ALCO HOLDINGS LIMITED

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

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO INTERIM REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2022

Reference is made to the interim report of Alco Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the period ended 30 September 2022 (the "**2022 Interim Report**") dated 25 November 2022.

This announcement is made to provide supplemental information on the financial information contained in the 2022 Interim report namely (i) Reason of drop in revenue; (ii) Reason of gross loss position; and (iii) Detail of impairment loss of HK$394 million related to the discontinued operation.

(i) Reason of drop in revenue

Due to the sudden pass away of our ex-chairman, the Group not only loss his financial support but also his directional guidance. This inevitably affected the original sales plan and business strategy which were led by ex-chairman in the past. Thanks to the leadership of the Acting CEO, the Group was able to maintain its operation during the difficult time. With the appointment of the new chairman, the board is of the view that the Group would be gradually back on track.

The demand for personal computer also dropped significantly in the post-pandemic era as less demand for work from home practice. This trend together with the effect of global economic downturn created a tremendous pressure on the sales volume of the Group. The situation was most severe in the India market, which was one of the Group's major markets. The drop in revenue was mainly due to the reasons above and it was market driven.

(ii) Reason of gross loss position

The Company had been developing notebook products since 2017 and separated notebook products as an individual business segment in 2018. The building up of notebook products brand recognition involved significant cost and time. The Company adopted cost leadership strategy over the years trying to occupy a place in the notebook products market and accordingly the price of our notebook products were set relatively low. However, given the instability in sourcing of raw materials and high purchase cost of raw materials due to small quantity of purchase when comparing with the big names in the industry, the production cost of the Group's notebook products were constantly high over the years.

Under such challenging environment, the selling of our notebook products led to a gross loss to the overall financial performance but brand awareness was built in the market and the value is yet to be unleashed.

In view of the high production cost, the Company now targets to make use of the mature production know-how to cooperate with subcontractor to manufacture notebook products such that the production cost can be under full control. The Company is of the view that once the subcontracting model is built, the gross loss situation can be improved.

(iii) Detail of impairment loss of HK$394 million related to the discontinued operation

The impairment loss of HK$394 million mainly refers to the impairment loss on inventory of approximately HK$234 million and impairment loss on trade receivable of approximately HK$118 million which were all from the Group's discontinued operation.

The PRC manufacturing line has been ceased on 31 August 2022. Inventory amounted to HKD 234 million including HK$155 million of raw material, HK$79 million for WIP and finished goods, were under custodian of the local government in the PRC factory.

The Company has been negotiating with the PRC local government on the arrangement of the inventory. Due to the high uncertainty on the usage of the inventory located in the PRC factory, the management considered it is suitable to provide 100% impairment on the full amount of the locked up inventory.

On top of the above reason, most of our inventories were specific to our own manufacturing processes or products. The various mixtures of raw materials used in the production methods were tailored to the production sequences and capacities of our machines, product designs and production lines. These inventories' values in use were substantial to our Company given our production lines/facilities and labour were available. While the factory has been ceased its operation and employees have been laid off, those inventories' values in use would significantly dropped even other similar production line available. The costs for modification to these inventories for second usage were not commercially viable. The shutdown of storage movement would obsolesce certain groups of raw materials or WIPs which originally assigned to meet a specific product/order. The value of WIP dropped significantly since there was no production line/material/facilities to turn them into finished goods and not possible to have other manufacturers to complete the remaining process as significant tuning of production line was needed. The value of finish good would also drop significantly since the failure to fulfill the customers' orders and lack of product warranty materials supply. Also the raw material for obsolete product model under AV segment has long record of slow moving or even no movement, this has also support the full impairment made for those AV product related inventory. The amount is 100% impaired due to above reasons.

The impairment loss on trade receivable is related to a major customer ("**Customer A**") located in North America. It is an independent third party of the Company. The amount impaired represented the entire amount of this receivable.

As at 30 September 2022, the outstanding trade receivable balances from this customer was approximately HK$118 million. The Company had entered into a settlement agreement with Customer A on 1 June 2020. Per agreement the settlement would be made by installments in the three financial years ending 31 March 2021, 2022 and 2023.

Customer A has met the repayment schedule for the first 2 years. But since October 2022, no repayments has been made to the Group. During the preparation of interim result, the management of Customer A has replied to the Company that it has ceased its operation and did not have the resources to handle the end retailers' return claims and product warranty/replacement obligations. Relevant staff have left and Customer A was facing the lawsuits from its former employees. After considering the fact and condition of Customer A, our management is planning to obtain a legal opinion and to commence legal proceeding against Customer A in North America to recover the maximum possible balances. Therefore, the Company considered a 100% impairment on the full amount of trade receivable from Customer A for the period ended 30 September 2022 is appropriate and necessary.

By order of the Board
Alco Holdings Limited
LEI KAM CHAO
Chairman

Hong Kong, 13 January 2023

As at the date of this announcement, the executive directors are Mr. LEI Kam Chao and Mr. CHUNG Hau Yeung. Non-executive director is Ms. HONG Ting. Independent non-executive directors are Mr. CHU Hoi Kan, Mr. LAM Chi Wing and Mr. TANG Sher Kin.