

16 LEASEHOLD LAND AND LAND USE RIGHTS

	2020 **HK$'000**	2019 HK$'000
Beginning of the year	**–**	5,926
Amortisation (Note 7)	**–**	(47)
Transfer to investment properties	**–**	(5,859)
Exchange differences	**–**	(20)
End of the year	**–**	–

Amortisation expenses of leasehold land and land use rights have been included in administrative expenses.

17 LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

(a) Right-of-use assets

	Leasehold land HK$'000	Office and buildings HK$'000	Total HK$'000
As at 1 April 2019	68,070	226,989	295,059
Additions	–	3,356	3,356
Termination	–	(677)	(677)
Depreciation	(2,409)	(22,467)	(24,876)
Remeasurement	–	(166,360)	(166,360)
Impairment loss	–	(30,342)	(30,342)
Exchange differences	–	(10,499)	(10,499)
As at 31 March 2020	**65,661**	**–**	**65,661**

Note: For impairment assessment, the Group assesses the recoverable amount of the right-of-use assets with reference to the higher of the assets' fair value less costs to disposal and value in use. As a result, the Group made a provision for impairment of approximately HK$30,342,000 for the year ended 31 March 2020.

17 LEASES (CONTINUED)

(i) Amounts recognised in the consolidated balance sheet (Continued)

(b) Lease liabilities

	HK$'000
As at 1 April 2019	279,343
Additions	3,314
Termination	(616)
Payments	(23,426)
Remeasurement	(166,360)
Exchange differences	(14,027)
As at 31 March 2020	78,228
Analysed into:	
Current	31,050
Non-current	47,178
	78,228

(ii) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	2020 HK$'000
Depreciation charge of right-of-use assets	
Leasehold land	**2,409**
Office and buildings	**22,467**
	24,876
Provision for impairment of right-of-use assets	**30,342**
Interest expense on lease liabilities (Note 10)	**11,076**
Expenses relating to leases of short-term leases (Note 7)	**2,232**

The total cash outflow for leases for the year was HK$36,734,000.

18 INTANGIBLE ASSETS

	Licence right HK$'000	Deferred development costs HK$'000	Total HK$'000
At 1 April 2018			
Cost	78,000	40,766	118,766
Accumulated amortisation	(78,000)	(4,114)	(82,114)
Net book amount	–	36,652	36,652
For the year ended 31 March 2019			
At 1 April 2018	–	36,652	36,652
Additions	–	1,186	1,186
Amortisation	–	(13,932)	(13,932)
Impairment loss	–	(21,761)	(21,761)
Exchange differences	–	(141)	(141)
Net book amount	–	2,004	2,004
At 31 March 2019			
Cost	78,000	41,683	119,683
Accumulated amortisation and impairment	(78,000)	(39,679)	(117,679)
Net book amount	–	2,004	2,004
For the year ended 31 March 2020			
At 1 April 2019	**–**	**2,004**	**2,004**
Additions	**–**	**657**	**657**
Amortisation	**–**	**(1,785)**	**(1,785)**
Impairment loss	**–**	**(810)**	**(810)**
Exchange differences	**–**	**(66)**	**(66)**
Net book amount	**–**	**–**	**–**
At 31 March 2020			
Cost	**78,000**	**42,112**	**120,112**
Accumulated amortisation and impairment	**(78,000)**	**(42,112)**	**(120,112)**
Net book amount	**–**	**–**	**–**

(a) Amortisation expenses of license right and deferred development costs have been included in cost of goods sold.

(b) For impairment assessment, the Group assess the recoverable amount of the intangible assets with reference to the higher of the assets' fair value less costs to disposal and value in use. As a result, the Group made an additional provision for impairment of approximately HK$810,000 for the deferred development costs for the year ended 31 March 2020.

19 SUBSIDIARIES

As at 31 March 2020, the Company held interests in the following principal subsidiaries:

Name	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity held by the Company				Principal activities
			2020		2019		
			Direct	Indirect	Direct	Indirect	
Alco Investments (B.V.I.) Limited	The British Virgin Islands	Ordinary USD50,000	100	–	100	–	Investment holding and provision of management services to its subsidiaries
Advance Packaging Limited	Hong Kong	Ordinary HK$500,000	–	100	–	100	Property investment
Alco Digital Devices Limited	Hong Kong	Ordinary HK$1,000,000	–	100	–	100	Software development
Alco Electronics Limited	Hong Kong	Ordinary HK$1,000 non-voting deferred HK$5,000,000	–	100	–	100	Design, manufacture and sale of AV and Notebook products
Alco Electronics (Dongguan) Limited[1]	The PRC	Registered capital HK$120,000,000	–	100	–	100	Manufacture of AV and Notebook products
Alco Electronics (Shenzhen) Limited[1]	The PRC	Registered capital HK$25,000,000	–	100	–	100	Provision of design and logistic services to group companies
Alco International Limited	Hong Kong	Ordinary HK$500,000	–	100	–	100	Trading of AV and Notebook products
Nexstgo Company Limited	Hong Kong	Ordinary HK$5,000,000	–	100	–	100	Trading of Notebook products
Taiwan Nexstgo Limited	Taiwan	Ordinary NTD10,000,000	–	100	–	100	Research and development and sale of Notebook products
Windom Limited	Hong Kong	Ordinary HK$100,000	–	100	–	100	Property holding

Note:

1 Represents a wholly foreign owned enterprise.

The above table lists out the principal subsidiaries of the Company as at 31 March 2020 and 2019 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20 FINANCIAL INSTRUMENTS BY CATEGORY

	2020 HK$'000	2019 HK$'000
Financial assets at amortised cost		
Trade and other receivables	**474,755**	529,903
Cash and cash equivalents	**104,481**	277,474
Total	**579,236**	807,377

	2020 HK$'000	2019 HK$'000
Financial liabilities at amortised cost		
Trade and other payables	**107,160**	197,683
Bank borrowings	**157,370**	183,913
Loans from shareholders	**161,200**	–
Lease liabilities	**78,228**	–
Total	**503,958**	381,596

21 INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw materials	**293,215**	330,808
Work in progress	**11,684**	23,152
Finished goods	**208,140**	279,750
	513,039	633,710
Less: Provision for impairment	**(176,467)**	(153,462)
	336,572	480,248

The cost of inventories recognised as expenses and included in cost of goods sold amounted to approximately HK$815,614,000 (2019: HK$1,342,403,000).

22 TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Non-current		
Prepayments, deposits and other receivables	59,932	11,560
Less: Loss allowance	(3,115)	–
	56,817	11,560
Current		
Trade receivables	394,822	512,054
Less: Loss allowance	(7,770)	(1,300)
Trade receivables, net	387,052	510,754
Prepayments, deposits and other receivables	55,103	20,550
	442,155	531,304
	498,972	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 values of the trade and other receivables approximate their carrying amounts.

At 31 March 2020 and 2019, the ageing analysis of the trade receivables based on shipping terms is as follows:

	2020 HK$'000	2019 HK$'000
0 – 30 days	40,999	41,899
31 – 60 days	124,568	62,159
61 – 90 days	94,733	69,602
Over 90 days	126,752	337,094
	387,052	510,754

22 TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Movements of the loss allowance of trade receivables are as follows:

	2020 HK$'000	2019 HK$'000
At 1 April	**1,300**	4,808
Receivables written off during the year as uncollectable	**–**	(2,908)
Provision for/(reversal of) impairment losses	**6,470**	(600)
At 31 March	**7,770**	1,300

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables are presented as net impairment losses within operating loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

The carrying amounts of the trade receivables are denominated in the following currencies:

	2020 HK$'000	2019 HK$'000
USD	**348,200**	494,842
Canadian dollar	**18,315**	247
HKD	**10,634**	5,475
NTD	**5,191**	6,710
GBP	**2,556**	664
Euro ("EUR")	**18**	23
Singapore dollar ("SGD")	**–**	1,685
Others	**2,138**	1,108
	387,052	510,754

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above.

23 CASH AND CASH EQUIVALENTS

	2020 HK$'000	2019 HK$'000
Cash at bank and on hand	**104,481**	191,015
Short-term bank deposits	**–**	86,459
	104,481	277,474
Maximum exposure to credit risk	**103,198**	276,726

As at 31 March 2020, the Group's cash and cash equivalents of approximately HK$8,269,000 (2019: HK$24,402,000) denominated in RMB were deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the China Government.

The cash and cash equivalents are denominated in the following currencies:

	2020 HK$'000	2019 HK$'000
HKD	**64,171**	78,716
USD	**25,049**	87,677
RMB	**9,367**	101,311
NTD	**4,121**	3,644
Denmark Krone ("DKK")	**1,179**	985
GBP	**368**	3,822
EUR	**105**	167
Malaysian Ringgit	**95**	574
SGD	**25**	577
Others	**1**	1
	104,481	277,474

24 OTHER CURRENT ASSETS

	2020 HK$'000	2019 HK$'000
Right to returned goods	**459**	7,986

25 TRADE AND OTHER PAYABLES

	2020 HK$'000	2019 HK$'000
Non-current		
Other payables	**4,666**	4,720
Current		
Trade payables	**39,637**	94,128
Other payables and accruals	**87,342**	95,979
Refund liabilities (Note i)	**1,700**	15,233
	128,679	205,340
	133,345	210,060

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

(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 (Note 24).

At 31 March 2020 and 2019, the ageing analysis of the trade payables based on invoice date is as follows:

	2020 HK$'000	2019 HK$'000
0 – 30 days	**23,897**	76,763
31 – 60 days	**5,225**	8,446
61 – 90 days	**4,571**	2,008
Over 90 days	**5,944**	6,911
	39,637	94,128

25 TRADE AND OTHER PAYABLES (CONTINUED)

The carrying amounts of trade payables are denominated in the following currencies:

	2020 HK$'000	2019 HK$'000
USD	**25,888**	69,132
HKD	**12,452**	23,331
DKK	**1,148**	1,575
RMB	**126**	63
NTD	**23**	27
	39,637	94,128

26 BANK BORROWINGS

	2020 HK$'000	2019 HK$'000
Non-current		
Bank borrowing, secured (Note i)	**–**	40,516
Current		
Bank borrowing, secured (Note i)	**111,852**	1,705
Bank borrowings, unsecured (Note ii)	**45,518**	141,692
	157,370	143,397
	157,370	183,913

Notes:

(i) As at 31 March 2020, the bank borrowing is secured by the Group's land and buildings and right-of-use assets with the carrying amounts of HK$112,065,000 (2019: HK$116,177,000) (Note 14).

(ii) The bank borrowings are unsecured and supported by corporate guarantees given by the Company (Note 32).

26 BANK BORROWINGS (CONTINUED)

The maturity of bank borrowings is as follows:

	2020 HK$'000	2019 HK$'000
Within one year	**157,370**	143,397
In the second year	**–**	1,758
In the third to fifth year	**–**	5,607
Over five years	**–**	33,151
	157,370	183,913

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

As at 31 March 2020, the borrowings were interest-bearing at a margin over HIBOR or Lender's Costs of Funds (2019: HIBOR, London Inter-bank Offered Rate ("LIBOR") or Lender's Costs of Funds).

The carrying amounts of bank borrowings are denominated in the following currencies:

	2020 HK$'000	2019 HK$'000
HKD	**64,703**	66,641
USD	**92,667**	117,272
	157,370	183,913

Covenants

During the year ended 31 March 2020, some of the Group's banking facilities are subject to financial and non-financial covenant clauses, whereby the Group is required to meet certain key performance indicators and conditions including but not limited to the Group's sales volume, current ratio, net gearing ratio, tangible net worth and interest coverage.

The Group failed to comply with certain financial covenants in respect of the Group's facilities with three banks totaling HK$437,150,000, of which HK$88,272,000 was utilised by the Group as bank borrowings as of 31 March 2020. Under these bank facilities letters, such non-compliance of covenants may give the relevant banks a right to cancel or suspend the facilities.

On 18 June 2020 and 23 June 2020, the Group obtained written waivers from two banks mentioned above from complying with the relevant financial covenants for the year ended 31 March 2020, respectively.

27 LOANS FROM SHAREHOLDERS

	2020 HK$'000	2019 HK$'000
Mr LEUNG Kai Ching, Kimen	78,200	–
Mr LEUNG Wai Sing, Wilson	83,000	–
	161,200	–

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

As at 31 March 2020, the loans from shareholders were interest-bearing at 1.3% over 1-month HIBOR or LIBOR per annum. The balances were repayable on 31 December 2021.

The carrying amounts of loans from shareholders are denominated in the following currencies:

	2020 HK$'000	2019 HK$'000
HKD	83,000	–
USD	78,200	–
	161,200	–

(i) Subsequent to the year end, on 15 June 2020, the Group entered into a deed of funding undertakings with one of its major shareholders, Chairman and Chief Executive Officer, Mr. Leung, to provide funding to the Group. The funding notice could be issued at the discretion of the Company to Mr. Leung within eighteen months from the date of the deed, i.e. 15 December 2021. The total amount of funding undertakings shall not exceed HK$170,000,000.

(ii) Subsequent to the year end, on 16 June 2020, the Group drew down a loan of HK$50,000,000 from Mr. Leung under the terms of the deed. The loan is unsecured and repayable after eighteen months from the date of draw down and interest bearing at 1.3% over 1-month HIBOR per annum. The amount of available funding under the deed of funding undertakings was HK$120,000,000 as at 29 June 2020.

28 SHARE CAPITAL

The Company's authorised and issued share capital during the year is as follows:

	2020		2019	
	Number of shares	**HK$'000**	Number of shares	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**800,000,000**	**80,000**	800,000,000	80,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At the beginning of the year	**723,244,650**	**72,324**	578,595,720	57,860
Issuance of rights shares (Note a)	**–**	**–**	144,648,930	14,464
At the end of the year	**723,244,650**	**72,324**	723,244,650	72,324

(a) Issuance of rights shares

On 21 February 2019, the rights issue on the basis of one right share for every four ordinary shares at a subscription price of HK$0.87 per rights share was completed. A total of 144,648,930 shares were issued resulting in net proceeds of approximately HK$123,865,000 to the Company. The new shares rank pari passu with the existing shares.

29 RESERVES

	Share premium HK$'000	Capital redemption reserve HK$'000	Revaluation reserve HK$'000	Exchange and other reserves HK$'000	Staff compensation reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000
At 1 April 2018	308,278	1,089	–	(2,382)	11,783	1,353,170	1,671,938
Change in accounting policy	–	–	–	–	–	(1,900)	(1,900)
Restated as at 1 April 2018	308,278	1,089	–	(2,382)	11,783	1,351,270	1,670,038
Comprehensive loss							
Loss for the year	–	–	–	–	–	(563,134)	(563,134)
Other comprehensive income/(loss)							
Currency translation differences	–	–	–	(12,412)	–	–	(12,412)
Revaluation gain on transfer of owner occupied property to investment property	–	–	65,423	–	–	–	65,423
Total comprehensive income/(loss)	–	–	65,423	(12,412)	–	(563,134)	(510,123)
Transactions with owners							
2018 final dividend	–	–	–	–	–	(11,572)	(11,572)
Issuance of right shares	109,401	–	–	–	–	–	109,401
Total transactions with owners	109,401	–	–	–	–	(11,572)	97,829
At 31 March 2019	417,679	1,089	65,423	(14,794)	11,783	776,564	1,257,744
At 1 April 2019	**417,679**	**1,089**	**65,423**	**(14,794)**	**11,783**	**776,564**	**1,257,744**
Change in accounting policy (Note 2.2)	**–**	**–**	**–**	**–**	**–**	**(42,386)**	**(42,386)**
Restated as at 1 April 2019	**417,679**	**1,089**	**65,423**	**(14,794)**	**11,783**	**734,178**	**1,215,358**
Comprehensive loss							
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(599,374)**	**(599,374)**
Other comprehensive loss							
Currency translation differences	**–**	**–**	**–**	**(6,734)**	**–**	**–**	**(6,734)**
Total comprehensive loss	**–**	**–**	**–**	**(6,734)**	**–**	**(599,374)**	**(606,108)**
At 31 March 2020	**417,679**	**1,089**	**65,423**	**(21,528)**	**11,783**	**134,804**	**609,250**

30 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	2020 HK$'000	2019 HK$'000
Deferred income tax assets to be recovered after more than 12 months	–	16,550
Deferred income tax liabilities to be settled after more than 12 months	–	(8,397)
Deferred income tax assets, net	–	8,153

The movement in deferred income tax assets/(liabilities) during the year is as follows:

Deferred income tax assets/(liabilities)	**Tax losses** HK$'000	**Accelerated tax depreciation** HK$'000	**Deferred development cost** HK$'000	**Others** HK$'000	**Total** HK$'000
As at 1 April 2018	17,814	(3,723)	(2,979)	5,678	16,790
(Charged)/credited to consolidated income statement	(10,659)	(308)	2,529	181	(8,257)
Exchange difference	(9)	(186)	9	(194)	(380)
As at 31 March 2019	7,146	(4,217)	(441)	5,665	8,153
Adjustment on adoption of HKFRS 16	–	–	–	(4,074)	(4,074)
Restated as at 1 April 2019	7,146	(4,217)	(441)	1,591	4,079
As at 1 April 2019	**7,146**	**(4,217)**	**(441)**	**1,591**	**4,079**
(Charged)/credited to consolidated income statement	**(7,146)**	**4,397**	**441**	**(1,591)**	**(3,899)**
Exchange difference	**–**	**(180)**	**–**	**–**	**(180)**
As at 31 March 2020	**–**	**–**	**–**	**–**	**–**

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$142,639,000 (2019: HK$92,798,000) in respect of tax losses amounting to approximately HK$824,734,000 (2019: HK$538,188,000) that can be carried forward against future taxable profit. Approximately HK$791,085,000 (2019: HK$528,828,000) of the unrecognised tax losses have no expiry date and HK$24,009,000 (2019: HK$3,303,000) will be expired within five years and HK$9,640,000 (2019: HK$6,057,000) will be expired after five years.

31 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of loss before income tax to cash used in operations:

	2020 HK$'000	2019 HK$'000
Loss before income tax	**(593,986)**	(551,215)
Adjustments for		
Interest income	**(1,109)**	(4,867)
Interest expense	**26,169**	16,165
Amortisation of intangible assets	**1,785**	13,932
Loss on disposal of plant and equipment	**323**	433
Depreciation of property, plant and equipment	**42,731**	48,249
Depreciation of right-of-use assets	**24,876**	–
Provision for impairment for inventories	**23,622**	34,413
Provision for/(reversal of) impairment losses on financial assets	**9,585**	(600)
Net gain on disposal of investment property	**–**	(2,650)
Impairment of intangible assets	**810**	21,761
Impairment of property, plant and equipment	**95,758**	20,000
Impairment of right-of-use assets	**30,342**	–
Loss on early termination of lease	**53**	–
Amortisation of leasehold land and land use rights	**–**	47
Fair value loss on investment properties	**18,209**	2,726
Operating loss before working capital changes	**(320,832)**	(401,606)
Decrease/(increase) in inventories	**127,581**	(119,056)
Decrease in trade and other receivables	**35,046**	341,509
Decrease in trade and other payables	**(65,030)**	(7,741)
Net cash used in operations	**(223,235)**	(186,894)

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2020 HK$'000	2019 HK$'000
Net book amount (Note 14)	**3,418**	2,349
Loss on disposal of plant and equipment (Note 7)	**(323)**	(433)
Proceeds from disposal of property, plant and equipment	**3,095**	1,916

31 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities

	Liabilities from financing activities			
	Bank borrowings HK$'000	Loans from shareholders HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 April 2018	(133,718)	–	–	(133,718)
Cash flows	(50,491)	–	–	(50,491)
Foreign exchange adjustments	296	–	–	296
At 31 March 2019	(183,913)	–	–	(183,913)
At 1 April 2019	**(183,913)**	**–**	**–**	**(183,913)**
Recognised on adoption of HKFRS 16 (Note 2.2)	**–**	**–**	**(279,343)**	**(279,343)**
Restated as at 1 April 2019	**(183,913)**	**–**	**(279,343)**	**(463,256)**
Cash flows	**26,543**	**(161,200)**	**23,426**	**(111,231)**
Foreign exchange adjustments	**–**	**–**	**14,027**	**14,027**
Other changes (Note)	**–**	**–**	**163,662**	**163,662**
At 31 March 2020	**(157,370)**	**(161,200)**	**(78,228)**	**(396,798)**

Note:

Other changes include non-cash movements, including addition of lease liabilities and remeasurement of leases.

32 BANKING FACILITIES

As at 31 March 2020, banking facilities of approximately HK$553,750,000 (2019: HK$898,400,000) were granted by banks to the Group, of which approximately HK$157,370,000 (2019: HK$183,913,000) have been utilised by the Group. All banking facilities were supported by corporate guarantees given by the Company and as at 31 March 2020, bank borrowing of approximately HK$112,218,000 (2019: HK$42,221,000) is secured by charges over the Group's land and buildings and right-of-use assets with the carrying amounts of approximately HK$112,065,000 (2019: HK$116,177,000).

The Group has failed to comply with certain financial covenants of its borrowing facilities during the year ended 31 March 2020, see Note 26 for details.

33 COMMITMENTS

(a) Capital commitments

	2020 **HK$'000**	2019 HK$'000
Moulds, plant and machinery contracted but not provided for	**2,914**	8,815

(b) Operating lease commitments (as lessee)

From 1 April 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 17 for further information.

	2020 **HK$'000**	2019 HK$'000
Not later than one year	**–**	41,680
Later than one year and not later than five years	**–**	145,636
Later than five years	**–**	191,526
	–	378,842

33 COMMITMENTS (CONTINUED)

(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:

	2020 HK$'000	2019 HK$'000
Not later than one year	**2,276**	2,280
Later than one year and not later than five years	**4,530**	6,806
	6,806	9,086

The lease terms are from one to five years.

34 RELATED PARTY TRANSACTIONS

(a) The Group had the following related party transactions in the normal course of business during the year:

	2020 HK$'000	2019 HK$'000
Interest expense on loans from shareholders		
– Mr LEUNG Kai Ching, Kimen (deceased)	**1,789**	720
– Mr LEUNG Wai Sing, Wilson	**588**	–
	2,377	720

	2020 HK$'000	2019 HK$'000
Rental expense		
– Advance Leather Products Limited	**2,016**	2,016

Note: Mr. LEUNG Kai Ching, Kimen (deceased) was a shareholder of both the Company and Advance Leather Products Limited.

(b) The Key management compensation

Details on key management compensation are set out in Note 8.

35 BALANCE SHEET OF THE COMPANY

	Note	2020 HK$'000	2019 HK$'000
Non-current assets			
Investments in subsidiaries		**680,984**	1,275,467
Current assets			
Other receivables		**105**	105
Current income tax assets		**10**	21
Cash and cash equivalents		**76**	1,693
		191	1,819
Current liabilities			
Other payables		**255**	1,576
Net current (liabilities)/assets		**(64)**	243
Total assets less current liabilities		**680,920**	1,275,710
Capital and reserves attributable to equity holders of the Company			
Share capital		**72,324**	72,324
Reserves	a	**608,596**	1,203,386
Total equity		**680,920**	1,275,710

The balance sheet was approved by the Board of Directors on 29 June 2020 and was signed on its behalf.

LEUNG Wai Sing, Wilson
Director

LIU Hoi Keung
Director

35 BALANCE SHEET OF THE COMPANY (CONTINUED)

(a) Reserves movement of the Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Staff compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 April 2018	308,278	1,089	40,586	11,783	713,714	1,075,450
Comprehensive income						
Profit for the year	–	–	–	–	30,107	30,107
Transactions with owners						
2018 final dividend	–	–	–	–	(11,572)	(11,572)
Issuance of rights shares	109,401	–	–	–	–	109,401
Total transactions with owners	109,401	–	–	–	(11,572)	97,829
At 31 March 2019	417,679	1,089	40,586	11,783	732,249	1,203,386
At 1 April 2019	**417,679**	**1,089**	**40,586**	**11,783**	**732,249**	**1,203,386**
Comprehensive loss						
Loss for the year	**–**	**–**	**–**	**–**	**(594,790)**	**(594,790)**
At 31 March 2020	**417,679**	**1,089**	**40,586**	**11,783**	**137,459**	**608,596**

Note:

The contributed surplus of the Company, which arose from a corporate reorganisation in November 1992, represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Alco Investments (B.V.I.) Limited and the value of net assets of the underlying subsidiaries acquired as at 6 November 1992. Under the Companies Act 1981 of Bermuda (as amended), a company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Otherwise the contributed surplus is distributable.

36 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Principal Properties

31 March 2020

As at 31 March 2020, principal properties held for investment purposes are as follows:

Location	Lot number	Existing use	Lease term
Lot Nos. 593 and 595 in Demarcation District No. 106, Off Kam Sheung Road, Ng Ka Tsuen, Kam Tin, Yuen Long, New Territories, Hong Kong	Lot Nos. 593 and 595 in Demarcation District No. 106	Industrial rental	Medium term
Units 2101 and 2104 on Level 21 and Units 2301, 2302, 2302A, 2303 and 2304 on Level 23, Huangcheng Plaza, No. 7 Futian Road South, Futian District, Shenzhen, the PRC	Not applicable	Commercial rental	Medium term

Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is as follows:

	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
Revenue	**961,246**	1,545,212	2,080,707	2,100,142	2,879,104
(Loss)/profit attributable to equity holders of the Company	**(599,374)**	(563,134)	(85,808)	73,897	506,028
Total assets	**1,216,024**	1,726,839	2,081,398	2,378,157	2,971,460
Total liabilities	**(535,104)**	(397,369)	(352,169)	(531,666)	(986,462)
Total equity	**680,920**	1,329,470	1,729,229	1,846,491	1,984,998