ALCO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Website: http://www.alco.com.hk

(Stock Code: 328)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2016

The directors of Alco Holdings Limited (the "Company") announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2016, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2016

		Unaudited Six months ended 30th September	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**931,356**	1,383,088
Cost of goods sold	*5*	**(793,563)**	(1,223,336)
Gross profit		**137,793**	159,752
Other income	*4*	**10,542**	4,164
Selling expenses	*5*	**(48,491)**	(51,518)
Administrative expenses	*5*	**(45,908)**	(37,858)
Other operating expenses	*5*	**(4,094)**	(5,099)
Operating profit		**49,842**	69,441
Finance income		**5,724**	8,590
Finance costs		**(4,021)**	(1,637)
Profit before income tax		**51,545**	76,394
Income tax expenses	*6*	**(5,369)**	(5,271)
Profit for the period		**46,176**	71,123

CONDENSED CONSOLIDATED INCOME STATEMENT *(CONTINUED)*

For the six months ended 30th September 2016

		Unaudited Six months ended 30th September	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Profit/(loss) for the period attributable to:			
– Equity holders of the Company		**46,355**	71,329
– Non-controlling interests		**(179)**	(206)
		46,176	71,123
Earnings per share attributable to equity holders of the Company			
– Basic	*8*	**HK8.0 cents**	HK12.3 cents
– Diluted	*8*	**HK8.0 cents**	HK12.3 cents
Dividends	*9*	**28,968**	34,762

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September 2016

	Unaudited Six months ended 30th September	
	2016	2015
	HK$'000	*HK$'000*
Profit for the period	**46,176**	71,123
Other comprehensive loss, net of tax:		
Item that may be reclassified subsequently to profit or loss		
Currency translation differences	**(3,562)**	(3,444)
Total comprehensive income for the period	**42,614**	67,679
Total comprehensive income/(loss) for the period attributable to:		
– Equity holders of the Company	**42,793**	67,885
– Non-controlling interests	**(179)**	(206)
	42,614	67,679

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30th September 2016

	Note	**Unaudited 30th September 2016 *HK$'000***	Audited 31st March 2016 *HK$'000*
Non-current assets			
Property, plant and equipment		**198,857**	198,312
Investment properties		**79,420**	79,420
Leasehold land and land use rights		**6,220**	6,423
Intangible assets		**9,750**	13,650
Deferred income tax assets		**28,360**	32,371
Prepayments, deposits and other receivables	*10*	**27,357**	41,068
		349,964	371,244
Current assets			
Inventories		**723,026**	315,639
Trade and other receivables	*10*	**918,709**	692,934
Cash and cash equivalents		**949,738**	1,591,643
		2,591,473	2,600,216
Current liabilities			
Trade and other payables	*11*	**574,577**	348,390
Dividend payable		**–**	347,621
Current income tax liabilities		**8,109**	6,755
Deferred gain	*7*	**17,450**	17,450
Trust receipt loan		**229,978**	–
Borrowings		**67,900**	9,700
		898,014	729,916
Net current assets		**1,693,459**	1,870,300
Total assets less current liabilities		**2,043,423**	2,241,544
Capital and reserves attributable to equity holders of the Company			
Share capital		**57,937**	57,937
Reserves		**1,796,480**	1,927,497
		1,854,417	1,985,434
Non-controlling interests		**(615)**	(436)
Total equity		**1,853,802**	1,984,998
Non-current liabilities			
Deferred gain	*7*	**24,721**	33,446
Borrowings		**164,900**	223,100
		189,621	256,546
Total equity and non-current liabilities		**2,043,423**	2,241,544

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September 2016

1. Basis of preparation and accounting policies

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

These condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31st March 2016.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31st March 2016, except the Group has adopted certain HKASs and Hong Kong Financial Reporting Standards ("HKFRS") which are mandatory for the financial year beginning 1st April 2016.

2. Changes in accounting policies

(a) The following new and amended standards and interpretations are mandatory for the Group's financial year beginning on 1st April 2016 and have been adopted in the preparation of this interim condensed consolidated financial information.

HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Annual improvements project	Annual Improvements 2012-2014 Cycle

The adoption of the above new and amended standards and interpretations has had no material effect on the preparation of the Group's interim condensed consolidated financial information, except for certain additional or revised disclosures.

(b) The following new and amended standards and interpretations have been issued but are not effective for the financial year beginning on 1st April 2016 and have not been early adopted by the Group:

		Effective for the accounting period beginning on or after
HKAS 7 (Amendments)	Statement of Cashflows	1st January 2017
HKAS 12 (Amendments)	Income Taxes	1st January 2017
HKFRS 9	Financial Instruments	1st January 2018
HKFRS 15	Revenue from Contracts with Customers	1st January 2018
HKFRS 16	Leases	1st January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Management is in the process of making an assessment of the likely impact of these changes but is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and/or the presentation of its financial statements will result.

3. **Segment information**

(a) *Segment analysed by products*

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

	Six months ended 30th September	
	2016	2015
	HK$'000	*HK$'000*
Segment revenue	**931,356**	1,383,088
Segment results	**49,842**	69,441

(b) *Segment analysed by geographical areas*

	Revenue Six months ended 30th September	
	2016	2015
	HK$'000	*HK$'000*
North America	**922,458**	1,370,845
Europe	**3,225**	1,730
Asia	**1,499**	10,513
Others	**4,174**	–
	931,356	1,383,088

The analysis of revenue by geographical segment is based on the destination to which the shipments are made. Primarily all of the Group's assets and capital expenditure for the six months ended 30th September 2016 and 2015 were located or utilised in the PRC or Hong Kong.

4. **Other income**

	Six months ended 30th September	
	2016	2015
	HK$'000	*HK$'000*
Rental income from investment properties	**1,277**	4,009
Amortisation of deferred gain *(Note 7)*	**8,725**	–
Others	**540**	155
	10,542	4,164

5. Expenses by nature

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

	Six months ended 30th September	
	2016	2015
	HK$'000	*HK$'000*
Amortisation of intangible assets	**3,900**	3,900
Depreciation	**19,290**	15,941
Employee benefit expenses	**111,956**	128,195
Severance pay	**1,362**	3,800

6. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation (charged)/credited to the condensed consolidated income statement represents:

	Six months ended 30th September	
	2016	2015
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	**(933)**	(3,401)
– Over provision in prior years	**14**	–
– PRC corporate income tax	**(439)**	(2,212)
Deferred income tax (expenses)/credit	**(4,011)**	342
Income tax expenses	**(5,369)**	(5,271)

7. Gain on disposal of properties and deferred gain

In January 2016, Alco Electronics Limited ("AEL"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, Lead Harvest Group Limited ("Lead Harvest"), for the disposal of a self-occupied property and certain investment properties in Quarry Bay with carrying values of HK$23,791,000 and HK$236,310,000, respectively, at a total net consideration of HK$533,769,000. The transaction was completed on 29th February 2016 ("Completion Date").

Upon completion of the disposal, AEL and Lead Harvest entered into a tenancy agreement, whereby AEL leased the aforesaid self-occupied property from Lead Harvest for its own use for 3 years commencing on the Completion Date. The fair value of the self-occupied property near the Completion Date was determined by the Valuer. The excess of consideration over fair value has been deferred and amortised over the lease period, resulting in the recognition of deferred gain amounting to HK$42,171,000 (31st March 2016: HK$50,896,000) in the consolidated balance sheet and amortisation of the deferred gain amounting to HK$8,725,000 in the consolidated income statement for the current period (2015: Nil).

8. Earnings per share

Basic

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

	Six months ended 30th September	
	2016	2015
Profit for the period attributable to equity holders of the Company *(HK$'000)*	**46,355**	71,329
Weighted average number of ordinary shares in issue	**579,367,720**	579,367,720
Basic earnings per share *(HK cents)*	**8.0**	12.3

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares during the six months ended 30th September 2016 and 2015. Therefore, the diluted earnings per share are the same as the basic earnings per share.

9. Dividends

	Six months ended 30th September 2016 HK$'000	2015 HK$'000
Interim dividend, declared, of HK5 cents (2015: HK6 cents) per ordinary share	**28,968**	34,762

At a meeting held on 25th November 2016, the directors declared an interim dividend of HK5 cents (2015: HK6 cents) per share for the six months ended 30th September 2016.

10. Trade and other receivables

	30th September 2016 HK$'000	31st March 2016 HK$'000
Non-current		
Prepayments, deposits and other receivables *(Note)*	**27,357**	41,068
Current		
Trade receivables	**890,972**	662,059
Prepayments, deposits and other receivables *(Note)*	**27,737**	30,875
	918,709	692,934
Total	**946,066**	734,002

Note:

As at 30th September 2016, other receivables included approximately HK$28,629,000 (31st March 2016: HK$43,374,000) consideration receivable from PVI Global Corporation (a subsidiary of E Ink Holdings Inc. ("E Ink")) for the disposal of the corporate bond of Hydis Technologies Company Limited. A guarantee was granted by E Ink to cover the entire receivable amount.

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

	30th September 2016 HK$'000	31st March 2016 HK$'000
0 – 30 days	**356,259**	58,780
31 – 60 days	**137,253**	110,303
61 – 90 days	**61,399**	51,483
Over 90 days	**336,061**	441,493
	890,972	662,059

As at 30th September 2016, trade receivables of HK$50,964,000 (31st March 2016: HK$359,587,000) were considered past due with reference to the credit terms offered. The overdue sum is not considered as impaired since all of the overdue sum has been settled in October 2016.

11. Trade and other payables

	30th September 2016 *HK$'000*	31st March 2016 *HK$'000*
Trade payables	**518,879**	290,455
Other payables and accruals	**55,698**	57,935
	574,577	348,390

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

	30th September 2016 *HK$'000*	31st March 2016 *HK$'000*
0 – 30 days	**470,631**	267,298
31 – 60 days	**27,648**	15,193
61 – 90 days	**16,078**	3,317
Over 90 days	**4,522**	4,647
	518,879	290,455

DIVIDEND

The directors have resolved to declare an interim dividend of HK5 cents (2015: HK6 cents) per share for the six months ended 30th September 2016 to the shareholders whose names are on the register of members of the Company on 13th December 2016. The dividend warrants are expected to be despatched on 23rd December 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 12th December 2016 to Tuesday, 13th December 2016, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 9th December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Group results

For the six months ended 30th September 2016, the Group generated turnover of HK$0.93 billion (2015: HK$1.38 billion), with profit attributable to shareholders totalling HK$46.4 million (2015: HK$71.3 million). The generally lacklustre performance reflects the immense price competition faced by the Group during the period. Nonetheless, Alco has persisted with maintaining favourable margin levels by declining orders that do not meet profit requirements.

Besides the aforementioned price pressure, the presidential election in the US prompted certain retailers to adopt more conservative ordering practices, which also contributed to the decline in the Group's performance.

Business review

During the latest financial period, Alco experienced downward pressure resulting from, among other factors, weakened consumption sentiment precipitated by the economic slowdown in the US. The performance of the Group's infotainment products subsequently experienced a decline. Alco has nevertheless continued to develop this area of business given its strong growth potential. Correspondingly, it has maintained efforts at expanding associated accessories to add to the appeal of these electronic devices.

With regards to the Group's AV products, comprising sound bar systems, home theatre systems and the like, they have all continued to generate stable revenue. The steady performance of these products can directly be attributed to upgrades made from time to time, enabling their appeal to be maintained with consumers.

While product development has been ongoing, Alco has continued to exert effort at enhancing its production capabilities. Even though the Group's Houjie Town production facility is already state-of-the-art, the management has continued to make investments in equipment for raising quality assurance. Correspondingly, the latest 3D Automated Optical Inspection equipment and 3D Automated X-Ray Inspection equipment have been acquired, along with other reliability and durability test facilities. Furthermore, the Group has introduced robotic arms to aid production – raising quality and efficiency while reducing manual labour. Towards achieving these same objectives, Alco has also continued to simplify processes in many areas of the company's operations.

Prospects

The US economy is expected to gradually recover; hence, consumption sentiment should make modest improvements in the course of time. Having experienced many peaks and troughs over the years, the management will continue to leverage the Group's various strengths to move forward.

With regards to the company's tablet series, the management is seeking to bolster sales momentum by attracting a wider breadth of customers. To realise this goal, a number of larger sized tablets are being developed, ranging from 14-inch up to 19-inch models. Also taking into consideration the needs of customers, while mindful of the importance of profitability, Alco will continue to introduce more productivity accessories. Having already launched detachable keyboards, possible future introductions will include wireless mouse and active stylus that could enhance user experience.

Not ignoring the important role that AV products play, the management will continue to observe a strategy centered on refining the Group's AV products. Models such as the Group's home theatre systems and sound bar systems will continue to evolve in line with market and technology trends. Concurrently, Alco will strive to raise efficiency by which such products are produced, thus ensuring that margins for AV products are at satisfactory levels.

Given the highly challenging business environment that the Group is exposed to, the management also recognises that brand association is no less significant in capturing the interest of consumers. While it has under licence an established brand for penetrating the US market, brand recognition in Europe, Asia and other markets requires ongoing nurturing and development. Correspondingly, Alco will continue to develop its Venturer brand, particularly in raising its profile among consumers for products such as 2-In-1 Tablets and Value-For-Money Notebook PCs.

To further tackle the difficult market conditions, the management will continue its exploration for new business opportunities. Currently, the Group owns a premium bicycle brand that has introduced electric bicycles (e-bikes) on the market in the middle of the year. Electrical Bicycles highlight Alco's aim to increase its portfolio of high-value-add products, which are more immune to the impact of labour costs and for which quality, reliability, and performance are more important characteristics than price alone. In line with Alco's strategy to develop and manufacture more high-value-add products, the Group has also started to set up resources for the development of B2B Notebook PCs that cater for the commercial and professional markets. This new business will enable Alco to diversify its product portfolio, raise its per-unit revenue, and lower its dependence on the mass market, which is where mass merchant retailers generally operate.

Despite the uncertain conditions that lay ahead, the management will use all assets at their disposal to further Alco's development over the long term, while delivering fair returns to its shareholders.

Liquidity and financial resources

Total equity and equity per share of the Group as at 30th September 2016 were HK$1,854 million (31st March 2016: HK$1,985 million) and HK$3.20 (31st March 2016: HK$3.43) respectively.

The Group maintains a healthy financial position. As at 30th September 2016, we had cash and deposits of HK$950 million. After deducting bank loans and trust receipt loans of HK$463 million, we had net cash of HK$487 million.

As at 30th September 2016, our inventory was HK$723 million (31st March 2016: HK$316 million). After the end of the period, substantially all of the finished goods made have been shipped in October 2016. We have been taking a cautious approach to monitor the inventory level especially during this environment with uncertainty.

Trade receivables balance as at 30th September 2016 was HK$891 million (31st March 2016: HK$662 million). As it is our policy to deal with creditworthy customers and to adopt a prudent credit policy, credit risk is kept at minimal.

Trade payables balance as at 30th September 2016 was HK$519 million (31st March 2016: HK$290 million).

Capital expenditure on fixed assets during the six months ended 30th September 2016 was HK$23 million (2015: HK$56 million). As at 30th September 2016, we had capital commitments contracted but not provided for in respect of mould, plant and machinery and renovation amounting to HK$1,922,000 (31st March 2016: HK$11,878,000).

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

To naturally hedge against the potential cost impact caused by RMB, the Group has diversified its cash portfolio by investing in RMB denominated deposits. As at 30th September 2016, the amount totalled RMB84 million.

Employees

As at 30th September 2016, the Group had approximately 3,000 (2015: 3,100) employees in Hong Kong and the PRC. 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 any of its subsidiaries purchased or sold any of the Company's shares for the six months ended 30th September 2016 and the Company did not redeem any of its shares during the same period.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to enhance clarity and transparency of business activities. The Company has complied with all the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules for the six months ended 30th September 2016, except with deviation from code provisions A.5.1 and E.1.2.

Following the resignation of an independent non-executive director on 17th March 2016, the nomination committee did not comprise a majority of independent non-executive directors, which deviated from code provision A.5.1. On 6th April 2016, a new independent non-executive director was appointed. The deviation was rectified accordingly.

In addition, the chairman of the board had not attended the annual general meeting of the Company on 25th August 2016, which deviated from code provision E.1.2. The chairman will endeavour to attend all future annual general meetings of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry to the directors, all the directors confirmed that they had complied with the required standards as set out in the Model Code and its code of conduct regarding directors' securities transactions with the Company for the six months ended 30th September 2016.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the financial statements of the Group for the six months ended 30th September 2016.

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and on the website at www.irasia.com/listco/hk/alco/index.htm. The 2016 interim report will be despatched to the shareholders of the Company and available on the same websites in due course.

LIST OF DIRECTORS

As at the date of this announcement, the Board of Directors comprises five executive directors, namely Mr LEUNG Kai Ching, Kimen, Mr LEUNG Wai Sing, Wilson, Mr KUOK Kun Man, Mr LEUNG, Jimmy and Mr LIU Lup Man and three independent non-executive directors, namely Mr LI Wah Ming, Mr LEE Tak Chi and Mr CHEUNG, Johnson.

By order of the Board
Alco Holdings Limited
LEUNG Kai Ching, Kimen
Chairman

Hong Kong, 25th November 2016