ALCO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
Website: http://www.alco.com.hk
(Stock Code: 328)

AUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2022

PERFORMANCE HIGHLIGHTS

	2022	2021
– Revenue *(HK$)*	**591m**	1,279m
– Loss attributable to owners *(HK$)*	**595m**	360m

The directors of Alco Holdings Limited (the "Company") announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 March 2022

	Notes	2022 HK$'000	2021 HK$'000
Revenue	3	**591,292**	1,278,686
Cost of goods sold	5	**(887,290)**	(1,340,994)
Gross loss		**(295,998)**	(62,308)
Other income, gain and loss	4	**36,267**	45,958
Selling expenses	5	**(102,210)**	(111,943)
Administrative expenses	5	**(114,543)**	(113,789)
Research and development expenses	5	**(63,855)**	(79,518)
Other operating expenses	5	**(2,227)**	(13,523)
Impairment losses (recognised) reversed on trade and other receivables		**(5,999)**	5,025
Impairment loss on property, plant and equipment	9	**(4,194)**	(14,896)
Impairment loss on right-of-use assets	9	**(15,787)**	(914)
Impairment loss on intangible assets	9	**(3,500)**	(6,010)
		(572,046)	(351,918)
Finance income		**3,339**	2,750
Finance costs		**(25,887)**	(11,471)
Loss before income tax		**(594,594)**	(360,639)
Income tax credit	6	**–**	199
Loss for the year		**(594,594)**	(360,440)
Attributable to:			
– Owners of the Company		**(594,575)**	(360,463)
– Non-controlling interests		**(19)**	23
		(594,594)	(360,440)
Loss per share			
– Basic *(HK cents)*	7	**(82.2)**	(49.8)
– Diluted *(HK cents)*	7	**(82.2)**	(49.8)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2022

	2022	2021
	HK$'000	*HK$'000*
Loss for the year	**(594,594)**	(360,440)
Other comprehensive (expense) income, net of tax:		
Item that may be subsequently reclassified to profit or loss		
Currency translation differences	**(8,515)**	9,706
Total comprehensive expense for the year	**(603,109)**	(350,734)
Attributable to:		
– Owners of the Company	**(603,090)**	(350,757)
– Non-controlling interests	**(19)**	23
Total comprehensive expense for the year	**(603,109)**	(350,734)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment		**133,963**	130,882
Investment properties		**53,430**	46,788
Right-of-use assets		**71,582**	63,631
Prepayments, deposits and other receivables	*10*	**5,570**	33,754
		264,545	275,055
Current assets			
Inventories		**353,939**	623,877
Trade and other receivables	*10*	**203,068**	351,089
Other current assets		**602**	459
Income tax recoverable		**1,421**	14,484
Bank balances and cash		**10,202**	98,149
		569,232	1,088,058
Current liabilities			
Trade and other payables	*11*	**337,414**	398,137
Income tax liabilities		**6,853**	6,642
Lease liabilities		**62,352**	47,407
Bank and other borrowings	*12*	**284,967**	288,661
Loans from shareholders	*13*	**401,966**	13,000
		1,093,552	753,847
Net current (liabilities) assets		**(524,320)**	334,211
Total assets less current liabilities		**(259,775)**	609,266

	Notes	**2022**	2021
		HK$'000	*HK$'000*
Capital and reserves attributable to owners of the Company			
Share capital		**72,324**	72,324
Reserves		**(344,597)**	258,493
		(272,273)	330,817
Non-controlling interests		**(650)**	(631)
Total (deficit) equity		**(272,923)**	330,186
Non-current liabilities			
Other payables	*11*	**11,455**	6,766
Lease liabilities		**1,693**	4,845
Bank and other borrowings	*12*	**–**	2,269
Loans from shareholders	*13*	**–**	265,200
		13,148	279,080
Total (deficit) equity and non-current liabilities		**(259,775)**	609,266

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information and basis of preparation

Alco Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (collectively referred to as the "Group") are engaged in designing, manufacturing and selling of consumer electronic products including AV products and notebook products.

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.

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

Basis of preparation

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred loss for the year of approximately HK$594,594,000 and reported a net cash used in operation of approximately HK$138,984,000 for the year ended 31 March 2022 and net current liabilities of approximately HK$524,320,000 as at 31 March 2022.

During the year ended 31 March 2022, the Group has failed to repay certain bank borrowings according to their scheduled repayment date and the borrowings amounted to approximately HK$214,359,000 as at 31 March 2022. In addition, subsequent to the end of reporting period, a controlling shareholder of the Company disposed of its entire shares held and ceased to be a controlling shareholder of the Company. The disposal of shares held by a controlling shareholder resulted in breach of covenants according to the relevant facility agreement for the Group's bank borrowing of approximately HK$162 million as at 31 March 2022. Such non-compliance of covenants and default in repayment amounted to bank borrowings of HK$214,359,000 as at 31 March 2022 became immediately repayable if requested by the banks and the relevant banks have the right to cancel or suspend the facilities.

The directors of the Company consider that it is appropriate to prepare the consolidated financial statements on the going concern basis taking into account the following facts and assumptions:

(i) Restructure of bank and other borrowings

The bank and other borrowings which are repayable on demand or within one year amounted to HK$285 million as at 31 March 2022, of which approximately HK$214 million was defaulted in payment.

The Group is negotiating with the banks for debt restructuring. The management is of the view that the Group will be able to obtain consent from the banks to extend the repayment of borrowings and continue to provide the banking facility to improve the liquidity position of the Group, considering the valuation of the office premise and investment properties of the Group amounting to approximately HK$188.6 million, with reference to valuation performed by independent qualified professional valuers and market data information, and other properties held by Mr. Leung Wai Sing, Wilson ("Wilson") pledged to the banks.

(ii) Future treatment of the loans from shareholders

As at 31 March 2022, the Group has loans from past and existing shareholders of HK$402 million, of which approximately HK$278 million was loan from the deceased ex-chairman of the Group, Wilson and approximately HK$78 million was loan from another deceased shareholder, Leung Kai Ching, Kimen ("Kimen"). Wilson was one of the administrators of Kimen's estate. As the estate of Wilson is frozen before the appointment of the estate administrator, the extension agreements related to loans from Wilson and Kimen could not be arranged. As the loans are repayable within one year, the Company will discuss the extension of the loans with the estate administrator once he/she is appointed. The Company will also discuss with other shareholders for the extension on repayment for the remaining loans from shareholders of approximately HK$46 million which are repayable on demand.

(iii) Restructure of trade payables

As at 31 March 2022, trade payables amounted to approximately HK$208 million. Subsequent to the end of reporting period, the Group is involved in litigations requesting the Group to settle an amount of approximately HK$16 million. The Group will negotiate with certain creditors to further extend the repayment.

(iv) Potential investors

The Group is outreaching certain investors to obtain funding for working capital including, provision of guarantee from new investor for additional banking facility and bringing in new business opportunities. In particular, in July 2022, the Group had signed a term sheet to expand notebook business and a memorandum of undertaking with potential investors to obtain additional funding. The directors of the Company are of the opinion that these potential new sources of financing can ease the situation and facilitate the future development of the Group.

(v) Proceeds from disposal of non-current assets

The Group is negotiating with independent third parties to dispose of certain non-current assets with the aim to generate cash inflows and mitigate liquidity pressure.

(vi) Cash inflow from operations

The Group is taking measures to streamline the product mix and production mode, to tighten cost controls over various costs and expenses and is adopting a more flexible procurement policy to control the purchase costs with the aim to attain gross profit and positive operating cash flow.

Based on the sales orders on hand for the notebook products up to June 2022, the directors of the Company expect an increase in sales in the coming months comparing to the corresponding period for the year ended 31 March 2022. The directors of the Company will continue with its effort in sales and marketing to promote the Group's notebook products in existing market and explore opportunities in other countries.

The directors of the Company believe that, taking into account the above plans and measures, the Group will have sufficient working capital to satisfy its present requirements for the year ending 31 March 2023. However, should the Group fail to achieve the above mentioned plans and measures, the Group may be unable to operate as a going concern, in which case adjustments might have to be made to the carrying values of the Group's assets to state them at their realisable values, to provide for any further liabilities which might arise and to reclassify its non-current assets and non-current liabilities to current assets and current liabilities, respectively.

2. Application of new and amendments to HKFRSs

In the current year, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning 1 April 2021:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform").

As at 31 March 2021, the Group had certain financial liabilities, the interest of which are indexed to benchmark rate that will or may be subject to interest rate benchmark reform. Since the interest rates of these instruments were not replaced by an alternative risk-free rate ("RFRs") during the year, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply the practical expedient upon the modification of these instruments provided that the "economically equivalent" criterion is met.

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and related Amendments[2]
Amendments to HKFRS 3	Reference to the Conceptual Framework[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[1]
Amendments to HKAS 37	Onerous Contracts: Cost of Fulfilling a Contract[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2022.
2 Effective for annual periods beginning on or after 1 January 2023.
3 Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

3. Segment information

(a) *Segment analysed by products*

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

The chief operating decision-makers examine the Group's performance 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

The Group's inter-segment transactions mainly consist of sale of assembly parts among subsidiaries. Inter-segment sales are charged with reference to market prices.

	2022				2021			
	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	**122,063**	**469,229**	**–**	**591,292**	646,973	631,713	–	1,278,686
Inter-segment sales	**24,004**	**751**	**(24,755)**	**–**	12,446	1,089	(13,535)	–
	146,067	**469,980**	**(24,755)**	**591,292**	659,419	632,802	(13,535)	1,278,686
Segment results	**(127,668)**	**(424,397)**	**–**	**(552,065)**	(127,732)	(208,376)	–	(336,108)
Impairment loss on right-of-use assets				**(15,787)**				(914)
Impairment loss on property, plant and equipment				**(4,194)**				(14,896)
Finance income				**3,339**				2,750
Finance costs				**(25,887)**				(11,471)
Loss before income tax				**(594,594)**				(360,639)

(b) Segment analysed by geographical area

The segment revenue for the years ended 31 March 2022 and 2021 are as follows:

	2022	2021
	HK$'000	*HK$'000*
North America	**43,545**	619,745
Asia	**466,170**	500,630
Europe	**73,179**	124,223
Others	**8,398**	34,088
	591,292	1,278,686

The analysis of revenue by geographical area is based on the destination to which the shipments are made.

4. Other income, gain and loss

	2022	2021
	HK$'000	*HK$'000*
Rental income from investment properties	**2,016**	2,017
Sub-lease income	**16,535**	13,022
Fair value gain on investment properties	**4,568**	23,386
Rent concession	**1,552**	2,399
Sub-contracting income	**4,300**	3,880
Exchange gain, net	**5,718**	–
Others	**1,578**	1,254
	36,267	45,958

5. Expenses by nature

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

	2022	2021
	HK$'000	*HK$'000*
Amortisation of intangible assets	**874**	1,503
Auditor's remuneration	**1,500**	1,380
Cost of inventories	**646,092**	1,237,535
Impairment of inventories	**198,195**	23,053
Depreciation of property, plant and equipment	**20,332**	21,223
Depreciation of right-of-use assets	**22,074**	1,835
Employee benefit expenses (including directors' emoluments)	**197,328**	206,765
Severance payment	**1,109**	1,774
Loss on disposal of plant and equipment	**217**	6
Short-term lease expenses	**2,115**	4,437

6. Income tax credit

No provision for Hong Kong Profits Tax and People's Republic of China corporate income tax have been made as there are no assessable profits for the years ended 31 March 2022 and 2021. 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.

	2022	2021
	HK$'000	*HK$'000*
Current income tax credit		
– Overseas corporate income tax	**–**	(199)

7. Loss per share

Basic

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

	2022	2021
Loss attributable to owners of the Company *(HK$'000)*	**(594,575)**	(360,463)
Number of ordinary shares in issue	**723,244,650**	723,244,650
Basic loss per share *(HK cents)*	**(82.2)**	(49.8)

Diluted

There were no dilutive potential ordinary shares during the years ended 31 March 2022 and 2021. Therefore, the diluted loss per share is the same as basic loss per share.

8. Dividends

No dividend was paid or proposed by the Company during the years ended 31 March 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

9. Impairment of non-financial assets

For impairment assessment, the Group assesses the recoverable amount of the property, plant and equipment, right-of-use assets and intangible assets 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$4,194,000, HK$15,787,000 and HK$3,500,000 (2021: HK$14,896,000, HK$914,000, HK$6,010,000) in respect of property, plant and equipment, right-of-use assets and intangible assets respectively for the year ended 31 March 2022.

10. Trade receivables, prepayments, deposits and other receivables

At 31 March 2022 and 2021, the ageing analysis of the trade receivables based on revenue recognition dates is as follows:

	2022	2021
	HK$'000	*HK$'000*
0 – 30 days	**4,669**	110,807
31 – 60 days	**4,244**	96,276
61 – 90 days	**2,777**	36,485
Over 90 days	**138,876**	57,675
	150,566	301,243

11. Trade and other payables

At 31 March 2022 and 2021, the ageing analysis of the trade payables based on invoice date is as follows:

	2022	2021
	HK$'000	*HK$'000*
0 – 30 days	**16,203**	57,884
31 – 60 days	**2,061**	1,401
61 – 90 days	**5,121**	–
Over 90 days	**184,168**	232,095
	207,553	291,380

12. Bank and other borrowings

As at 31 March 2022, bank and other borrowings were interest-bearing at fixed rates from 5.2% to 13.2% per annum or a margin over HIBOR, Lender's Costs of Funds or loan prime rate (2021: fixed rates from 5.2% to 10% per annum or a margin over HIBOR, Lender's Costs of Funds or loan prime rate).

13. Loans from shareholders

	2022	2021
	HK$'000	*HK$'000*
Non-current		
Mr. Leung Kai Ching, Kimen (deceased)	**–**	78,200
Mr. Leung Wai Sing, Wilson (deceased)	**–**	187,000
	–	265,200
Current		
Mr. Leung Kai Ching, Kimen (deceased)	**78,200**	–
Mr. Leung Wai Sing, Wilson (deceased)	**277,766**	–
Mr. Leung Wai Lap, David	**26,000**	13,000
Ms. Leung Ka Yan, Karen	**20,000**	–
	401,966	13,000
	401,966	278,200

As at 31 March 2022, the loans from shareholders were interest-bearing at a fixed rate of 4.5% per annum or 1.3% over 1-month HIBOR or LIBOR per annum. Balances of HK$401,966,000 would be repayable within one year or on demand. On 31 March 2021, the executor of Mr. Leung Kai Ching, Kimen's estate and Mr. Leung Wai Sing, Wilson, agreed to extend the repayment date to 31 December 2022.

14. Events after the reporting period

Subsequent to the end of reporting period, a controlling shareholder of the Company disposed of its entire shares held and ceased to be a controlling shareholder of the Company. Details are set out in the announcement of the Company dated 30 June 2022. Following the disposal of shares held by the controlling shareholder, the Group has failed to satisfy the financial covenant under the facility agreement as disclosed in note 1.

Subsequent to the end of reporting period, the Group received several writs of summons issued by suppliers in respect of outstanding sums due and owing by the Group. Details are set out in the announcement of the Company dated 7 June 2022.

In addition, the Company involved in certain litigations which included a statutory demand from other creditor and claim from a supplier. Details are mentioned in "MANAGEMENT DISCUSSION AND ANALYSIS" section.

15. Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 March 2022 (2021: Nil).

MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS

Since financial information contained in the Unaudited Annual Results Announcement was neither audited nor agreed with the auditors of the Company as at the date of its publication and subsequent adjustments have been made to such information, shareholders and potential investors of the Company are advised to pay attention to certain differences between the financial information of the unaudited and audited annual results of the Group. Set forth below are principal details and reasons for the material differences in such financial information in accordance with Rule 13.49(3)(ii) (b) of the Listing Rules.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2022

	Audited	Unaudited	Difference	*Note*
	HK$'000	*HK$'000*	*HK$'000*	
Revenue	**591,292**	591,292		
Cost of goods sold	**(887,290)**	(820,023)	(67,267)	*1*
Gross loss	**(295,998)**	(228,731)	(67,267)	*1*
Other income, gain and loss	**36,267**	36,267		
Selling expenses	**(102,210)**	(102,210)		
Administrative expenses	**(114,543)**	(114,543)		
Research and development expenses	**(63,855)**	(63,855)		
Other operating expenses	**(2,227)**	(2,227)		
Impairment losses recognised on trade and other receivables	**(5,999)**	(5,999)		
Impairment loss on property, plant and equipment	**(4,194)**	(4,194)		
Impairment loss on right-of-use assets	**(15,787)**	(15,787)		
Impairment loss on intangible assets	**(3,500)**	(3,500)		
	(572,046)	(504,779)	(67,267)	*1*
Finance income	**3,339**	3,339		
Finance costs	**(25,887)**	(25,887)		
Loss before income tax	**(594,594)**	(527,327)	(67,267)	*1*
Income tax credit	**–**	–		
Loss for the year	**(594,594)**	(527,327)	(67,267)	*1*

	Audited	Unaudited	Difference	*Note*
	HK$'000	*HK$'000*	*HK$'000*	
Attributable to:				
– Owners of the Company	**(594,575)**	(527,308)	(67,267)	*1*
– Non-controlling interests	**(19)**	(19)		
	(594,594)	(527,327)	(67,267)	*1*
Loss per share				
– Basic *(HK cents)*	**(82.2)**	(72.9)	(9.3)	
– Diluted *(HK cents)*	**(82.2)**	(72.9)	(9.3)	
Loss for the year	**(594,594)**	(527,327)	(67,267)	*1*
Other comprehensive (expense) income, net of tax:				
Item that may be subsequently reclassified to profit or loss				
Currency translation differences	**(8,515)**	(8,539)	24	
Total comprehensive expense for the year	**(603,109)**	(535,866)	(67,243)	
Attributable to:				
– Owners of the Company	**(603,090)**	(535,847)	(67,243)	
– Non-controlling interests	**(19)**	(19)		
Total comprehensive expense for the year	**(603,109)**	(535,866)	(67,243)	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

	Audited	Unaudited	Difference	*Note*
	HK$'000	*HK$'000*	*HK$'000*	
Non-current assets				
Property, plant and equipment	**133,963**	133,963		
Investment properties	**53,430**	53,430		
Right-of-use assets	**71,582**	71,582		
Prepayments, deposits and other receivables	**5,570**	5,570		
	264,545	264,545		
Current assets				
Inventories	**353,939**	421,206	(67,267)	*1*
Trade and other receivables	**203,068**	203,068		
Other current assets	**602**	602		
Income tax recoverable	**1,421**	1,421		
Bank balances and cash	**10,202**	10,202		
	569,232	636,499	(67,267)	*1*
Current liabilities				
Trade and other payables	**337,414**	337,414		
Income tax liabilities	**6,853**	6,853		
Lease liabilities	**62,352**	62,352		
Bank and other borrowings	**284,967**	284,967		
Loans from shareholders	**401,966**	401,966		
	1,093,552	1,093,552		
Net current liabilities	**(524,320)**	(457,053)	(67,267)	*1*
Total assets less current liabilities	**(259,775)**	(192,508)	(67,267)	*1*

	Audited *HK$'000*	Unaudited *HK$'000*	Difference *HK$'000*	*Note*
Capital and reserves attributable to owners of the Company				
Share capital	**72,324**	72,324		
Reserves	**(344,597)**	(277,330)	(67,267)	*1*
	(272,273)	(205,006)	(67,267)	*1*
Non-controlling interests	**(650)**	(650)		
Total deficit	**(272,923)**	(205,656)	(67,267)	*1*
Non-current liabilities				
Other payables	**11,455**	11,455		
Lease liabilities	**1,693**	1,693		
Bank and other borrowings	**–**	–		
Loans from shareholders	**–**	–		
	13,148	13,148		
Total deficit and non-current liabilities	**(259,775)**	(192,508)	(67,267)	*1*

Note 1:

The differences were mainly due to increase in provision of inventories.

DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2022 (2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Group results and dividends

For the year under review, the Group recorded a 54% decrease in turnover from HK$1,279 million (in 2021) to HK$591 million and a 65% increment in net loss attributable to shareholders from HK$360 million (in 2021) to HK$595 million.

The strategy of the Group over the last few years is to focus on developing our own brand notebook business instead of on the traditional OEM/ODM business on AV products, the OEM/ODM business although can provide a bigger revenue will also require more working capital to transact them. With more resources spent on our own brand notebook business we are giving up the orders from the big retailers especially from the US market.

The net loss was partly the result of a decline in sales of approximately 54% as explained above. Furthermore, the continuous effect of COVID-19 throughout the year had huge cost impact on our logistic and delivery of materials and products for the 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 our bottom line.

Other reasons for the net loss was the impairment of inventories, trade and other receivables and certain non-current assets. For inventories, in addition to the provisions made in prior years, a further impairment of HK$198 million was made mainly on aged raw materials due to cessation of producing certain AV and non profitable products. As the Group's business has continued to incur 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$29.5 million was made further on certain property, plant and equipment, right-of-use assets, intangible assets and trade and other receivables.

The directors do not recommend the payment of a final dividend (2021: Nil) for the financial year ended 31 March 2022.

Review of Operations

Our strategy of developing own brand notebook business require heavy investment on marketing promotion and product development. This in the past has relied heavily on the funding support of our esteem ex-Chairman Mr. Leung Wai Sing, Wilson ("Wilson"), unfortunately due to the sudden pass away of Wilson in December 2021, the continuous funding has been ceased and this has created a huge disruption to our business plan and operation. On the second half of 2021 the Group is still expanding its production and sales, and has purchased additional SMT machineries, UV printers and assembly equipment, Windows key and other critical components, and continue on marketing promotion campaign and with many new products developments. With the limitation on working capital we are unable to continue fully on our productions, unable to fully utilize our excessive materials purchased and as a result created excessive wastage on materials and production capacity.

The latter half of the year was particularly difficult for the Group, we not only suffered from the lack of working capital, we also lost the direction of Wilson who has been with the Group his entire life, his management guidance and valuable input in engineering and product development has been the cornerstone for all of the facets of the development of the Group.

At the initial outbreak of COVID-19, the demand for notebook computers were significant, the demand for notebook computers rising multiple folds within a matter of weeks, the supply chains for these devices' critical components, as well as in some cases even supply chains for normally non-critical and low-value components, became virtually broken and unable to cope. As such even though the sales demand was good we have to spend substantially higher raw materials cost in order to meet the delivery. This further add up to the costs of nurturing a young brand. Although materials price started to stabilize in the latter half of the year, the demand for notebook computer also slowly fell. The number of Covid cases remain high in many countries, most of them have adopted a somewhat "living with Covid" policy as they generally believe the new variant of Covid is not as detrimental as its predecessor virus. So after an unprecedented period of pandemic-led demand in the face of component shortages, the global PC market is starting to cool down.

The significant and continue drop in sales have left the factory with excessive production capacity and non fully utilized labour force. The Group has started laying off excessive workers and office staff from the beginning of the year and to sublease any excessive factory space to other parties.

Prospects

Facing an extremely difficult situation the Group is undergoing the followings:

- Revisit the corporate strategy in developing our own brand notebook – as the investment in building a computer brand is significant we will need to partner with other investors in building it, either through licensing the brand or jointly invested with other investors, for this we made some promising progress in the discussion with other investors who may be able to provide additional banking facilities and working capital to support our sales and production. We have signed a non legally binding term sheet and a memorandum of understanding with two potential investors for extending cash and credit facilities of up to US$13 million to support the business;

- To dispose the investment properties, production facilities and land and buildings in order to generate more working capital and to reduce borrowings. Properties at an estimated market value of HK$263 million pledged for certain bank and other borrowings have been placed on the market for sales to repay the borrowings;

- To further streamline the operation of the Group by reducing headcounts both in the offices and in the factory, and to adopt more cost saving outsourcing services;

- To explore different strategies in creating more values from the factory e.g. renting or selling production facilities and machinery, doing subcontracting work for other notebook and electronic manufacturers; and

- To discuss with Wilson's estate administrator (yet to be appointed) on the treatment of the shareholders loans.

- To negotiate with certain creditors to further extend the repayment.

- To negotiate with the banks for debt restructuring.

Our goal is to try minimizing the loss as quickly as possible and to turnaround the business into a positive cashflow operation, at the same time looking for investors to invest in our brand and business.

Liquidity and financial resources

The Group's total deficit and total deficit per share as at 31 March 2022 were HK$273 million (2021: total equity HK$330 million) and HK$0.38 (2021: total equity per share HK$0.46) respectively.

As at 31 March 2022, we had bank balances and cash of HK$10 million (2021: HK$98 million). After deducting bank and other borrowings of HK$285 million (2021: HK$291 million), loans from shareholders of HK$402 million (2021: HK$278 million) and lease liability of HK$64 million (2021: HK$52 million), we had net borrowing of HK$741 million (2021: HK$523 million).

As at 31 March 2022, our inventory was HK$354 million (2021: HK$624 million), which consisted of HK$254 million (2021: HK$353 million) of raw material, HK$16 million (2021: HK$26 million) of work-in-progress and HK$84 million (2021: HK$245 million) of finished goods. We take a cautious approach to monitor the inventory level especially during this environment with uncertainty.

Trade receivables as at 31 March 2022 were HK$151 million (2021: HK$301 million). Some of the customers have counter claims on the Group which have been included in other payables. We are actively following the receivable with our customers for payments.

Trade payables as at 31 March 2022 were HK$208 million (2021: HK$291 million).

Capital expenditure on fixed assets during the year was HK$26 million (2021: HK$23 million). As at 31 March 2022, we had capital commitments contracted but not provided for in respect of moulds, plant and machinery and renovation amounting to HK$1 million (2021: HK$3 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.

Litigation update

Subsequent to the end of reporting period, the Group received several writs of summons issued by suppliers in respect of outstanding sums due and owing by the Group. Details are set out in the announcement of the Company dated 7 June 2022. Subsequent to this announcement, the Group has the following updates:

Statutory Demand presented by World Crown Investments Limited ("World Crown") on 9 June 2022 ("Statutory Demand")

The Company was served a Statutory Demand from World Crown Investments Limited on 9 June 2022 in respect of a claim of RMB3,700,000 and HK$652,174 being a purported loan from World Crown. The Company took out an application for an injunction to refrain World Crown from presenting a winding-up petition against the Company on 24 June 2022. It was ordered by the court on 30 June 2022 that World Crown undertook not to present a winding-up petition against the Company. The Company was ordered to file and serve its affirmation in reply on or before 12 August 2022 (as extended) and the substantive hearing of the originating summons was adjourned to a date yet to be fixed.

HCA 876 of 2022: Sunwell Science & Technology Co. Limited vs. Alco Electronics Limited ("AEL")

This action is a purported claim of US$709,868.21 and HK$172,401.43 for goods sold and delivered by the Plaintiff to AEL. AEL has instructed counsel to file the acknowledgement of service on or before 4 August 2022 while AEL is reviewing and verifying the claim.

Employees

As at 31 March 2022, the Group had approximately 625 (2021: 950) employees in Mainland China, 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor its subsidiary companies has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2022.

CORPORATE GOVERNANCE

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 2022, except with deviation from code provision A.2.1; rules 3.10(1), 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of the Corporate Governance Code of the Listing Rules.

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 9 June 2022, Mr. LIU Hoi Keung ("Mr. Liu") 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. Liu has considerable industry experience.

Following the resignation of Mr. WU Zhi Ling on 7 June 2022, the number of independent non-Executive directors of the Company did not meet the requirement under rule 3.10(1) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").In addition, the composition of the audit committee, the remuneration committee, and the nomination committee of the Company no longer satisfies the requirements under rules 3.21, 3.25 and code provision A.5.1 of the Corporate Governance Code of the Listing Rules, respectively. On 16 June 2022, with the appointment of Ms. CHOI Ka Ying, Mr. LAM Chi Wing and Mr. TANG Sher Kin as Independent non-Executive Directors, the audit committee, the remuneration committee and the nomination committee of the Company has since complied with the requirements of relevant Listing Rules above, details of their biography has been disclosed in the Company's announcement dated 16 June 2022.

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 year ended 31 March 2022.

AUDIT COMMITTEE

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 2022.

The Audit Committee currently comprises three independent non-executive directors of the Company, namely Ms. CHOI Ka Ying, Mr. LAM Chi Wing, Mr. TANG Sher Kin.

SCOPE OF WORK OF THE AUDITORS OF THE COMPANY

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2022 as set out in the preliminary announcement have been agreed by the Company's auditor, SHINEWING (HK) CPA Limited ("SHINEWING"), to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 March 2022 as approved by the Board of Directors on 27 July 2022. The work performed by SHINEWING in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by SHINEWING on the preliminary announcement.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below sections set out an extract of the report by SHINEWING, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 March 2022.

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As described in note 1 to the consolidated financial statements, the Group reported net loss of approximately HK$594,594,000 and net cash outflows from operating activities of approximately HK$138,984,000 for the year ended 31 March 2022. As at 31 March 2022, the Group had total deficit of approximately HK$272,923,000 and net current liabilities of approximately HK$524,320,000 which included bank and other borrowings of approximately HK$284,967,000, of which HK$214,359,000 were in default and the lenders have the right to demand for immediate repayment of the entire outstanding balances. As at 31 March 2022, the Group's bank balances and cash amounted to approximately HK$10,202,000 only. These conditions, along with other matters as set forth in note 1 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been formulating and undertaking a number of plans and measures to mitigate the Group's liquidity pressure, to improve financial position of the Group, and to remediate the delayed repayments to lenders and creditors.

The consolidated financial statements had been prepared on a going concern basis, the validity of which depends on the outcome of those plans and measures as mentioned in note 1 to the consolidated financial statements, which are subject to multiple uncertainties.

However, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves that the events or conditions underpinning the cash flow forecast of the Group for going concern assessment are reasonable and supportable because of (i) the lack of sufficient supporting basis from the management on the successfulness of negotiation with the lenders and creditors on restructuring or extension of repayment terms of shareholders' loan, bank and other borrowings and trade payables; and (ii) the lack of sufficient supporting basis that the improvement of future operating results and cash flows would be realised, in particular, the uncertainty of outcome of those plans and measures and how variability in outcome would affect the future cash flows of the Group. Hence, we were unable to satisfy ourselves about the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements by the management of the Group.

Should the Group fail to achieve its plans and measures as mentioned in note 1 to the consolidated financial statements, it might not be able to continue as a going concern, and 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. The effects of these adjustments have not been reflected in these consolidated financial statements.

In view of the significant of and the potential interaction of the multiple uncertainties described above and their possible cumulative effects on the consolidated financial statements, we disclaim our opinion in respect of the consolidated financial statements of the Group for the year ended 31 March 2022.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This final results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and on the website of Alco Holdings Limited at www.alco.com.hk. The annual report of the Company containing all the information required by the Listing Rules will be published on the above websites in due course.

LIST OF DIRECTORS

As at the date of this announcement, the Board of Directors comprises three executive directors, namely Mr. LIU Hoi Keung, Mr. CHUNG Hau Yeung and Mr. YIP Wing Shing, one non-executive director, namely Ms. HONG Ting and three independent non-executive directors, namely Mr. TANG Sher Kin, Ms. CHOI Ka Ying and Mr. LAM Chi Wing.

By order of the Board
Alco Holdings Limited
Executive Director
LIU HOI KEUNG

Hong Kong, 27 July 2022