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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 2023

PERFORMANCE HIGHLIGHTS

	2023	2022 (Restated)
Continuing operations		
– Revenue (HK\$)	89m	542m
– Loss attributable to owners (HK\$)	87m	332m

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 2023 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2023

	<i>Notes</i>	2023 HK\$'000	2022 HK\$'000 (Restated)
Continuing operations			
Revenue	3	89,321	542,408
Cost of goods sold	5	(100,273)	(654,219)
Gross loss		(10,952)	(111,811)
Other income, gain and loss	4	11,464	14,688
Selling expenses	5	(10,565)	(86,939)
Administrative expenses	5	(42,038)	(67,999)
Research and development expenses	5	(18,870)	(63,855)
Other operating expenses	5	(1,590)	(1,480)
Impairment losses on trade and other receivables		(7,678)	(570)
Impairment loss on property, plant and equipment	11	(3,043)	–
Impairment loss on right-of-use assets	11	(1,717)	–
Impairment loss on intangible assets	11	–	(3,500)
		(84,989)	(321,466)
Finance income	6	28	4
Finance costs	6	(6,958)	(10,216)
Loss before income tax		(91,919)	(331,678)
Income tax expense	7	–	–
Loss for the year from continuing operations		<u>(91,919)</u>	<u>(331,678)</u>
Discontinued operations			
Loss for the year from discontinued operations	8	(423,695)	(262,916)
Loss for the year		<u>(515,614)</u>	<u>(594,594)</u>

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i> (Restated)
Loss for the year attributable to owners of the Company			
– from continuing operations		(86,547)	(331,659)
– from discontinued operations		<u>(423,695)</u>	<u>(262,916)</u>
Loss for the year attributable to owners of the Company		<u>(510,242)</u>	<u>(594,575)</u>
Loss for the year attributable to non-controlling interests			
– from continuing operations		(5,372)	(19)
– from discontinued operations		<u>–</u>	<u>–</u>
Loss for the year attributable to non-controlling interests		<u>(5,372)</u>	<u>(19)</u>
		<u>(515,614)</u>	<u>(594,594)</u>
Loss per share			
From continuing and discontinued operations			
Basic (HK\$)	9	<u>(33.53)</u>	<u>(41.10)</u>
Diluted (HK\$)	9	<u>(33.53)</u>	<u>(41.10)</u>
From continuing operations			
Basic (HK\$)	9	<u>(5.69)</u>	<u>(22.93)</u>
Diluted (HK\$)	9	<u>(5.69)</u>	<u>(22.93)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2023

	2023 HK\$'000	2022 HK\$'000 (Restated)
Loss for the year	(515,614)	(594,594)
Other comprehensive expense, net of tax: <i>Item that may be reclassified subsequently to profit or loss:</i>		
Currency translation differences	<u>(13,113)</u>	<u>(8,515)</u>
Total comprehensive expense for the year	<u>(528,727)</u>	<u>(603,109)</u>
Total comprehensive expense for the year attributable to:		
– Owners of the Company	(523,355)	(603,090)
– Non-controlling interests	<u>(5,372)</u>	<u>(19)</u>
Total comprehensive expense for the year	<u>(528,727)</u>	<u>(603,109)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2023

	<i>Notes</i>	2023 HK\$'000	2022 HK\$'000
Non-current assets			
Property, plant and equipment		43,159	133,963
Investment properties		43,610	53,430
Right-of-use assets		58,854	71,582
Intangible assets		–	–
Prepayments, deposits and other receivables	<i>12</i>	826	5,570
		146,449	264,545
Current assets			
Inventories		38,496	353,939
Trade and other receivables	<i>12</i>	11,273	203,068
Other current assets		–	602
Income tax recoverable		1,724	1,421
Bank balances and cash		2,392	10,202
		53,885	569,232
Assets classified as held for sale	<i>8</i>	82,954	–
		136,839	569,232
Current liabilities			
Trade and other payables	<i>13</i>	96,040	337,414
Income tax payable		1,356	6,853
Lease liabilities		949	62,352
Bank and other borrowings	<i>14</i>	68,318	284,967
Loans from shareholders	<i>15</i>	85,553	401,966
		252,216	1,093,552
Liabilities associated with assets classified as held for sale	<i>8</i>	806,372	–
		1,058,588	1,093,552
Net current liabilities		(921,749)	(524,320)
Total assets less current liabilities		(775,300)	(259,775)

	<i>Notes</i>	2023 HK\$'000	2022 HK\$'000
Capital and reserves attributable to owners of the Company			
Share capital		79,557	72,324
Reserves		(867,161)	(344,597)
Reserves relating to assets and liabilities classified as held for sale	<i>8</i>	<u>(1,044)</u>	<u>–</u>
Equity attributable to owners of the Company		(788,648)	(272,273)
Non-controlling interests		<u>(6,022)</u>	<u>(650)</u>
Total deficit		<u>(794,670)</u>	<u>(272,923)</u>
Non-current liabilities			
Other payables	<i>13</i>	17,879	11,455
Lease liabilities		<u>1,491</u>	<u>1,693</u>
		<u>19,370</u>	<u>13,148</u>
Total deficit and non-current liabilities		<u>(775,300)</u>	<u>(259,775)</u>

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 Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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. In current year, the Group discontinued the manufacturing operations as described in note 8.

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 (the “Board”) have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred loss from continuing operations of approximately HK\$91,919,000 for the year ended 31 March 2023 and net current liabilities of approximately HK\$921,749,000 as at 31 March 2023.

During the year ended 31 March 2023, the Group has failed to repay certain bank borrowings amounted to approximately HK\$178,118,000 according to their scheduled repayment date and remained outstanding as at 31 March 2023. In addition, during the year ended 31 March 2023, 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\$133,068,000 as at 31 March 2023. Such non-compliance of covenants and default in repayment amounted to bank borrowings of approximately HK\$178,118,000 as at 31 March 2023 became immediately repayable if requested by the banks and the relevant banks have the right to cancel or suspend the facilities.

The Board considers 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 (including which classified as held for sale) and was defaulted in repayment amounted to approximately HK\$199,874,000 as at 31 March 2023.

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\$181,115,000, with reference to valuation performed by independent qualified professional valuers and market data information from bank, 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 2023, the Group has loans from past and existing shareholders (including which classified as held for sale) of approximately HK\$476,190,000, of which approximately HK\$289,766,000 was loan from the deceased ex-chairman of the Group, Wilson and approximately HK\$78,200,000 was loan from another deceased shareholder, Leung Kai Ching, Kimen (“Kimen”). Wilson was one of the administrators of Kimen’s estate, another deceased shareholder. 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\$108,224,000 which are repayable on demand.

(iii) Restructure of trade payables

As at 31 March 2023, trade payables amounted to approximately HK\$194,938,000. Subsequent to the end of reporting period, the Group is involved in litigations requesting the Group to settle outstanding amount (details refer to note 17). The Group will negotiate with certain creditors to further extend the repayment.

(iv) 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 2023, the Board expects an increase in sales in the coming months comparing to the corresponding period for the year ended 31 March 2023. 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.

(v) Proceeds from rights issue

On 13 June 2023, the Board proposed to raise up to approximately HK\$90,690,000 (before expense) by issuing up to 63,645,492 rights shares to the qualifying shareholders by way of the rights issue at the subscription price of HK\$1.425 per rights share on the basis of four rights shares for every one share held on the record date (the “Rights Issue”), details of the Rights Issue are set out in the Company’s announcement dated 13 June 2023. The Rights Issue is expected to complete in July 2023. The Board currently intends to apply the net proceeds from the Rights Issue primarily for repayment of bank loans and other borrowings, and for general working capital of the Group.

The Board believes 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 2024. 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 Hong Kong Financial Reporting Standards (“HKFRS(s)”)

In the current year, the Group has applied, for the first time, the following amendments to 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 2022:

Amendments to HKFRS 16	Property, Plant and Equipment: Proceeds before intended Use
Amendments to HKFRS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvement to HKFRSs 2018-2020	Amendments to HKFRS 9, HKFRS 16 and HKAS 41
Amendments to HKFRS 3	Reference to Conceptual Framework

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.

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 and related amendments	Insurance Contracts ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
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	Non-current Liabilities with Covenants ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2024.

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.

(b) *Segment analysed by geographical area*

The segment revenue for the years ended 31 March 2023 and 2022 are as follows:

	2023 HK\$'000	2022 HK\$'000 (Restated)
Continuing operations		
North America	–	43,545
Asia	60,479	417,286
Europe	23,695	73,179
Others	5,147	8,398
	<u>89,321</u>	<u>542,408</u>

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

(c) *Information about major customers*

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

	2023 HK\$'000	2022 HK\$'000 (Restated)
Customer A ¹	N/A*	132,565
Customer B ¹	27,294	N/A*
Customer C ¹	14,794	N/A*
Customer D ¹	10,336	N/A*

¹ Revenue from Notebook products segment

* Revenue from relevant customers was less than 10% of the Group's total revenue for the respective year.

4. Other income, gain and loss

	2023 HK\$'000	2022 HK\$'000 (Restated)
Continuing operations		
Rental income from investment properties	1,452	2,016
Sub-lease income	766	28
Fair value (loss)/gain on investment properties	(2,631)	4,568
Government grant (<i>note</i>)	82	–
Gain on termination of lease	2,655	–
Exchange gains, net	8,524	7,698
Others	616	378
	<u>11,464</u>	<u>14,688</u>

Note: During the year 31 March 2023, the Group recognised government grants respect of COVID-19-related subsidies, of which amounted to approximately HK\$82,000 related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund. There are no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

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:

	2023 HK\$'000	2022 HK\$'000 (Restated)
Continuing operations		
Amortisation of intangible assets	–	874
Auditor's remuneration	780	1,500
Cost of inventories	91,352	524,867
Impairment of inventories	2,671	120,695
Depreciation of property, plant and equipment	2,337	5,326
Depreciation of right-of-use assets	4,248	1,714
Employee benefit expenses (including directors' emoluments)	30,085	58,756
Bad debts written-off on other receivable	1,471	–
Short-term lease expenses	3,080	2,115
	<u>3,080</u>	<u>2,115</u>

6. Finance income and finance costs

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (Restated)
Continuing operations		
Finance income:		
– Bank interest income	<u>28</u>	<u>4</u>
Finance costs:		
– Interest expense on bank and other borrowings	5,052	5,621
– Interest expense on loans from shareholders	1,858	3,982
– Interest expense on lease liabilities	<u>48</u>	<u>613</u>
	<u>6,958</u>	<u>10,216</u>

7. Income tax expense

No provision for Hong Kong Profits Tax, the People's Republic of China corporate income tax and oversea corporate income tax for continuing operations have been made as there are no assessable profits for the years ended 31 March 2023 and 2022.

8. Discontinued operations/disposal group held for sale

On 31 August 2022, the Board has made the strategic decision to cease the operation of the production line in Dongguan (the “Disposal Group”) and has obtained the approval from the local government on the same date. The related deregistration and insolvency application is in progress with the assistance from the local government as at this report date. The disposal of self-owned contract processing manufacturing business line enables the Group to free up the resources and redirect its resources to other business segments which may have higher growth potential to maximise the benefit of the shareholders of the Group. The assets and liabilities attributable to the production line, which is expected to be disposed of within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position (see below).

The results of the Disposal Group for the year were as follows:

	2023	2022
	HK\$'000	HK\$'000
Revenue	–	48,884
Cost of goods sold	(271,715)	(233,071)
Other income, gain and loss	83,905	21,579
Selling expenses	(11,579)	(15,271)
Administrative expenses	(203,961)	(46,544)
Other operating expenses	(1,881)	(747)
Impairment losses on trade and other receivables	(2,045)	(5,429)
Impairment loss on property, plant and equipment	–	(4,194)
Impairment loss on right-of-use asset	–	(15,787)
	(407,276)	(250,580)
Finance income	1	3,335
Finance costs	(16,420)	(15,671)
	(423,695)	(262,916)
Loss before tax	–	–
Income tax expense	–	–
Loss for the year	(423,695)	(262,916)

Loss for the year from discontinued operating include the following:

	2023	2022
	HK\$'000	HK\$'000
Cost of inventories	–	121,225
Impairment of inventories	271,588	77,500
Depreciation of property, plant and equipment	11,861	15,006
Depreciation of right-of-use assets	9,665	20,360
Gain on termination of lease	48,860	–
Loss on disposal of property, plant and equipment	8,047	217
Bad debt written-off on other receivable	28,230	–
Bad debt written-off on trade receivable	93,259	–
Employee benefit expenses	16,565	138,482
Severance payment	339	1,109
Interest expenses on lease liabilities	882	2,551
Rental concession	–	(1,552)

The major classes of assets and liabilities of the Disposal Group as at 31 March 2023, which have been presented separately in the consolidated statement of financial position, are as follows:

	2023	2022*
	HK\$'000	HK\$'000
Property, plant and equipment	52,677	81,236
Right-of-use assets	–	9,665
Inventories	1,185	284,939
Trade and other receivables (<i>note a</i>)	25,892	159,138
Restricted bank balances	2,652	–
Bank balances and cash	548	3,739
	<hr/>	<hr/>
Total assets classified as held for sale	82,954	N/A
	<hr/>	<hr/>
Trade and other payables (<i>note b</i>)	279,323	255,107
Income tax payable	4,856	5,342
Bank and other borrowings	131,556	333,887
Loans from shareholders	390,637	–
	<hr/>	<hr/>
Total liabilities associated with assets classified as held for sale	806,372	N/A
	<hr/>	<hr/>
Reserves relating to assets and liabilities classified as held-for-sale	(1,044)	N/A
	<hr/>	<hr/>

* *The amounts of the major classes of assets and liabilities of the Disposal Group as at 31 March 2022 is for comparative purposes, those assets and liabilities were not classified as held for sale as at 31 March 2022 and included in corresponding line items in the consolidated statement of financial position.*

During the year ended 31 March 2023, in respect of bank and other borrowings included in Disposal Group with a carrying amount of approximately HK\$131,556,000 as at 31 March 2023, the Group was default in repayment. Thus, the relevant bank borrowings become immediately due and payable should the lenders exercise their rights under the bank loan agreement. The directors of the Company commenced to discuss the terms of the borrowings with the relevant banks. Up to the date of approval for issuance of the consolidated financial statements, the negotiations are still in progress.

As at 31 March 2023, the loans from shareholders are repayable within one year.

a) As at 31 March 2023, the ageing analysis of the trade receivables based on revenue recognition dates:

	2023 HK\$'000
0-30 days	–
31-60 days	–
61-90 days	–
Over 90 days	<u>1,071</u>
	<u><u>1,071</u></u>

b) As at 31 March 2023, the ageing analysis of the trade payable based on invoice dates:

	2023 HK\$'000
0-30 days	–
31-60 days	–
61-90 days	–
Over 90 days	<u>145,804</u>
	<u><u>145,804</u></u>

9. Loss per share

For continuing and discontinued operations

The calculation of the basic and diluted loss per share from continuing and discontinued operations attributable to the owners of the Company is based on the following data:

	2023 HK\$'000	2022 HK\$'000
Loss		
Loss attributable to owners of the Company for the purpose of basic and diluted loss per share	<u><u>(510,242)</u></u>	<u><u>(594,575)</u></u>

Number of shares

	2023	2022 (Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>15,217,855</u>	<u>14,464,893</u>

For the year ended 31 March 2023, the weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the share placing in September 2022 and share consolidation effective on 10 May 2023.

Comparative figures of the weighted average number of shares for calculating basic loss per share has been adjusted on the assumption that the share consolidation had been effective in prior year.

There were no dilutive potential ordinary shares during the years ended 31 March 2023 and 2022. Therefore, the diluted loss per share is the same as basic loss per share.

For continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

	2023 HK\$'000	2022 HK\$'000 (Restated)
Loss attributable to owners of the Company for the purpose of basic and diluted loss per share from continuing operations	<u>(86,547)</u>	<u>(331,659)</u>

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operations

Basic loss per share for the discontinued operation is HK\$27.84 per share (2022: HK\$18.17 per share) and diluted loss per share for the discontinued operation is HK\$27.84 per share (2022: HK\$18.17 per share), based on the loss for the year from the discontinued operations of HK\$423,695,000 (2022: HK\$262,916,000) and the denominators detailed above for both basic and diluted loss per share.

10. Dividends

No dividend was paid or proposed by the Company during the years ended 31 March 2023 and 2022, nor has any dividend been proposed since the end of the reporting period.

11. Impairment of non-financial assets

For impairment assessment, the Group assesses the recoverable amount of the cash-generating units for which the property, plant and equipment, right-of-use assets and intangible assets were allocated with reference to the higher of the fair value less costs to disposal and value in use. An impairment loss from continuing operations is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. As a result, the Group made an impairment loss from continuing operations of approximately HK\$3,043,000 (2022: nil, as restated), HK\$1,717,000 (2022: nil, as restated) and nil (2022: HK\$3,500,000, as restated) against the carrying amounts of property, plant and equipment, right-of-use assets and intangible assets respectively for the year ended 31 March 2023.

12. Trade receivables, prepayments, deposits and other receivables

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current		
Prepayments, deposits and other receivables	<u>826</u>	<u>5,570</u>
Current		
Trade receivables	8,199	150,566
Prepayments, deposits and other receivables	<u>3,074</u>	<u>52,502</u>
	<u>11,273</u>	<u>203,068</u>
	<u>12,099</u>	<u>208,638</u>

As at 31 March 2023 and 2022, the ageing analysis of the trade receivables based on revenue recognition dates:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0-30 days	5,056	4,669
31-60 days	–	4,244
61-90 days	209	2,777
Over 90 days	<u>2,934</u>	<u>138,876</u>
	<u>8,199</u>	<u>150,566</u>

13. Trade and other payables

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current		
Other payables	<u>17,879</u>	<u>11,455</u>
Current		
Trade payables	49,134	207,553
Other payables and accruals	45,433	119,501
Provision for warranty	<u>1,473</u>	<u>10,360</u>
	<u>96,040</u>	<u>337,414</u>
	<u>113,919</u>	<u>348,869</u>

As at 31 March 2023 and 2022, the ageing analysis of the trade payables based on invoice date:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0-30 days	1,396	16,203
31-60 days	–	2,061
61-90 days	–	5,121
Over 90 days	<u>47,738</u>	<u>184,168</u>
	<u>49,134</u>	<u>207,553</u>

14. Bank and other borrowings

As at 31 March 2023, bank and other borrowings were interest-bearing at fixed rates from 1.3% to 5.2% per annum or a margin over Hong Kong Interbank Offered Rate (“HIBOR”), Lender’s Costs of Funds or loan prime rate (2022: fixed rates from 5.2% to 13.2% per annum or a margin over HIBOR, Lender’s Costs of Funds or loan prime rate) and are repayable within one year.

15. Loans from shareholders

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current		
Mr. Leung Kai Ching, Kimen (deceased)	–	78,200
Mr. Leung Wai Sing, Wilson (deceased)	50,052	277,766
Mr. Leung Wai Lap, David	13,000	26,000
Ms. Leung Ka Yan, Karen	20,000	20,000
Top Team Development Limited	2,501	–
	<u>85,553</u>	<u>401,966</u>
	<u>85,553</u>	<u>401,966</u>

As at 31 March 2023 and 2022, the loans from shareholders are repayable within one year.

16. Events after the reporting period

Implementing Capital Reorganisation

On 8 May 2023, the shareholders at the EGM approved (i) Share Consolidation; (ii) Capital Reduction; (iii) Share Premium Reduction and (iv) share subdivision effective on 10 May 2023 on the following basis:

- (i) every fifty (50) issued and unissued existing Shares of par value of HK\$0.10 each in the authorised share capital of the Company be consolidated (the “Share Consolidation”) into one (1) ordinary share of par value of HK\$5.00 each;
- (ii) cancelling the paid-up share capital to the extent of HK\$4.99 on each issued Consolidated Share such that the par value of each issued Consolidated Share will be reduced from HK\$5.00 to HK\$0.01 (the “Capital Reduction”);
- (iii) the entire amount standing to the credit of the share premium account of the Company of approximately HK\$417,426,000 be reduced to nil (the “Share Premium Reduction”); and
- (iv) the subdivision of each authorised but unissued Consolidated Share of par value of HK\$5.00 into five hundred (500) Adjusted Shares of par value of HK\$0.01 each.

Right issue

On 13 June 2023, the Board proposed to raise up to approximately HK\$90,690,000 (before expense) by issuing up to 63,645,492 rights shares to the qualifying shareholders by way of the rights issue at the subscription price of HK\$1.425 per rights share on the basis of four rights shares for every one share held on the record date (the “Rights Issue”), details of the Rights Issue are set out in the Company’s announcement dated 13 June 2023. The Rights Issue is expected to complete in July 2023. The Board currently intends to apply the net proceeds from the Rights Issue primarily for repayment of bank loans and other borrowings, and for general working capital of the Group.

Litigation

On 24 April 2023, the wholly-owned subsidiary of the Group received the writ of summons issued by Bando Electronics (HK) Co., Limited (“Bando”) against Alco Electronics Limited to recover an amount of US\$582,375.78 under High Court Action No. 606 of 2023.

17. Contingent liabilities

On 22 April 2022, the wholly-owned subsidiary of the Group received the writ of summons issued by Ching Kung against Alco Electronics Limited (indirectly wholly own subsidiary of the Company) (“AEL”) in Court of First Instance of the High Court of Hong Kong to recover an amount of HK\$9,386,954.55 plus interest and costs. On 11 October 2022, AEL received the sealed judgment entered against AEL in the sum of HK\$9,386,954.55 with 8% interest per annum from 22 April 2022 to the date of judgment and thereafter until payment. On 10 November 2022, Ching Kung applied for the Garnish nisi order and the bank accounts of AEL were frozen. On 14 February 2023, Ching Kung filed a winding up petition against AEL. On 26 April 2023, the winding up petition was heard at the High Court of Hong Kong before a Master and the hearing was adjourned to 24 May 2023. On 24 May 2023, the hearing was adjourned to 28 June 2023. The related balances are included in trade payables and no additional provision is necessary.

On 28 April 2022, the wholly-owned subsidiary of the Group received the writ of summons issued by Shenzhen Tianjiang Electronics Company Limited* (深圳市天將電子有限公司) (“Tianjiang”) against AEL in District Court of Hong Kong to recover an amount of HK\$537,767.96 plus interest and costs. On 11 November 2022, AEL received the sealed judgment against AEL in the sum of HK\$537,767.96 together with interest thereon at judgment rate from the date hereof until payment plus HK\$6,000.00 fixed cost. On 2 December 2022, Tianjiang issued the statutory demand against AEL which was expired 21 days after service to the Company. The related balances are included in trade payables and no additional provision is necessary.

On 9 June 2022, the Company received the statutory demand by World Crown Investments Limited (“World Crown”) against the Company in respect of a claim of RMB3,700,000.00 and HK\$652,174.00 being a purported loan from World Crown. On 23 June 2022, the Company filed an injunction against World Crown in presenting a winding-up petition against the Company pursuant to the statutory demand filed by World Crown. On 22 November 2022, the Company received the judgment against the Company in the relation to the injunction filed by the Company. On 6 December 2022, World Crown and the Company agreed on the payment schedule on the said amount. On 21 April 2023, the Company received a winding up petition (“Petition”) filed by World Crown against the Company in the High Court of Hong Kong, on the basis of the alleged failure by the Company to repay an outstanding amount of HK\$1,000,000.00 on the agreed settlement date. On 28 April 2023, the Company fully settled the outstanding amount due to World Crown and was notified by World Crown that they would proceed to withdraw the Petition accordingly. World Crown will not have any further claim in this matter. On 3 May 2023, World Crown and the Company filed a consent summons to the High Court of Hong Kong to withdraw the Petition. On 6 June 2023, the Company received the order of the High Court of Hong Kong, which ordered, among other things, that the Winding-up Petition be withdrawn and hearing of the Winding-up Petition on 28 June 2023 be vacated.

On 15 July 2022, the wholly-owned subsidiary of the Group received the writ of summons issued by Sunwell Science & Technology Co. Limited (“Sunwell”) against AEL to recover the amount US\$709,868.21 and HK\$172,401.43 under High Court Action No. 876 of 2022. On 20 December 2022, AEL received the sealed judgment against AEL in the sum of US\$709,868.21 and HK\$172,401.43 together with interest thereon at the judgment rate from the date hereof until payment plus cost. The related balances are included in trade and other payables and no additional provision is necessary.

On 3 October 2022, the wholly-owned subsidiary of the Group received the writ of summons issued by Forever Products Company (“Forever Products”) against AEL in District Court of Hong Kong to recover an amount of HK\$2,363,250.00 plus interest and costs. On 14 November 2022, AEL received the sealed judgment against AEL in the sum of HK\$2,363,250.00 together with interest thereon at 8% per annum from the date hereof until payment plus HK\$7,130.00 fixed cost. On 14 December 2022, Forever Products issued the statutory demand against AEL which was expired 21 days after its service to the Company. The related balances are included in trade payables and no additional provision is necessary.

On 31 August 2022, the wholly-owned subsidiary of the Group received the writ of summons issued by Eurboln Mold and Molding Co., Limited (“Eurboln”) against AEL to recover an amount of HK\$5,585,160.00 plus interest and costs under High Court Action No. 1113 of 2022. On 2 February 2023, AEL received the sealed judgment against AEL in the sum of HK\$5,585,160.00 together with interest thereon at the rate of 8% per annum from 31 August 2022 to 13 January 2023 and thereafter at judgment rate until full payment date hereof until payment plus HK\$11,045.00 fixed cost. The related balances are included in trade payables and no additional provision is necessary.

DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2023 (2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Group Results and Dividends

For the year under review, the Group recorded a 84% decrease in turnover from HK\$542 million (in 2022) to HK\$89 million under the challenging market conditions, shifts in consumer preferences, and intensified competition in the electronic products industry.

Despite the decline in turnover, the Group achieved a remarkable reduction in net loss attributable to shareholders. The net loss decreased by 72%, from HK\$332 million in the previous year to HK\$92 million for current year under the continuing operation. This improvement is primarily attributed to the efforts to streamline operations, optimize costs, transform its business model and enhance operational efficiency.

During the reporting period, the Group implemented various cost-cutting measures, including reducing workforce and optimizing operational processes, to improve efficiency and reduce expenses leading to a decrease in administrative expense by HK\$26 million compared to prior year. These initiatives have positively impacted the Group's financial position and contributed to the decrease in net loss.

The directors do not recommend the payment of a final dividend (2022:Nil) for the financial year ended 31 March 2023.

Review of Operations

The core business of the Group during the period under review was focused on the development and sales of own brand notebooks and tablets. However, the Group faced several challenges that impacted its operations and financial performance.

The significant decrease in turnover was primarily due to insufficient working capital during the year and limitations in our ability to allocate adequate resources to fulfill all orders, which led to a decline in sales volume and revenue. The Group is actively exploring and implementing measures to address the issue and restore the broken capital chain.

In response to the challenging business environment, the Group undertook a comprehensive transformation of its operations. The primary focus was on downsizing the Group by streamlining its organizational structure and optimizing resource allocation. By rightsizing the workforce and eliminating non-essential functions, the Group aimed to improve operational efficiency and reduce overhead costs.

Furthermore, the Group successfully implemented changes to its business model, from previous self-owned contract processing production method to a more cost-effective OEM/ODM production model, to adapt to evolving market demands.

Efforts were also made to reduce debts and improve the Group's financial position. Through debt restructuring and negotiation with creditors, the Group has managed to reduce its debt burden and achieve a more sustainable capital structure. These actions have provided a solid foundation for the Group's future growth and financial stability.

Prospects

Looking ahead, the Group remains committed to its strategic objectives and will continue to pursue opportunities for growth and profitability. The following prospects outline the key focus areas for the Group:

- **Further debt reduction:** The Group will continue to prioritize debt reduction efforts to strengthen its financial position and reduce financial risks.
- **Operational optimization:** The Group will continue to implement measures to improve operational efficiency, including ongoing downsizing initiatives, process enhancements, and cost control measures.
- **Business cooperation:** The Group will actively explore opportunities for business cooperation, including strategic partnerships, technological innovation, and product diversification, to enhance competitiveness and capture new market opportunities.
- **Capital market financing:** The Group intends to explore capital market financing options, including rights issues, to raise funds for strategic investments and future growth initiatives.

The Group remains cautiously optimistic about its prospects, driven by the ongoing efforts to improve operational efficiency, reduce debts, and pursue growth opportunities. The focus on financial stability, strategic partnerships, and transformative initiatives positions the Group for long-term success in a rapidly evolving market landscape.

Liquidity and financial resources

The Group's total deficit and total deficit per share as at 31 March 2023 were HK\$795 million (2022: total equity HK\$273 million) and HK\$52.22 (2022: total deficit per share HK\$18.87) respectively.

As at 31 March 2023, we had bank balances and cash of HK\$2 million (2022: HK\$10 million). After deducting bank and other borrowings of HK\$68 million (2022: HK\$285 million), loans from shareholders of HK\$86 million (2022: HK\$402 million) and lease liability of HK\$2 million (2022: HK\$64 million), we had net borrowing of HK\$154 million (2022: HK\$741 million).

As at 31 March 2023, our inventory was HK\$38 million (2022: HK\$354 million), which consisted of HK\$10 million (2022: HK\$83 million) of raw material, HK\$nil (2022: HK\$16 million) of work-in-progress and HK\$28 million (2022: HK\$255 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 2023 were HK\$8 million (2022: HK\$151 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 2023 were HK\$49 million (2022: HK\$208 million).

Capital expenditure on fixed assets during the year was HK\$Nil million (2022: HK\$26 million). As at 31 March 2023, we had capital commitments contracted but not provided for in respect of moulds, plant and machinery and renovation amounting to HK\$Nil million (2022: HK\$1 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 2023, the Group had approximately 59 (2022: 625) 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 2023.

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 2023.

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 2023.

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 2023.

The Audit Committee currently comprises three independent non-executive directors of the Company, namely Mr. CHU Hoi Kan, 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 2023 as set out in the preliminary announcement have been agreed by the Company’s auditor, Prism Hong Kong and Shanghai Limited (“Prism”), to the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 March 2023 as approved by the Board of Directors on 27 June 2023. The work performed by Prism 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 Prism on the preliminary announcement.

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

The below sections set out an extract of the report by Prism, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 March 2023.

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Alco Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated statement of financial position as at 31 March 2023, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 from continuing operations of approximately HK\$91,919,000 for the year ended 31 March 2023. As at 31 March 2023, the Group had net current liabilities of approximately HK\$921,749,000 which included bank and other borrowings (including which classified as held for sale) of approximately HK\$199,874,000 were in default and the lenders have the right to demand for immediate repayment of the entire outstanding balances. As at 31 March 2023, the Group’s bank balances and cash (including which classified as held for sale) amounted to approximately HK\$2,940,000 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 the 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.

The consolidated financial statements of the Group for the year ended 31 March 2022 were audited by another auditor who expressed a disclaimer of opinion on those statements on 27 July 2022. Any adjustments to the balances as at 31 March 2022 would affect the balances of these financial statements items as at 1 April 2022 and the corresponding movements, if any, during the year ended 31 March 2023. The balances as at 31 March 2022 and the amounts for the year then ended are presented as corresponding figures in the consolidation financial statements for the year ended 31 March 2023. In view of the significance of and the potential interaction of the multiple uncertainties described above and their possible cumulative effects on the consolidated financial statements, we disclaimed our audit opinion on the consolidated financial statements relating to the going concern issue only and not any other issues for the year ended 31 March 2023 and also for the possible effect of the comparability of the current year's figures and the corresponding figures.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 March 2022, were audited by another auditor who expressed a disclaimer of opinion on those statements on 27 July 2022.

Had we not disclaimed our opinion, we would have issued a qualified opinion on the basis that the scope limitation on assets and liabilities classified as held for sale for the year ended 31 March 2023 and the corresponding balances instead of a disclaimer of opinion. The other issues mentioned below do not form part of paragraphs in relation to the disclaimer of opinion or the basis of disclaimer of opinion.

As set out in note 11 to the consolidated financial statements, on 31 August 2022, the directors of the Company have made the strategic decision to cease the operation of the production line in Dongguan and has obtained the approval from the local government on the same date. The related deregistration and insolvency application is in progress with the assistance from the local government as at this report date. The results of the discontinued operation for the year ended 31 March 2023 and 2022 and the balances of assets and liabilities related to the discontinued operation as at 31 March 2023 and 2022 are set out in note 11 to the consolidated financial statements.

As the deregistration and insolvency application is in progress with the assistance from the local government from the date of cessation of business up to the date of this report date. The Group's management were unable to access the Dongguan production facility and offices where the accounting records and documents located. Accordingly, we were not able to obtain sufficient appropriate audit evidence to verify the amount of loss for the year from discontinued operations, assets classified as held for sale and liabilities associated with assets classified as held for sale on the consolidated statement of profit or loss and the consolidated statement of financial position and related note 11 to the consolidated financial statements.

Given the above scope limitation, we were unable to obtain sufficient appropriate audit evidence with respect to the result of the Group's discontinued operation for the year ended 31 March 2023, the carrying values of the assets and liabilities classified as held for sale as at 31 March 2023 as well as their corresponding comparative figures as set out in note 11. There were no other satisfactory audit procedures that we could perform to determine whether any adjustments were necessary in respect of the Group's loss for the year from discontinued operations of HK\$423,695,000, assets classified as held for sale of HK\$82,954,000 and certain liabilities associated with assets classified as held for sale of HK\$90,782,000 and their corresponding comparative figures.

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 two executive directors, namely Mr. LEI Kam Chao and Mr. HO Chak Yu and three independent non-executive directors, namely Mr. TANG Sher Kin, Mr. CHU Hoi Kan and Mr. LAM Chi Wing.

By Order of the Board
Alco Holdings Limited
Executive Director
LEI KAM CHAO

Hong Kong, 27 June 2023