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SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE 2022 ANNUAL REPORT

Reference is made to the annual report for the year ended 31 December 2022 (the “**2022 Annual Report**”) of AMCO United Holding Limited (the “**Company**”). Unless the context otherwise requires, capitalised terms in this announcement shall have the same meanings as defined in the 2022 Annual Report.

In addition to the disclosures under the section headed “Medical Products” in the “Business Review” under the Management Discussion and Analysis as set out in the 2022 Annual Report, the Company would like to provide the following additional information in relation to the Medical Products Business.

Medical Products Business

Overview

The Group is engaged in the business of manufacturing medical devices, starting with lancet devices since 2011 and operates a production plant located in Dongguan, the People’s Republic of China which is fully US FDA (Food and Drug Administration of the United States) certified. The production team commence to manufacture high precision and high cavitations tooling for lancet devices, i.e. plastic piping, since 2008. The plastic piping in the blood glucose instrument requires very high precision and specifications in quality and safety because it is in direct contact with the blood. Our products is comply with relevant medical device certification and quality standards, such as ISO 15197, which limited the deviation of the measurement results of the lancet devices, i.e. for blood glucose levels below or equal to 5.55 mmol/L (100 mg/dL), the deviation is required to be within ± 0.83 mmol/L (± 15 mg/dL), and for blood glucose levels above 5.55 mmol/L, the deviation of the measurement results is required to be within $\pm 15\%$.

In recent years, the Group further developed the products and services portfolio which allow the Group manufacture other parts to be used in the medical devices, such as the plastic syringes, needles, connection port and test strip slot. These products are precisely designed and manufactured to ensure its safety and accuracy. After years of development, the Group is able to handle one-stop production process by offering prototyping, sampling, manufacturing and assembling of medical devices and products in accordance with the specification of the customers on a mix of original design manufacturer (the “ODM”) and original equipment manufacturer (the “OEM”) bases.

With over 10 years of operations in the medical product industry, the Group offer a range of medical products and parts with different designs and features to cater for different requirements of the customers in response to the ever-changing market demand and technology advancement. The Group have a product development team to develop prototypes of the medical products and parts of the customers’ requirement and specification. The Board believe that the product development team possesses the requisite expertise and experience to facilitate our business development, expand the product portfolio at the request of the customers and respond quickly to any change in customers’ preferences.

The Group also place considerable emphasis on the consistent quality of the products and have therefore implemented a stringent quality control system to ensure the Group’s products meet the quality standards.

The Medical Products Business is mainly conducted through identifying the demands of the Group’s existing and potential customers (including specification of products, price that the customers can afford, etc.), supplying medical devices and providing medical device solutions and sourcing the products from various suppliers. The Group also provides aftersales services such as testing, installation, training and maintenance services for the products sold. During the year, the Group mainly sold the medical devices and products related to prevention of disease, killing germs and bacteria.

The Group has been serving our extensive customer base in Hong Kong and the PRC and a vast sales network associated with the Group’s PRC subsidiaries to identify and discuss with the existing and potential customers on product specifications and provision of after-sale services.

During the year ended 31 December 2022, most of the customers were users or distributors in Hong Kong and the PRC. The customers mainly include (i) retailers which operate medical research and development center and sell the products under their own brand names; (ii) trading companies which further distribute the medical products to their local consumer market under their own brand names and/or designated names; and (iii) other users which mainly include healthcare companies and construction companies which purchase the products and/or solutions from the Group.

In order to continue to broaden the customer base, the Group is continuously looking for new opportunities and identifying potential customers. While some of the business relationships began from business events and exhibitions, the Group also establishes business relationships with the customers via many different ways including referrals from customers and suppliers, the business network of the director and senior management in the industry.

For some of the customers, the relationships first began from business events and exhibitions which the Group participated in. The customers were introduced with background and products of the Group and would be invited to visit the production site to inspect the production facilities and assess the quality of the products. Having ascertained that the Group were able to comply with their selection standards in relation to product quality and production process, they started to place purchase orders with the Group. The Board believe that stable product quality and ability to deliver a wide range of products to the customers have enabled the Group to have recurring orders from the customers.

The Group has a team of 20 people to handle the Medical Products Business which led by the executive Directors, Mr. Zhang Hengxin and Mr. Jia Minghui, together with senior management which experienced and dedicated management with strong industry knowledge and execution capabilities. Some members of the senior management have more than 10 years of experience in the manufacturing industry and medical product industry. The Group believe that the executive Directors and senior management are important to the Group's success. The in-depth industry, financial and commercial knowledge which the executive Directors and senior management possess as well as their business networks have ensured the Group to sustain business growth by increasing the market share in future.

Products

Since the commencement of the Medical Products Business in 2011, sales and manufacturing of high precision and high cavitations tooling for lancet devices, i.e. plastic piping, has been the key driver of the revenue in the Medical Products Business. After years of research and development, the Group expanded the product and services portfolio to increase the source of income stream.

During the year ended 31 December 2022, the Group provide a wide range of medical products and solutions which are broadly classified into (i) lancet piping parts and devices, (ii) customized parts used in medical devices, and (iii) epidemic prevention related products and solutions.

The table below sets forth the breakdown of the revenue by product category during the year ended 31 December 2022:

	<i>HK\$'000</i>
Lancet piping parts and devices	30,430
Customized parts used in medical devices	7,648
Epidemic prevention related products and solutions	16,344
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Total	54,422
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Lancet piping parts and devices

Lancet devices are mainly used by diabetic patients and pregnant women which used to (i) measure glucose levels in the blood, (ii) helping diabetics monitor blood glucose levels, (iii) adjust diet and treatment plans, (iv) control disease progression, and (v) prevention of disease. Apart from diabetic patients and pregnant women, lancet devices also commonly used by the people, who is overweight or obesity, have history of diabetes, history of gestational diabetes or giving birth to a big baby, physical inactivity and unhealthy diets, to monitor their level of glucose in the blood.

During the year ended 31 December 2022, the Group manufacture the lancet piping parts and devices on a mix of OEM and ODM bases. The specification of the lancet piping parts and devices depends on the customers' order. Depends on the orders placed by the customers, certain parts of the devices may outsource to other manufacturers.

The Group also sell parts of the lancet devices to the customers. The customers who purchase parts of the lancet devices from the Group can also use such parts as spare parts for replacement purpose.

Customized parts used in medical devices

Other than lancet piping parts and devices, the customers also placed order to manufacture certain tooling and parts to be used in their own medical devices, i.e. blood pressure meter and thermometer. The Group prepared some samples of medical devices and parts to display for the customers' inspection before ordering. The customized parts' specification depends on customers' order. Once receive the customers' order, the product development team commence to develop prototypes of the parts and send the product sample to the customer to perform quality checking and confirm before the production.

Epidemic prevention related products and solutions

During the year ended 31 December 2022, the Group also provide one-stop medical solutions to the customers in relation to the epidemic prevention.

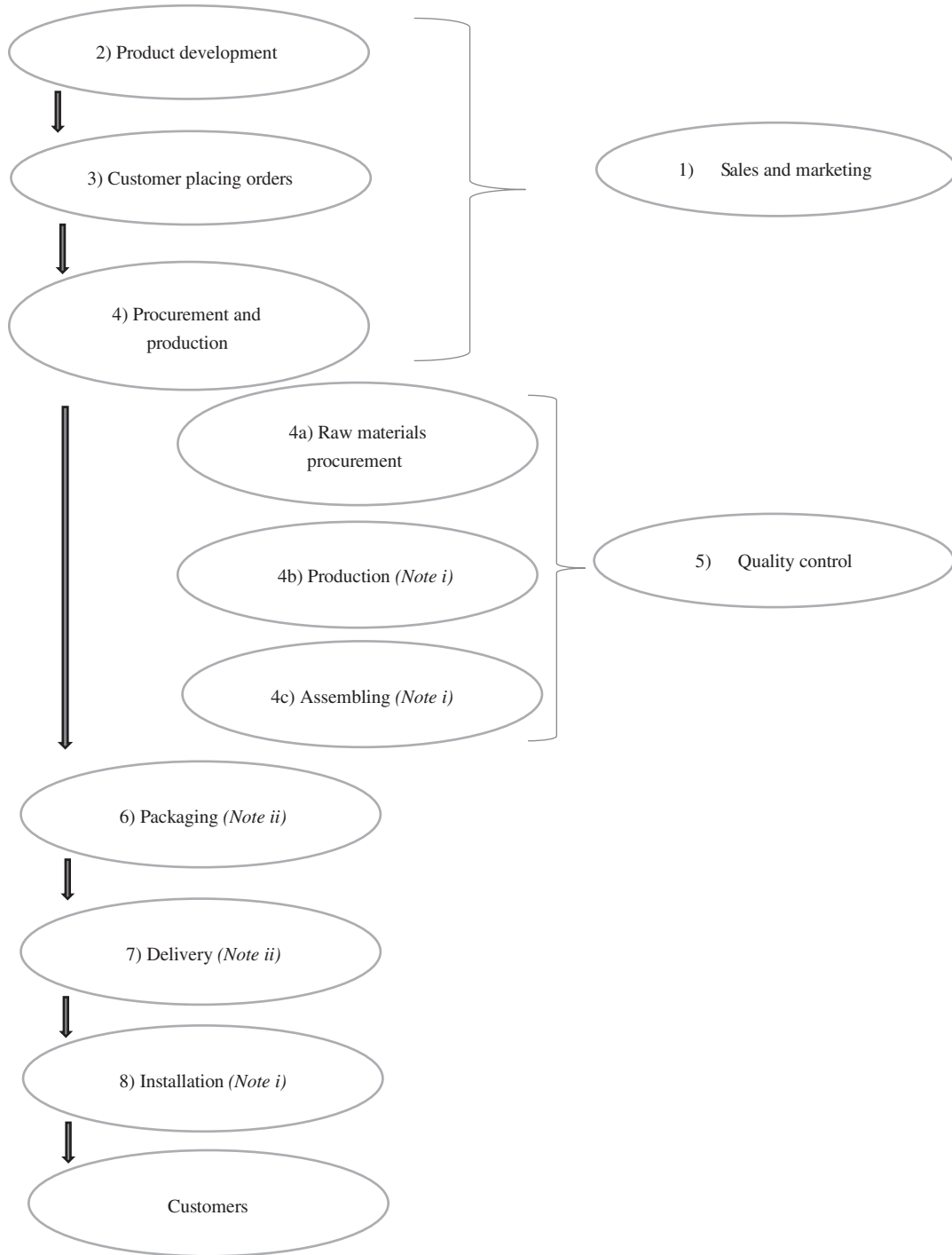
When the Group first meet the potential customers, the team will detail discuss with clients to identifying their needs, including but not limited to the specification of the products, the problems and the issues they want to fix and their budget. After understanding the general needs of the clients, the Group will discuss internally and sort out some solutions and design and assemble the sample medical devices which should fit the clients' need, based on our knowledge and experience, and will arrange a site-visit to the client's office to demonstrate them the suggested solutions and the sample medical devices that they may need. For example, customer want to prepare a sterile space in their factory for manufacturing or a negative pressure room in the laboratory, the Group provide the suggested solutions including the setting of the relevant medical devices and also provide the specified devices to meet their requirement.

Upon the clients finalize and confirm the suggested solutions and products, the Group commence to source the medical instruments and parts from suppliers to manufacture the medical products. After the manufacturing and assemble process, the Group install the medical devices and perform the testing to ensure the medical devices is working and meet client's expectation. Besides, for those medical solutions provided, the Group will arrange a training session to the client to ensure they know how to operate the medical devices. After the installation of the medical devices, the Group will arrange staff to perform maintenance services when the Group receive the request of the clients.

To implement strict cost control and ensuring effective utilisation of resources, the Group may outsource certain procedures to subcontractor, i.e. installation.

Business Model

The following diagram shows the major stages and processes of the business:



Notes:

- (i) Certain processes and functions may outsource to third party depends on the utilisation of resources of the Group.
- (ii) The processes and functions conducted by third parties.

1. Sales and Marketing

The sales and marketing department is responsible for liaising with and handling enquiries from the customers, following up sales orders, arranging for delivery and exploring potential customers. Sales staff works closely with the product development department to enable the team to gain a full understanding of the requirements of the customers and to effectively cater the customer's specifications of the manufacturing of the products.

As soon as sales orders are secured from the customers, the responsible sales staff will take steps to ensure that the sales orders are timely handled. They closely liaises with the product design, production and quality control personnel to ensure that the finished products will be ready for delivery as planned.

2. Product Development

The product development department is responsible for developing new product designs adhering to customers' specification as well as to improve the production efficiency and quality of the existing products. Generally, product variations are initiated by the customers. Sales team approaches and communicates with the customers of their requirement, including the product dimensions, shapes, lengths, colours, the use of raw materials, safety requirements and production budget on the products. Upon the prototyping/sampling request, the product development team would put forward the suggestions on the modification of product specifications according to the practicality of the production of the tooling and products.

During the product development stage, different departments will work together and work out an estimated production costs if such product is to be launched and ensure that the product samples adhere to the customers' requirement, satisfy the required safety standards and quality controls. After producing the product prototypes for the customers, sales team will then collect feedbacks from the customers as well as the suggestions from the production department on different aspects such as production difficulties and cost estimations. Depends on the estimated cost of production, certain parts may outsource to other manufacturers.

3. Customers Placing Order

Once the customers are satisfied with the samples produced, the Group will provide quotations to the customers. The customers will either agree on the price we quoted or request us to provide a revised quotation. When both customers and the Group have agreed on the quotations, the customers will normally proceed to place orders with the Group by issuing a purchase order.

4. *Procurement and Production*

Procurement

The procurement department are responsible to monitor the raw materials consumption and procurement taking into account factors such as inventory on hand, sales orders received and sales forecasts on a regular basis. After the plans are reviewed and approved by the management, such plans would be implemented by the procurement personnel.

In view of the current economy conditions and to ensuring effective utilisation of resources of the Group during the COVID-19 period, in order to minimize (1) the cost of storage; and (2) the risk of obsolete stock, upon receiving the customers' order, the production team will estimate how many raw materials are required for the orders, the Group will only procure the raw materials required for the production and do not keep high inventories level to minimize the risk of obsolete stock as different products has different needs of materials. The Board also consider that this just-in-time production can improve the competitiveness of the Group, i.e. this arrangement allows the Group to more quickly adjust production volumes and product mix to meet customer demand. When the market demand fluctuates, the Group can adjust the pricing strategy according to the actual demand to ensure the market competitiveness of the product.

To minimize the risk of obsolete stock, the Group screen suppliers thoroughly and only use suppliers approved by procurement department. They select suppliers based on the quality of raw materials that they supply as well as their experience, management expertise and reputation in the market. They also inspect each batch of incoming raw materials on a sampling basis to ensure that the raw materials are supplied by the approved suppliers, and that the quality, grade and quantity conform with the order specifications

Production

All of the production activities performed at the production plant located at Ailingkan Village, Dalingshan Town, Dongguan, Guangdong Province, the PRC. Our factory production maximum capacity is approximately 5 million units per year, depends on the production complexity of the products. The Group carry out inspection of the production facilities and equipment on regular basis to ensure that the production lines operate smoothly. The Group currently has 15 full time employees to maintain the operations of the factory. Depends on the customers' orders received, the Group may employ part time employees to assist the production. The Group provide training to both new and current employees. The Board believe that the production personnel, coupled with well-maintained production facilities, will continue to play a pivotal role in the future of the Group's business.

As of 31 December 2022, the carrying amount of the plant and machinery is approximately HK\$1.1 million. According to the accounting policy adopted by the Group, the plant and machinery are depreciated to write off their cost over their estimated useful lives, i.e., 5-10 years, on a straight-line basis. As such, as the Group commence the operation since 2011 as mentioned above, most of the plant and machinery is fully depreciated as they have been used for longer than their estimated useful lives.

Assembling

Once the parts has been produced by the Group and those which produced by third parties, it will undergo three steps which are done manually before the medical devices is produced. The manual process involves the following steps: (i) the parts produced by third parties is first tested by the production team for its quality including but not limited to whether there are any size or colour variation; (ii) inserting the parts to the shell of the medical devices (the shapes of which are specified by the customers) based on the prototypes; and lastly (iii) after assembling, the production team will undergo testing on the medical devices before they are being pack.

5. *Quality Control*

As mentioned above, the Group place considerable emphasis on the consistent quality of the products. The Group have implemented quality assurance measures at different production stages to ensure the product quality. In general, the customers would take the responsibility to understand the safety standards of the countries which they would further sell to and communicate with the sales team clearly about the details of the relevant product and product safety requirements that have to be achieved. According to the agreed terms between the Group and the customers, the Group only has the responsibility to ensure the product is able to meet the requirements requested by the customers.

6. *Packaging*

The products will be packaged by third parties according to the designs provided and agreed by the customers. The packaging materials are provided by the customers and delivered to the warehouse. The service provider assigned by the customers will then package the products and arrange for delivery.

7. *Delivery*

The Group are only responsible for the delivery up to the designated location agreed by the customers. The Group outsource the delivery of products to third party logistics providers who are mainly responsible to transport the products from the warehouse to the locations designated by the customers. These outsourcing arrangements allow us to minimise the Group's capital investment. The Group do not take out insurance policy to cover the risks associated with shipping transportation because the Group are not responsible for any damage or loss of the products during the shipment to the customers.

Customers

The following table sets forth for the year ended 31 December 2022, the breakdown of revenue generated by the major customers in the Medical Products Business:

	<i>HK\$'000</i>
Customer A	13,324
Customer B	11,611
Customer C	11,432
Customer D	9,050
Customer E	3,344
Others	5,661
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Total revenue for Medical Products Business	54,422
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Customer A engaged in the sales and manufacture of medical device, products and food and provide medical solutions consultation services in the PRC.

Customer B engaged in the retail business in the PRC.

Customer C engaged in the e-commerce business, information technology consultation, sales of products (including but not limited to prepaid cards, electronic devices) in the PRC.

Customer D engaged in the sales and installation business of medical products, devices and security system business in the PRC

Customer E is a limited liability company incorporated in Hong Kong which engage in the sales and manufacture of medical devices and products in Hong Kong.

Prospect of the Medical Products Business

According to the survey published by International Diabetes Federation (the “IDF”) in 2021, 10.5% of the adult population (20-79 years) has diabetes, with almost half unaware that they are living with the condition. By 2045, IDF projections show that 1 in 8 adults, approximately 783 million, will be living with diabetes, an increase of 46%. IDF also report that they estimate there are approximately 140 million people in the PRC has diabetes in 2021. As such, the Board believe that the market demand of lancet piping parts and devices remain stable. Due to the keen competition in the industry, in terms of the selling prices, quality and also the credit terms offer by competitors, the Group should continue to focus on the medical product development on the quality and increase the products and service portfolio which in turn to increase the revenue stream of the Medical Products Business. To be more competitive in the industry, the Board should consider to expand the service team and upgrade the equipment and moulding to enhance the quality of the products. However, as the COVID-19 pandemic passes, the Board considered that the revenue to be generated from epidemic prevention related products and solutions would decrease in coming years.

The above supplemental information does not affect other information contained in the 2022 Annual Report. Save as disclosed above, all other information in the 2022 Annual Report remains unchanged.

By order of the Board
AMCO United Holding Limited
ZHANG Hengxin
Chairman and Managing Director

Hong Kong, 5 September 2023

As at the date of this announcement, Mr. Zhang Hengxin and Mr. Jia Minghui are the Executive Directors; and Ms. Ye Mengmei, Mr. Au Yeung Ming Yin Gordon and Mr. Guo Zhenhui are the Independent Non-executive Directors.