



# **ALCO HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 328)

**INTERIM REPORT 2020**

The directors of Alco Holdings Limited (the “Company”) announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2020, as follows:

## CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2020

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2020</b>	2019
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Revenue	4	<b>589,759</b>	462,113
Cost of goods sold	6	<b>(666,731)</b>	(552,017)
Gross loss		<b>(76,972)</b>	(89,904)
Other income	5	<b>29,467</b>	1,697
Selling expenses	6	<b>(50,812)</b>	(56,034)
Administrative expenses	6	<b>(39,707)</b>	(59,797)
Other operating expenses	6	<b>(2,809)</b>	(4,468)
Provision for impairment of right-of-use assets		<b>(12,065)</b>	–
Operating loss		<b>(152,898)</b>	(208,506)
Finance income		<b>94</b>	857
Finance costs		<b>(5,450)</b>	(8,182)
Loss before income tax		<b>(158,254)</b>	(215,831)
Income tax expense	7	<b>(2)</b>	(1,194)
<b>Loss for the period</b>		<b>(158,256)</b>	(217,025)
<b>Loss for the period attributable to:</b>			
– Equity holders of the Company		<b>(158,031)</b>	(216,786)
– Non-controlling interests		<b>(225)</b>	(239)
		<b>(158,256)</b>	(217,025)
<b>Loss per share attributable to equity holders of the Company</b>			
– Basic	8	<b>(HK21.9 cents)</b>	(HK30.0 cents)
– Diluted	8	<b>(HK21.9 cents)</b>	(HK30.0 cents)
Dividends	9	<b>–</b>	–

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2020

	Unaudited Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Loss for the period	(158,256)	(217,025)
Other comprehensive income, net of tax:		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	<u>4,400</u>	<u>12,907</u>
Total comprehensive loss for the period	<u>(153,856)</u>	<u>(204,118)</u>
<b>Total comprehensive loss for the period attributable to:</b>		
– Equity holders of the Company	(153,631)	(203,879)
– Non-controlling interests	<u>(225)</u>	<u>(239)</u>
	<u>(153,856)</u>	<u>(204,118)</u>

## CONSOLIDATED BALANCE SHEET

As at 30 September 2020

		<b>Unaudited 30 September 2020 HK\$'000</b>	Audited 31 March 2020 HK\$'000
Non-current assets			
Property, plant and equipment		<b>131,990</b>	140,223
Investment properties		<b>82,052</b>	55,800
Right-of-use assets		<b>64,456</b>	65,661
Prepayments, deposits and other receivables	11	<b>45,226</b>	56,817
		<b>323,724</b>	318,501
Current assets			
Inventories		<b>745,090</b>	336,572
Trade and other receivables	11	<b>445,756</b>	442,155
Other current assets		<b>459</b>	459
Current income tax recoverable		<b>13,041</b>	13,856
Cash and cash equivalents		<b>85,509</b>	104,481
		<b>1,289,855</b>	897,523
Current liabilities			
Trade and other payables	12	<b>491,009</b>	128,679
Current income tax liabilities		<b>4,900</b>	4,961
Lease liabilities		<b>29,790</b>	31,050
Bank borrowings	13	<b>266,082</b>	157,370
		<b>791,781</b>	322,060
Net current assets		<b>498,074</b>	575,463
Total assets less current liabilities		<b>821,798</b>	893,964

		<b>Unaudited</b> <b>30 September</b> <b>2020</b> <b>HK\$'000</b>	Audited 31 March 2020 HK\$'000
Capital and reserves attributable to equity holders of the Company			
Share capital		<b>72,324</b>	72,324
Reserves		<b>455,619</b>	609,250
		<b>527,943</b>	681,574
Non-controlling interests		<b>(879)</b>	(654)
Total equity		<b>527,064</b>	680,920
Non-current liabilities			
Other payables	12	<b>5,306</b>	4,666
Lease liabilities		<b>45,228</b>	47,178
Loans from shareholders	14	<b>244,200</b>	161,200
		<b>294,734</b>	213,044
Total equity and non-current liabilities		<b>821,798</b>	893,964

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2020

	Unaudited									
	Attributable to equity holders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Capital redemption reserve	Exchange and other reserves	Staff compensation reserve	Revaluation reserve	Retained earnings	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2019 (audited)	72,324	417,679	1,089	(14,794)	11,783	65,423	776,564	1,330,068	(598)	1,329,470
Adjustment on adoption of HKFRS 16	-	-	-	-	-	-	(24,649)	(24,649)	-	(24,649)
At 1 April 2019 (restated)	72,324	417,679	1,089	(14,794)	11,783	65,423	751,915	1,305,419	(598)	1,304,821
Comprehensive income/(loss)										
Loss for the period	-	-	-	-	-	-	(216,786)	(216,786)	(239)	(217,025)
Other comprehensive income										
Currency translation differences	-	-	-	12,907	-	-	-	12,907	-	12,907
Total comprehensive income/(loss)	-	-	-	12,907	-	-	(216,786)	(203,879)	(239)	(204,118)
At 30 September 2019	72,324	417,679	1,089	(1,887)	11,783	65,423	535,129	1,101,540	(837)	1,100,703
At 1 April 2020 (audited)	72,324	417,679	1,089	(21,528)	11,783	65,423	176,919	723,689	(654)	723,035
Adjustment on adoption of HKFRS 16	-	-	-	-	-	-	(42,115)	(42,115)	-	(42,115)
At 1 April 2020 (restated)	72,324	417,679	1,089	(21,528)	11,783	65,423	134,804	681,574	(654)	680,920
Comprehensive income/(loss)										
Loss for the period	-	-	-	-	-	-	(158,031)	(158,031)	(225)	(158,256)
Other comprehensive income										
Currency translation differences	-	-	-	4,400	-	-	-	4,400	-	4,400
Total comprehensive income/(loss)	-	-	-	4,400	-	-	(158,031)	(153,631)	(225)	(153,856)
At 30 September 2020	72,324	417,679	1,089	(17,128)	11,783	65,423	(23,227)	527,943	(879)	527,064

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2020

	Unaudited	
	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
Net cash used in operating activities	<b>(188,930)</b>	(339,146)
Net cash used in investing activities	<b>(18,544)</b>	(10,627)
Net cash generated from financing activities	<b>188,502</b>	174,754
Net decrease in cash and cash equivalents	<b>(18,972)</b>	(175,019)
Cash and cash equivalents at the beginning of the period	<b>104,481</b>	277,474
Cash and cash equivalents at the end of the period	<b>85,509</b>	102,455
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>85,509</b>	102,455

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

### 1. Basis of preparation and accounting policies

These unaudited consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2020.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2020, except the Group has adopted certain HKASs and Hong Kong Financial Reporting Standards (“HKFRS”) which are mandatory for the financial year beginning 1 April 2020.

### 2. Changes in accounting policies

The Group has initially adopted the following new and revised HKFRSs for the financial period beginning on or after 1 April 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendment to HKFRS 16	COVID-19-Related Rent Concessions
Amendments to HKAS 1 and HKAS 8	Definition of Material

The application of the new and amendments to HKFRSs in the current period has had no material impact on the amounts reported in these unaudited consolidated financial statements and/or disclosures set out in these unaudited consolidated financial statements.



### 3. Other information

As disclosed in the Group's annual report Note 2.1(c) for the year ended 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. The financial results for the six months ended 30 September 2020 shown improvement compared to corresponding period last year.

In managing the Group's liquidity requirement, the Group monitors and maintains a level of cash and cash equivalents and the availability of funding through credit and banking facilities, as well as funding from Mr. LEUNG Wai Sing, Wilson (the Chairman of the Group) under the deed of funding undertaking entered into between the Group and Mr. LEUNG on 15 June 2020.

There are continuous communications with the Group's principal banks on the Group's performance. Based on our latest communications, we believe the existing banking facilities will continuously be available to the Group.

Subsequent to the period end date, the Group entered into the provisional sale and purchase agreement for disposing of property. The transaction is expected to be completed by end of December 2020 and we will receive a net proceeds of approximately HK\$36,480,000 from the disposal. The net proceeds will be used as general working capital for the Group.

To improve the Group's operating performance and alleviate liquidity risk, management will continue to implement measures to improve profitability and cash flow through various initiatives including improving the manufacturing process to reduce production costs, tighten inventory and procurement control to improve working capital requirement, better planning in purchasing to avoid shortage and to negotiate for lower cost of critical components and for better trading terms, and negotiating with its landlord for rental concession to mitigate the impact of COVID-19.

## 4. Segment information

### (a) Segment analysed by products

The Group mainly operates in the People's Republic of China (the "PRC"), Taiwan and Hong Kong and is principally engaged in designing, manufacturing and selling of consumer electronic products including AV products and notebook products.

AV products – Design, manufacture and sale of consumer electronic products, including audio, video and tablet products

Notebook products – Design, manufacture and sale of commercial notebook and personal computers products

The Group's inter-segment transactions mainly consist of sale of assembly parts among subsidiaries. The transactions were entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

	For the six months ended 30 September							
	2020				2019			
	AV products HK\$'000	Notebook products HK\$'000	Elimination HK\$'000	Group HK\$'000	AV products HK\$'000	Notebook products HK\$'000	Elimination HK\$'000	Group HK\$'000
Segment revenue								
External sales	363,321	226,438	-	589,759	367,356	94,757	-	462,113
Inter-segment sales	4,537	435	(4,972)	-	4,881	30,905	(35,786)	-
	<b>367,858</b>	<b>226,873</b>	<b>(4,972)</b>	<b>589,759</b>	<b>372,237</b>	<b>125,662</b>	<b>(35,786)</b>	<b>462,113</b>
Segment results	(74,553)	(78,345)		(152,898)	(105,932)	(102,574)		(208,506)
Finance income				94				857
Finance costs				(5,450)				(8,182)
Loss before income tax				(158,254)				(215,831)
Income tax expense				(2)				(1,194)
Loss for the period				<b>(158,256)</b>				<b>(217,025)</b>
Loss for the period attributable to								
- Equity holders of the Company				(158,031)				(216,786)
- Non-controlling interest				(225)				(239)
				<b>(158,256)</b>				<b>(217,025)</b>

#### 4. Segment information (continued)

##### (b) Segment analysed by geographical areas

The segment revenue for the six months ended 30 September 2020 and 2019 are as follows:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
North America	<b>347,620</b>	355,319
Asia	<b>213,312</b>	97,919
Europe	<b>28,047</b>	8,334
Others	<b>780</b>	541
	<b>589,759</b>	462,113

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.

#### 5. Other income

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Fair value gain on investment properties (Note 10)	<b>26,252</b>	–
Rental income from investment properties	<b>1,014</b>	1,223
Others	<b>2,201</b>	474
	<b>29,467</b>	1,697

## 6. Expenses by nature

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Depreciation of property, plant and equipment	<b>13,938</b>	23,334
Depreciation of right-of-use assets	<b>1,205</b>	13,291
Employee benefit expenses	<b>96,815</b>	109,782
Severance pay	<b>195</b>	8,976

## 7. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits for the period. Corporate income tax on profits generated from subsidiaries operating in the PRC has been calculated at 25% in accordance with the relevant PRC tax law and regulations. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Current income tax		
– PRC corporate income tax	<b>(2)</b>	(918)
Deferred income tax expense	<b>-</b>	(276)
	<hr/>	<hr/>
Income tax expense	<b>(2)</b>	(1,194)
	<hr/> <hr/>	<hr/> <hr/>

## 8. Loss per share

### *Basic*

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2020</b>	2019
Loss for the period attributable to equity holders of the Company ( <i>HK\$'000</i> )	<b><u>(158,031)</u></b>	<u>(216,786)</u>
Weighted average number of ordinary shares in issue	<b><u>723,244,650</u></b>	<u>723,244,650</u>
Basic loss per share ( <i>HK cents</i> )	<b><u>(21.9)</u></b>	<u>(30.0)</u>

### *Diluted*

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares during the six months ended 30 September 2020 and 2019. Therefore, the diluted loss per share is the same as the basic loss per share.

## 9. Dividends

The Directors do not recommend the payment of interim dividend for the six months ended 30 September 2020 (2019: Nil).

## 10. Fair value gain

Subsequent to the period end, in November 2020, Advance Packaging Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party for the disposal of a property in Yuen Long with carrying value of HK\$10,627,962 at a consideration of HK\$36,880,000. The transaction is scheduled to be completed on 18 December 2020.

The excess of the fair value over the carrying amount was HK\$26,252,038 and was recorded in other income as fair value gain for the six months ended 30 September 2020.

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

	<b>30 September 2020 HK\$'000</b>	31 March 2020 HK\$'000
Non-current		
Prepayments, deposits and other receivables	<b>47,546</b>	59,932
Less: Loss allowance	<b>(2,320)</b>	(3,115)
	<b>45,226</b>	56,817
Current		
Trade receivables	<b>407,304</b>	394,822
Less: Loss allowance	<b>(7,770)</b>	(7,770)
Trade receivables, net	<b>399,534</b>	387,052
Prepayments, deposits and other receivables	<b>46,222</b>	55,103
	<b>445,756</b>	442,155
Total	<b>490,982</b>	498,972

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

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

## 11. Trade receivables, prepayments, deposits and other receivables (continued)

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

	<b>30 September 2020 HK\$'000</b>	31 March 2020 HK\$'000
0 – 30 days	<b>263,579</b>	40,999
31 – 60 days	<b>77,941</b>	124,568
61 – 90 days	<b>24,478</b>	94,733
Over 90 days	<b>33,536</b>	126,752
	<b>399,534</b>	387,052

## 12. Trade and other payables

	<b>30 September 2020 HK\$'000</b>	31 March 2020 HK\$'000
Non-current		
Other payables	<b>5,306</b>	4,666
Current		
Trade payables	<b>379,916</b>	39,637
Other payables and accruals	<b>109,393</b>	87,342
Refund liabilities (Note i)	<b>1,700</b>	1,700
	<b>491,009</b>	128,679
Total	<b>496,315</b>	133,345

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

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

## 12. Trade and other payables (continued)

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

	<b>30 September 2020 HK\$'000</b>	31 March 2020 HK\$'000
0 – 30 days	<b>172,120</b>	23,897
31 – 60 days	<b>41,663</b>	5,225
61 – 90 days	<b>87,216</b>	4,571
Over 90 days	<b>78,917</b>	5,944
	<b><u>379,916</u></b>	<b><u>39,637</u></b>

## 13. Bank borrowings

	<b>30 September 2020 HK\$'000</b>	31 March 2020 HK\$'000
Current		
Bank borrowings, secured (Note i)	<b>201,187</b>	111,852
Bank borrowings, unsecured (Note ii)	<b>64,895</b>	45,518
	<b><u>266,082</u></b>	<b><u>157,370</u></b>

Notes:

- i) The bank borrowing is secured by the Group's land and buildings and right-of-use assets.
- ii) The bank borrowings are unsecured and are supported by corporate guarantees given by the Company (Note 16).

As at 30 September 2020, the bank borrowings were denominated in USD or HKD (31 March 2020: same) and interest bearing at a margin over HIBOR or Lender's Costs of Funds (31 March 2020: same).



#### 14. Loans from shareholders

	<b>30 September 2020 HK'000</b>	31 March 2020 HK'000
Mr. LEUNG Kai Ching, Kimen	<b>78,200</b>	78,200
Mr. LEUNG Wai Sing, Wilson	<b>166,000</b>	83,000
	<b>244,200</b>	161,200

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

As at 30 September 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.

#### 15. Share capital

	<b>Company Ordinary Shares</b>	
	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1 April 2019, 31 March 2020 and 30 September 2020	<b>800,000,000</b>	<b>80,000</b>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 April 2019, 31 March 2020 and 30 September 2020	<b>723,244,650</b>	<b>72,324</b>

#### 16. Contingent liabilities

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

## 17. Commitments

### (a) Capital commitments

	<b>30 September 2020 HK\$'000</b>	31 March 2020 HK\$'000
Moulds, plant and machinery contracted but not provided for	<b><u>3,803</u></b>	<u>2,914</u>

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

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

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

	<b>30 September 2020 HK\$'000</b>	31 March 2020 HK\$'000
Not later than one year	<b>2,255</b>	2,276
Later than one year and not later than five years	<b><u>3,768</u></b>	<u>4,530</u>
	<b><u>6,023</u></b>	<u>6,806</u>

The lease terms are from one to five years.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Group results

For the six months ended 30 September 2020, the Group recorded turnover of HK\$590 million (2019: HK\$462 million) and loss attributable to shareholders of HK\$158 million (2019: loss of HK\$217 million).

For the period under review, the Group recorded 28% increase in turnover compared with the same period of last year. The increase was mainly due to higher demand in notebooks under the coronavirus (COVID-19) pandemic, especially during the months of July to September. In terms of product segment, sales of notebook products increased over 139 % in terms of revenue, while that of AV products remained steady. However, due to well publicized worldwide shortage of many electronics components, especially those for notebooks and tablets, the Group was forced to abandon certain sales orders (and in some cases had to substitute more expensive versions for cheaper versions that could not be supplied due to lack of parts) during the period under review, which affected revenue and profitability.

The Group's administrative expenses decreased by around 34% to HK\$40 million, mainly resulted from costs saving measures that included streamlining of operations, reduction of outside professional expenses, and lowering of travel and exhibition costs. As was the case for many other companies around the world, due to travel restrictions under COVID-19, almost all of the Group's meetings with customers were conducted on-line; at the same time, many exhibitions worldwide were either postponed or cancelled outright. All these resulted in substantial savings in the Group's spending for travel, exhibition, and entertainment. Moreover, wage subsidy provided by The Hong Kong Government under the Anti-epidemic Fund measures also contributed to the decrease in the Group's administrative expenses.

Another factor for the decrease in net loss was the revaluation gain of HK\$26 million from the sales of the Group's land holdings in Kam Tin, even though the positive impact of which was offset somewhat by impairment loss of HK\$12 million due to right-of-use assets.

The directors do not recommend the payment of an interim dividend (2019: Nil) for the six months ended 30 September 2020.

### Review of operation

The COVID-19 pandemic has brought unprecedented challenges to the world. In particular, global demand for notebooks and tablets skyrocketed literally overnight, due to consumers shifting to working and studying from home under lockdown. Notebooks and tablets have become essential devices and consumers have been looking for one device per person instead of one device shared among family members. However, due to the surge in demand for notebooks and tablets worldwide rising multiple folds within a matter of weeks, the supply chains for their critical components (and in some cases even supply chains for normally non-critical components) became unable to cope, resulting in dramatic and multiple folds increase of their costs. In order to maintain momentum and market shares in notebooks and tablets, the Group had to secure supply of critical (as well as in some cases even normally non-critical) components by paying highly inflated market costs, deeply impacting the Group's profitability. Even so, the silver lining is that in terms of quantity and market shares, because of much increased demand worldwide, the Group's notebooks and tablets were accepted and sold through to many more consumers as compared to the same period last year. In fact, in certain countries and cities in the Asia Pacific region, the Group's notebooks achieved almost double-digit market penetration.

While the Group's manufacturing facilities, as well as those of many of the Group's partners, in the PRC had to be closed from January to March 2020 due to lockdown measures mandated by Chinese authorities, they started to resume operation gradually from the beginning of April 2020 and were more or less stabilized from June 2020 onwards. As such, the output of the Group from April to June was affected by the lockdown as a result of supplies and logistics disruption.

At the same time, the China-US trade war had created a significant impact to electronics manufacturers and suppliers around the world. To avoid being affected by trade sanctions, certain electronics manufacturers, especially some of the more prominent ones in China, decided to place procurement orders of critical components (and in particular for semiconductor parts) during the months after Chinese New Year holidays that were multiple times in volume more than their usual consumption. While there are only a handful of large-capacity manufacturers for integrated circuit (IC), chipset solution, and CPU in the market, the sudden surge in procurement volume placed by these Chinese brands (and compounded by high demand caused by work-from-home and study-from-home behavior around the world) totally disrupted the global supply balance of IC, chipset, and CPU which are all core components of the Group's notebook products.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Review of operation *(continued)*

The combined challenges of the COVID-19 pandemic and the China-US trade war created a perfect storm for the supply of components critical to the Group's notebooks and tablets, initially in supply shortages followed by dramatic and exponential rise in prices. Consequently and same as the situation of many notebook and tablet manufacturers around the world, the Group simply could not fulfill all the orders placed in these two quarters; for those orders that could be fulfilled, the Group had to pay much higher market prices for many of the critical components, substantially affecting the Group's bottom line.

While the placement of abnormally large quantity orders for semiconductor parts by some Chinese manufacturers during the last 2 quarters generated tremendous challenges for the Group as a result of broken supply chain for IC, chipset, and CPUs, the literally overnight surge in demand for notebooks and tablets, while created challenges but more importantly also opportunities for the Group.

For example, for the period under review, the sales of the Group's notebooks were particularly strong in some European countries and India, with tens of thousands of consumers choosing AVITA laptops in those markets. Such growth in the popularity of AVITA laptops in these markets resulted in the Group's sales to the USA accounting for 59% of total revenue instead of 77% during the same period last year.

### Prospects

The ongoing impact of the coronavirus to the remainder of the financial year is still uncertain. What is certain is that virtually overnight, this once-a-century pandemic changed everything and the life of many people in the world. Furthermore, according to industry opinion, strong demand for notebooks and tablets will persist until the rest of the Group's financial year and well into 2021 or even 2022. After the passing of the pandemic, many companies will need to continue to support and allow employees to work from home, resulting in the consequence that notebooks and tablets will become a necessity rather than a luxury in many homes around the world. It is the intention of the Group to be well prepared to capture any market expansions wherever they may occur.

One of the challenges facing the Group is supply shortages of critical components for notebooks and tablets which resulted in prices for them still remaining high. Consequently, the Group since Oct has started to shift the higher costs to customers by increasing selling prices from on average around 20% to 30%, depending on models and markets.

### Prospects *(continued)*

Apart from and in addition to adjusting selling prices, the Group is also spending a lot of research and development efforts in creating new and unique features for notebooks and tablets, not only for enhancing their functionality but also for boosting their value-for-money appeal to consumers. Benefiting from increased demand for study-from-home and distant/virtual learning, the Group has received a lot of enquiry for LTE enabled devices such as tablets, especially for and from countries where WiFi is not prevalent in private homes. For AV category and to be introduced in 2021, the Group is actively developing a portfolio of Smart Furniture products that incorporate audio, visual, as well as wireless communication features. Following the Group's business model for notebooks and tablets in recent years, these Smart Furniture products will be sold under the Group's own proprietary brand.

With a long history of making world-class quality products for brandname OEM/ODM customers, and a reputation for manufacturing excellence and efficiency as substantiated by AVITA laptops since their first introduction in 2017, the Group has started receiving more and more OEM/ODM enquiries for notebook products in recent months. Apart from and in addition to the industry norm that OEM/ODM orders are typically large in quantity and with more stable demand over a longer period of time, which would definitely help the Group to better cushion fluctuation in production volume and components costs changes, such enquiry is also a solid vote of confidence by the industry in general to the Group's quality, reliability and competitiveness in the manufacturing of notebook products. A success in this sector will open up significant opportunity for the Group.

The COVID-19 pandemic has created new patterns of living for billions of people worldwide, with many of them relying more and more on carrying out tasks and managing businesses remotely. Believing in such mega trend, the Group expects strong demand for notebooks and tablets to continue, at least in 2021 or even into 2022. In order to capture and benefit from this trend, the Group will continue to invest in resources for promoting and developing more variety of notebooks and tablets to suit different price points and different markets. As already emphasized above, the second half of this financial year remains uncertain. However, the Group will continue to take decisive measures and make good use of resources to look for new opportunities, new markets, new customers, and new products under its own proprietary brands. Most importantly, it has always been the goal of the management team to enhance the Group's long term business prospects and to create long-term value for shareholders.

### Liquidity and financial resources

The Group's total equity and total equity per share as at 30 September 2020 were HK\$527 million (31 March 2020: HK\$681 million) and HK\$0.73 (31 March 2020: HK\$0.94) respectively.

As at 30 September 2020, we had cash and deposits of HK\$86 million. After deducting bank borrowings of HK\$266 million, we had net bank borrowings of HK\$180 million (31 March 2020: net bank borrowings of HK\$53 million). In addition, we had loans from shareholders of HK\$244 million and lease liability of HK\$75 million.

As at 30 September 2020, our inventory was HK\$745 million (31 March 2020: HK\$337 million). We take a cautious approach to monitor the inventory level especially during this environment with uncertainty.

Trade receivables as at 30 September 2020 were HK\$400 million (31 March 2020: HK\$387 million). It is our policy to deal with creditworthy customers and to adopt a prudent credit policy, and we have been closely monitoring credit risk.

Trade payables as at 30 September 2020 were HK\$380 million (31 March 2020: HK\$40 million).

Capital expenditure on fixed assets during the six months ended 30 September 2020 was HK\$2 million (2019: HK\$5 million). As at 30 September 2020, we had capital commitments contracted but not provided for in respect of moulds, plant and machinery amounting to HK\$3,803,000 (31 March 2020: HK\$2,914,000).

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

### Employees

As at 30 September 2020, the Group had approximately 1,070 employees in Hong Kong, the PRC and Taiwan. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. We also provide other benefits including medical insurance, provident fund and education subsidies to all eligible staff.

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

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

As at 30 September 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 period was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executives or their spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above, as at 30 September 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 30 September 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 <i>(note i)</i>	40.51%
Shunde Investments Limited	Beneficial owner	267,812,500 <i>(note i)</i>	37.03%
Mr Webb David Michael	Beneficial owner	75,344,884 <i>(note ii)</i>	10.42%
Mr LEUNG Wai Lap, David	Beneficial owner	52,280,631	7.23%
Preferable Situation Assets Limited	Beneficial owner	48,080,841 <i>(note ii)</i>	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 Shunde 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 30 September 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.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor its subsidiary companies has purchased or sold any of the Company's shares for the six months ended 30 September 2020 and the Company did not redeem any of its shares during the same period.

## **CORPORATE GOVERNANCE**

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

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry to the directors, all the directors confirmed that they had complied with the required standards as set out in the Model Code and its code of conduct regarding directors' securities transactions with the Company for the six months ended 30 September 2020.

## **AUDIT COMMITTEE**

The interim results of the Group have not been reviewed by external auditor. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the financial statements of the Group for the six months ended 30 September 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.

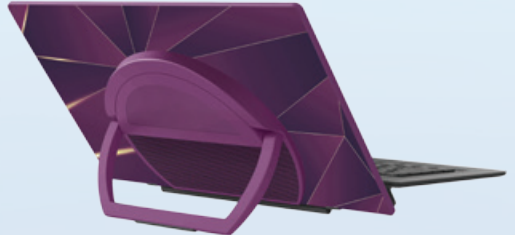
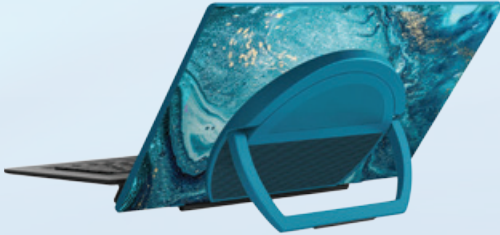
## LIST OF DIRECTORS

As at the date of this report, the Board of Directors 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.

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

Hong Kong, 25 November 2020

# VENTURER



# AVITA

LIVE IT UP





# V10



# COMPAQ

