Apex Ace Holding Limited
光麗科技控股有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 6036)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

RESULTS HIGHLIGHT

- Revenue amounted to HK$786.2 million in 1H2019, representing a decrease of approximately 62.4% as compared with 1H2018
- Gross profit amounted to HK$52.1 million, representing a decrease of approximately 46.0% in 1H2019 as compared with 1H2018
- The net loss attributable to owners of the Company for 1H2019 was HK$5.7 million (1H2018: net profit attributable to owners of the Company of HK$21.7 million)
- Basic loss per share for 1H2019 was 0.57 HK cent

INTERIM RESULTS

On behalf of the board of directors of Apex Ace Holding Limited (the "Company", the "Directors" and the "Board", respectively), I present the unaudited financial results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019 (the "1H2019" or the "Review Period") together with the comparative figures for the six months ended 30 June 2018 (the "1H2018" or the "Last Corresponding Period"). These unaudited financial results for the 1H2019 have been reviewed by the audit committee of the Board (the "Audit Committee").

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	**1H2019** **HK$'000** **(Unaudited)**	1H2018 *HK$'000* (Unaudited)
Revenue	*3*	**786,229**	2,089,693
Cost of sales		**(734,172)**	(1,993,286)
Gross profit		**52,057**	96,407
Other income	*4*	**2,203**	2,200
Increase in fair value of investment property		**2,600**	400
Distribution and selling expenses		**(24,245)**	(17,245)
Administrative expenses		**(30,445)**	(37,925)
Finance costs	*5*	**(3,388)**	(8,750)
(Loss)/profit before tax	*6*	**(1,218)**	35,087
Income tax expense	*7*	**(508)**	(7,521)
(Loss)/profit for the period		**(1,726)**	27,566
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
— Exchange differences arising on translation of foreign operations		**(191)**	86
Total comprehensive (expense)/income for the period		**(1,917)**	27,652
(Loss)/profit for the period attributable to:			
— Owners of the Company		**(5,677)**	21,681
— Non-controlling interests		**3,951**	5,885
		(1,726)	27,566
Total comprehensive (expense)/income for the period attributable to:			
— Owners of the Company		**(5,868)**	21,767
— Non-controlling interests		**3,951**	5,885
		(1,917)	27,652
(Loss)/earnings per share attributable to owners of the Company			
— Basic	*8*	**(0.57) HK cent**	2.41 HK cents
— Diluted	*8*	**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	**30 June 2019** **HK$'000** **(Unaudited)**	31 December 2018 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**49,289**	50,648
Investment property	*10*	**56,600**	54,000
Deposits paid for acquisition of property, plant and equipment, and intangible asset		**9,740**	9,691
Deferred tax assets		**2,464**	–
Right-of-use assets		**1,402**	–
		119,495	114,339
Current assets			
Inventories		**85,548**	84,834
Trade receivables	*11*	**344,041**	508,953
Other receivables, deposits and prepayments		**23,917**	66,251
Income tax recoverable		**5,392**	5,392
Bank balances and cash		**197,422**	182,639
		656,320	848,069
Current liabilities			
Trade payables	*12*	**196,355**	205,889
Other payables, accruals and deposits received		**21,864**	31,314
Bank borrowings		**226,054**	391,268
Income tax payable		**5,116**	3,819
Lease liabilities — current portion		**1,023**	–
Dividend payable		**6,000**	–
		456,412	632,290
Net current assets		**199,908**	215,779
Total assets less current liabilities		**319,403**	330,118
Non-current liabilities			
Lease liabilities — non-current portion		**472**	–
Deferred tax liabilities		**392**	386
		864	386
Net assets		**318,539**	329,732
Capital and reserves			
Share capital	*13*	**10,000**	10,000
Reserves		**283,998**	295,866
Equity attributable to owners of the Company		**293,998**	305,866
Non-controlling interests		**24,541**	23,866
Total equity		**318,539**	329,732

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The interim financial results set out in this announcement do not constitute the Group's interim financial statements for the Review Period but are extracted from those interim financial statements.

The interim financial statements of the Group for the Review Period have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial statements contain the condensed consolidated financial statements of the Group for the Review Period (the "Condensed Consolidated Financial Statements") and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the consolidated financial statements of the Group for the year ended 31 December 2018 (the "2018 annual financial statements"). The Condensed Consolidated Financial Statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), and should be read in conjunction with the 2018 annual financial statements.

The Condensed Consolidated Financial Statements have been prepared under the historical cost basis, except for the investment property which is measured at fair value, and in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the adoption of new and revised HKFRSs which are effective for accounting periods beginning on or after 1 January 2019. Details of any changes in accounting policies are set out in note 2.

The preparation of the Condensed Consolidated Financial Statements in conformity with HKAS 34 requires the use of certain accounting estimates. It also requires management to make judgments in the process of applying the Group's accounting policies. Actual results may differ from these estimates.

The Condensed Consolidated Financial Statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) New and revised HKFRSs adopted as at 1 January 2019

For the current period, the Group has adopted for the first time the new and revised HKFRSs issued by the HKICPA, which are relevant to its operations and effective for the Group's accounting period beginning on 1 January 2019.

Except as disclosed below, the application of new and revised HKFRSs had no material impact on the financial position and the financial results of the Group.

HKFRS 16 "Leases"

HKFRS 16 supersede previous standard HKAS 17 "Leases" and become effective for annual periods beginning on or after 1 January 2019. Upon adoption of HKFRS 16, at the commencement date of the lease, the lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classify cash repayments of the lease liability into a principal portion and an interest portion and present them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate at the lease commencement date.

In respect of lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has adopted HKFRS 16 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognises the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Group's financial statements are not restated. The Group elected the practical expedient for not applying the new accounting model to short-term leases (leases with a lease term of 12 months or less) and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. In addition, based on the allowed practical expedients under HKFRS 16, the Group has elected not to apply the requirements of HKFRS 16 in respect of recognition of lease liability and right-of-use assets to leases for which the lease term ends within twelve months of the date of initial application. As all the existing leases at 1 January 2019 end within twelve months of the date of initial application, no right-of-use asset and lease liability is recognised at 1 January 2019. Payments associated with the short term leases are recognised as an expense on a straight-line basis over the lease term. In relation to the leases commenced on or after 1 January 2019, the Group recognised right-of-use assets of HK$1,402,000 and lease liabilities of HK$1,495,000 at 30 June 2019, and depreciation charges of HK$341,000 and interest costs of HK$27,000 for the Review Period.

(b) New and revised HKFRSs issued but not yet effective

The Group has not applied new and revised HKFRSs that have been issued but are not yet effective for the current period.

The Directors anticipate that the application of the new and revised standards will have no material impact on the financial performance and position of the Group.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received and receivable for goods sold by the Group at invoiced value, net of returns and discounts. The timing of revenue recognition of all revenue is at a point in time in 1H2019 and 1H2018. Segment information reported internally was analysed on the basis of the type of products sold and activities carried out by the Group's operating division. The Group is currently operating in two operating segments as follows:

(a) Digital storage products ("Digital Storage Products"); and

(b) General components ("General Components").

For 1H2018, there were three operating segments — memory products, data & cloud products ("Memory Products" and "Data & Cloud Products" respectively) and General Components. Considering that Memory Products of the Group work hand-in-hand with its Data & Cloud Product segment, management has consolidated the two Segments (Memory Products and Data & Cloud Products) in 1H2018 into one called Digital Storage Products in 1H2019. The corresponding items of segment information for 1H2018 has been restated.

	1H2019 ***HK$'000*** **(Unaudited)**	1H2018 *HK$'000* (Unaudited)
Segment Revenue		
Digital Storage Products	**599,925**	1,850,446
General Components	**186,304**	239,247
	786,229	2,089,693

	1H2019 ***HK$'000*** **(Unaudited)**	1H2018 *HK$'000* (Unaudited)
Segment Results		
Digital Storage Products	**21,357**	74,496
General Components	**30,700**	21,911
Total reportable segment profit	**52,057**	96,407
Other income	**2,203**	2,200
Fair value change of investment property	**2,600**	400
Finance costs	**(3,388)**	(8,750)
Depreciation of property, plant and equipment and right-of-use assets	**(1,834)**	(1,308)
Unallocated corporate expenses	**(52,856)**	(53,862)
(Loss)/profit before tax	**(1,218)**	35,087
Income tax expenses	**(508)**	(7,521)
(Loss)/profit after tax	**(1,726)**	27,566

Geographical information

The Group is domiciled in Hong Kong. The following table sets out information about the geographical location of (i) the Group's revenue from external customers; and (ii) the Group's non-current assets. The geographical location of customers is based on the registration location of the customers. The geographical location of the non-current assets other than deposits paid for acquisition of property, plant and equipment and intangible asset and deferred tax assets is based on the physical location of the assets.

	1H2019	1H2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue from external customers		
Hong Kong	**165,247**	488,980
The People's Republic of China (the "PRC" or "China")	**614,368**	1,596,963
Others	**6,614**	3,750
	786,229	2,089,693

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Non-current assets		
Hong Kong	**100,043**	98,476
The PRC	**7,090**	6,172
Others	**158**	–
	107,291	104,648

Information about major customers

The Group's revenue from customers which accounted for 10% or more of the Group's total revenue are as follow:

	Segment	**1H2019**	1H2018
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Customer A	Digital Storage Products and General Components	**124,442**	221,311
Customer B	General Components	**111,270**	N/A*
Customer C	Digital Storage Products	**N/A***	325,051
Customer D	Digital Storage Products	**N/A***	208,597

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

4. OTHER INCOME

	1H2019	1H2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Bank interest income	**415**	65
Rental income	**720**	405
Sundry income	**1,068**	1,730
	2,203	2,200

5. FINANCE COSTS

	1H2019	1H2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Discounting charges on factoring loans	**975**	4,763
Interest on other bank borrowings	**2,386**	3,987
Interest expense on lease liabilities	**27**	–
	3,388	8,750

6. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit for the period has been arrived at after charging and crediting:

	1H2019	1H2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories recognised as an expenses	**732,449**	1,993,286
Write-down of inventories	**1,723**	–
Auditor's remuneration	**615**	550
Depreciation of property, plant and equipment	**1,493**	1,308
Depreciation — right-of-use assets	**341**	–
Impairment loss on trade receivables	**2,862**	–
Listing expenses	**–**	5,592
Net foreign exchange loss	**157**	1,021
Short term leases expenses (1H2018: operating lease charges) in respect of land and buildings	**1,196**	951
Commission expenses	**18,059**	10,026
Staff costs including director's emoluments		
— Basic salaries and allowance	**13,023**	14,883
— Contributions to defined contribution retirement plans	**1,629**	1,126
— Messing and welfare	**694**	640
Loss on disposal of property, plant and equipment	**4**	–

7. INCOME TAX EXPENSE

	1H2019	1H2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax –		
Hong Kong Profits Tax	**2,963**	7,465
PRC tax	**3**	–
Over-provision in prior years — Hong Kong Profits Tax	**–**	(90)
Under-provision in prior years — PRC tax	**–**	73
	2,966	7,448
Deferred tax (credit)/charge	**(2,458)**	73
Total income tax expense recognised in profit or loss for the period	**508**	7,521

For 1H2019, Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million. For 1H2018, Hong Kong Profits Tax had been provided at a rate of 16.5% based on the estimated assessable profit for that period.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate for the PRC subsidiaries of the Company is 25% for the Review Period. No Enterprise Income Tax had been provided for 1H2018 as the PRC subsidiary had no assessable profits for that period.

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to the owners of the Company for the period is based on the following data:

	1H2019	1H2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/profit for the period attributable to owner of the Company	**(5,677)**	21,681

	1H2019	1H2018
	(Unaudited)	(Unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares in issue	**1,000,000,000**	899,171,271

The weighted average number of ordinary shares as presented above for 1H2018 had taken into account of the group reorganisation to rationalise the structure of the Group (the "Reorganisation") as detailed in the subsection headed "Reorganisation" under the section headed "History, Reorganisation and Group Structure" in the prospectus of the Company dated 28 February 2018 (the "Prospectus") and the capitalisation issue of 749,999,900 shares of the Company (the "Shares"), which was effective on 16 March 2018, the listing date of the Company.

No diluted (loss)/earnings per share is presented as the Company did not have any dilutive potential ordinary shares for the periods ended 30 June 2019 and 2018.

9. DIVIDENDS

The final dividend for the year ended 31 December 2018 amounting to HK$6,000,000 was paid to the shareholders of the Company (the "Shareholders") on Friday, 5 July 2019.

The Board has resolved not to declare any interim dividend for 1H2019 (1H2018: nil).

For the period, subsidiaries of the Company made the following distributions:

	1H2019	1H2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Dividends declared and paid to non-controlling shareholder by Data Star Inc.	**3,276**	2,184
Dividends declared and paid to its then controlling shareholder by Apex Team Limited ("Apex Team")	**–**	15,975

10. INVESTMENT PROPERTY

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
At fair value		
At 1 January	**54,000**	51,600
Fair value adjustment	**2,600**	2,400
At 30 June 2019/31 December 2018	**56,600**	54,000

11. TRADE RECEIVABLES

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivable	**346,903**	508,953
Less: allowance for impairment	**(2,862)**	–
At 30 June 2019/31 December 2018	**344,041**	508,953

The following is an ageing analysis of trade receivables based on the invoice date:

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–30 days	**83,643**	183,335
31–60 days	**114,599**	100,064
61–90 days	**56,623**	87,673
More than 90 days	**92,038**	137,881
	346,903	508,953
Less: Allowance for impairment	**(2,862)**	–
	344,041	508,953

The Group's trading terms with its customers are mainly on open account terms, except for new customers, where payment in advance is normally required. The balance of the business is on open account terms which is often covered by customers' letters of credit or is factored to external financial institutions without recourse. The credit terms vary from 1 day to 120 days after monthly statement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by management. Trade receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

12. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each reporting period, based on the invoice date, is as follows:

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–30 days	**95,163**	146,716
31–60 days	**97,174**	46,807
61–90 days	**2,506**	11,045
More than 90 days	**1,512**	1,321
	196,355	205,889

13. SHARE CAPITAL

	Notes	Number of shares	Amount HK$
The Company			
Ordinary shares of HK$0.01 each			
Authorised:			
As at 1 January 2018		**38,000,000**	380,000
Increase of authorised share capital	*(a)*	**1,962,000,000**	19,620,000
As at 31 December 2018, 1 January 2019 and 30 June 2019		**2,000,000,000**	20,000,000
Issued and fully paid:			
At 1 January 2018		**1**	–
Reorganisation	*(b)*	**99**	1
Share capitalisation	*(c)*	**749,999,900**	7,499,999
Global offering of shares	*(d)*	**250,000,000**	2,500,000
As at 31 December 2018(audited), 1 January 2019 and 30 June 2019 (unaudited)		**1,000,000,000**	10,000,000

Notes

(a) On 15 February 2018, the authorised share capital of the Company was increased to HK$20,000,000 divided into 2,000,000,000 Shares of nominal value of HK$0.01 by the creation of an additional 1,962,000,000 Shares of HK$0.01 each.

(b) On 15 February 2018, Ace Power Holdings Limited ("Ace Power") and the Company entered into a share swap agreement, pursuant to which the Company acquired from Ace Power one share in Apex Team, representing the entire issued share capital of Apex Team, in consideration and exchange for (a) the allotment and issue of 99 Shares to Best Sheen Limited ("Best Sheen"), all credited as fully paid (under the direction of Ace Power); and (b) the crediting as fully paid at par the one nil paid Share held by Best Sheen.

(c) On 16 March 2018, the Company issued a total of 749,999,900 Shares as fully paid at par to Best Sheen by way of capitalisation of an amount of HK$7,499,999 standing to the credit of the share premium account of the Company.

(d) On 16 March 2018, the Company was listed on the Main Board of the Stock Exchange with the global offering of the Shares, including, a public offering in Hong Kong of 125,000,000 Shares and an international offering of 125,000,000 Shares, in each case at a price of HK$0.50 per Share (the "Global Offering").

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a Hong Kong-based semiconductor and other electronic components distributor, engaged in the supply of digital storage products and general electronic components along with the provision of complimentary technical supports. The Group focuses on identifying, sourcing, selling and distributing quality electronic components manufactured by branded upstream manufacturers to downstream manufacturers in the technology, media and telecom ("TMT") sector in the PRC and Hong Kong.

On 16 March 2018, the Shares were listed on the Main Board of the Stock Exchange (the "Listing"), marking a milestone in the Group's development. The Listing has broadened the Group's capital base to strengthen its business long-term development. The Group is enabled to capture opportunities from the fast-changing TMT market.

The trade disputes between the United States of America ("US") and China casted uncertainties over the global political and economic relations, which has created a volatile economic environment globally. With the US tariffs applied exclusively on the Chinese goods of US$250 billion and the retaliatory tariffs from China applied exclusively on the US goods of US$110 billion, an immense impact has been made on the downstream manufacturers in China.

The slowdown of the global economy has a ripple effect on small and medium-sized enterprises ("SMEs") in the PRC. During the Review Period, the financing required by these SMEs has been tightened by the bank sources in the PRC. Some of these SMEs have made some aggressive investments in real estates in the second or third tier cities in the PRC, which in turn have dropped in value considerably and created even a tougher task for these SMEs to obtain appropriate financing for the continuation of their businesses.

Furthermore, the conditions in the global semiconductor market have deteriorated rapidly since the beginning of the year. Market researchers projected that year 2019 will have the largest decline in the sale of semiconductors in the past 10 years. Hence, the adverse impact on the TMT sector in the PRC was inevitable. The business performance of the Group has been unavoidably affected by the slowdown of the electronic components' requirement by its downstream manufacturers located throughout the PRC and Hong Kong regions. The oversupply of memory products from the Group's Digital Storage Products segment has also had a significant impact on the Group's average selling price on these products during the Review Period. Thus, the Group has recorded a substantial decline in its revenue for the first time since the incorporation of the Company. During the Review Period, the Group's revenue decreased by 62.4% to HK$786.2 million from HK$2,089.7 million of the Last Corresponding Period. Gross profit dropped by 46.0% to HK$52.1 million from HK$96.4 million of the Last Corresponding Period, with gross profit margin increased to 6.6% from 4.6% of the Last Corresponding Period. Loss attributable to owners of the Company was HK$5.7 million, compared with profit attributable to owners of the Company amounted to HK$21.7 million of the Last Corresponding Period.

To cope with the adverse impact of the US-China trade dispute, which has negatively influenced the TMT sector, the Group's market research team will continue to analyse and monitor the TMT market conditions in the PRC. The Groups' market research team believes that the 5G smartphones, advance computational image capture and vision-based AI consumer applications will be the pivotal technology for the coming years. To enable the Group to enhance its competitiveness, it will continue to secure products distributorship from its existing and new upstream manufacturers who possess comprehensive product-mix and niche products with competitive values.

In addition, the Group will focus more on obtaining products from upstream manufacturers with their headquarters located and products manufactured outside the US. The Group will continue to focus more on supplying components and products to its customers, which are manufactured outside the US to avoid any possible tariffs applied by the PRC government. The Group will also continue to focus on seeking customers whose core business sales are concentrated outside the US to avoid any possible tariffs applied by the US government.

Digital Storage Products

The Group offered digital storage products, including DRAM, FLASH, MCP memory products, which are widely applied to multimedia and mobile devices such as set-top boxes, smart TVs, wearable devices and mobile phones, etc. While optical and networking data transfer/storage products, including redundant array of independent disks (RAID) controller cards, controller integrated circuits (ICs) and networking processors are mainly used in enterprise-level storage and server systems.

During the Review Period, the economic slowdown has amplified the decrease of global demand for consumer electronic products significantly, which include personal computers, smartphones, portable devices, TVs and set-top boxes, etc. Furthermore, the oversupply and weak demand of DRAM, NAND Flash and other memory products have substantially impacted on the average selling price on the Group's digital storage products.

This adverse impact has greatly affected the Group's downstream manufacturers, causing a drop in the demand for the Group's products substantially. An oversupply of the memory parts carried forward from previous year has led to fierce competition in the PRC market, which has also impacted on the sales quantities and selling unit price of the memory products from the Group's Digital Storage Products segment. Revenue of this segment decreased by 67.6% to HK$599.9 million from HK$1,850.40 million of the Last Corresponding Period. Gross profit decreased by 71.3% to HK$21.4 million from HK$74.5 million of the Last Corresponding Period, and gross profit margin decreased slightly to 3.6% from 4.0% of the Last Corresponding Period, mainly due to the decrease of the gross profit margin of the MMC memory product sales under its Digital Storage Products segment.

General Components

General Components include switches, connectors, passive components, main chips, sensors, power semiconductors and analog-to-digital converters, which are mainly designed and used in the mobile and multimedia devices.

As stated above, during the Review Period, the economic slowdown has amplified the decrease of global demand for consumer electronic products, which include personal computers, smartphones, portable devices, TVs and set-top boxes, etc. Hence, our downstream manufacturers' demand for our products under General Components segment has also decreased accordingly. Revenue of this segment decreased by 22.1% to HK$186.3 million from HK$239.2 million of the Last Corresponding Period. Gross profit increased by 40.1% to HK$30.7 million from HK$21.9 million of the Last Corresponding Period, and gross profit margin increased to 16.5% from 9.2% of the Last Corresponding Period. The increases in gross profit and gross profit margin were mainly due to higher margins obtained from the sales of main chip, switch and connector under mobile devices products, which are categorised under the Group's General Components segment.

FINANCIAL REVIEW

Revenue

The electronic components supplied by the Group are primarily categorised into two major product segments, namely (i) Digital Storage Products; and (ii) General Components, which contributed 76.3% and 23.7% of the Group's total revenue, respectively.

The sales revenue of the Group for 1H2019 decreased to HK$786.2 million (1H2018: HK$2,089.7 million), representing a decrease of 62.4% compared with the Last Corresponding Period. The decrease in revenue was mainly due to a combination of (i) slowdown of global demand of consumer electronic products; and (ii) oversupply of memory products carried forward from the fourth quarter of 2018 combined with lower demand for memory products, which has caused a substantial drop in the average selling price of memory products in the Group's Digital Storage Products segment, which are mostly cultivated by the US-China trade disputes. It is anticipated that the US-China trade disputes will continue to hinder the Group's business development, and as such, the Group will remain conservative and prudent towards its profitability in the coming months.

Gross profit and gross profit margin

Gross profit for 1H2019 amounted to HK$52.1 million (1H2018: HK$96.4 million), representing a decrease of 46.0% compared with the Last Corresponding Period. The decreasing trend in its gross profit during 1H2019 was generally in line with the downward trend of the Group's sales revenue, but the Group saw an increase in its gross profit margin. The gross profit margin for 1H2019 increased to 6.6% (1H2018: 4.6%), mainly due to the increased gross profit margin from the sales of DDR and MCP memory products, which is categorised under the Digital Storage Products segment, and main chip, switch and connector from the Group's mobile devices products, which is categorised under the General Components segment.

Other income and increase in fair value of investment property

During 1H2019, the Group recognised a gain arising from change in the fair value of investment property of HK$2.6 million (1H2018: HK$0.4 million).

Distribution and selling expenses

The selling and distribution costs mainly include marketing and sales staff salaries, commission expenses, transportation fees, freight charges, declarations and sample expenses. For 1H2019, selling and distribution expenses amounted to approximately HK$24.2 million (1H2018: HK$17.2 million), mainly due to the increase in commission and agency fee in order to stimulate the Group's sales during the market slowdown.

Administrative expenses

Administrative expenses primarily consist of salaries and benefits (including Directors' emoluments), insurance, short term lease expenses and other premises fees, exchange differences, bank charges and depreciation expenses. The administrative expenses decreased by HK$7.5 million to HK$30.4 million in 1H2019 (1H2018: HK$37.9 million), mainly attributable to the net effect of (i) a decrease in the insurance expenses in aggregate by approximately HK$4.9 million; (ii) the absence of IPO listing expenses of approximately HK$5.6 million; and (iii) an impairment loss on trade receivables of HK$2.9 million.

Finance costs

The finance costs of the Group represented mainly interest expenses on its bank borrowings during 1H2019. Such bank borrowings were obtained by the Group for general working capital requirement. The Group had finance costs of approximately HK$3.4 million (1H2018: HK$8.8 million). The decreased finance costs were the result of the overall decreasing use of factoring loans.

Gearing ratio

The Group's gearing ratio as at 30 June 2019 was 71.0%, compared to 118.7% at 31 December 2018. Gearing ratio is calculated based on total loans and borrowings divided by total equity at the respective reporting dates. The primary reason for the substantial decrease was the taking by the top management of the Group of a prudent approach on managing its business finances.

Net loss for 1H2019

Net loss for 1H2019 amounted to HK$1.7 million, compared with net profit of HK$27.6 million for 1H2018.

Net loss attributable to the owners of the Company

The net loss attributable to the owners of the Company for 1H2019 was HK$5.7 million, compared to the net profit attributable to the owners of the Company for 1H2018 of HK$21.7 million, which was mainly attributable to (i) a substantial drop in the Group's sales revenue and gross profit as a result of the slowdown of the global economy, the continuous and uncertain trade tension between the US and the PRC and the weaker market demand from China's TMT sector; (ii) a significant increase in distribution and selling expenses; (iii) a provision for impairment in the Group's inventory resulting from a drop in the net realisable value of certain portion of the inventory of the Group; and (iv) an impairment loss on trade receivables.

LIQUIDITY AND FINANCIAL RESOURCES

During 1H2019, the Group met its liquidity requirements principally through a combination of internal resources and bank borrowings. The Group's cash resources as at 30 June 2019 were approximately HK$197.4 million (31 December 2018: HK$182.6 million), consisting of bank balances and cash only. They were mainly denominated in HK$ and United States dollar ("US$").

As at 30 June 2019, the Group's total outstanding bank borrowings amounted to HK$226.1 million (31 December 2018: HK$391.3 million) which comprised mainly bank factoring loans, import loans, trust receipts loans, instalment loans and revolving loan. The Group's bank borrowings which were unrestricted and carried at amortised cost with a clause of repayment on demand are classified as current liability. The gearing ratio decreased from 118.7% at 31 December 2018 to 71.0% at 30 June 2019 mainly in response to the prudent approach taken by the top management of the Group on managing its business finances. Gearing ratio was calculated based on total loans and borrowings divided by total equity at the respective reporting date.

The Group's financial statements are presented in HK$. The Group carried out its business transactions mainly in HK$, Renminbi ("RMB") and US$. As the HK$ remained pegged to the US$, there was no material exchange risk in this respect. As the portion of RMB revenue is insignificant, there was no material exchange risk in this respect. The Group currently does not have any interest rate hedging policy. However, the management monitors the Group's exposure to interest rate risk on an ongoing basis and will consider hedging interest rate risk should the need arise. Credit risk was hedged mainly in accordance with the Group's credit policy and factored to external financial institutions.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any material contingent liabilities.

CHARGES ON ASSETS

As at 30 June 2019, the banking facilities of the Group were secured by trade receivables of the Group with an aggregate carrying amount of HK$224.1 million (31 December 2018: HK$367.3 million), the legal charge over the investment property of the Group of HK$56.6 million (31 December 2018: HK$54.0 million), leasehold land and buildings of the Group of approximately HK$39.8 million (31 December 2018: HK$40.5 million), insurance policy executed by a related company, personal guarantee executed by Mr. Pai Yin Lin (a director and non-controlling shareholder of subsidiaries of the Company) and corporate guarantees executed by the Group.

DIVIDEND

The Board has resolved not to declare any interim dividend for 1H2019 (1H2018: nil).

The final dividend for the year ended 31 December 2018 amounting to HK$6,000,000 was paid to the Shareholders on Friday, 5 July 2019.

CHANGES IN ACCOUNTING POLICIES

For the Review Period, the Group has adopted for the first time the new and revised HKFRSs issued by the HKICPA, which are relevant to its operations and effective for the Group's accounting period beginning on 1 January 2019. For details, please refer to Note 2 to the condensed consolidated financial statements in this announcement above.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2019, the Group employed 110 staff (31 December 2018: 104) in Hong Kong and the PRC. The Group's remuneration policy is built on the principle of equitability with the incentive-based, motivating, performance-oriented and market-competitive remuneration packages for its employees. Remuneration packages are normally reviewed on a regular basis. Apart from salary, other staff benefits include provident fund contributions, medical insurance coverage and performance-based bonuses. In addition, the Company has adopted a share option scheme as an incentive or a reward for the eligible participants for contribution to the Group, and provides continuous training to its employees to improve their marketing skills and enhance their product knowledge.

USE OF NET PROCEEDS FROM LISTING

The net proceeds received by the Company from the Global Offering in the amount of approximately HK$116.9 million after deducting underwriting commissions and all related expenses will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus, the net proceeds received were applied by the Group from the Listing Date up to 30 June 2019 as follows:

	Application of net proceeds as stated in the Prospectus	Actual use of net proceeds from Global Offering up to 30 June 2019	Actual use of net proceeds during the Review Period	Unused net proceeds	Unused net proceeds
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*%*
Repayment bank loans	39,045	39,045	–	–	–
Establishing a new product and development department	2,810	1,050	350	1,760	63%
Strengthening sales and marketing and technical support team by recruiting staff and providing trainings	10,750	4,500	1,500	6,250	58%
Enhancing warehouse and office in HK	4,600	836	112	3,764	82%
Installing ERP and supporting software	7,090	3,532	216	3,558	50%
Establishing new offices in the PRC	5,027	100	100	4,927	98%
Acquisition and establishment of Shenzhen head office	35,888	–	–	35,888	100%
Working capital for general corporate purpose	11,690	11,690	–	–	–
	116,900	60,753	2,278	56,147	48%

The Company has utilised, and will continue to utilise, the net proceeds from the Global Offering for the purposes consistent with those stated in the section headed "Future Plans and Use of Proceeds" as set out in the Prospectus.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During 1H2019, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Reference is made to the announcement of the Company dated 1 August 2019, whereby it was announced that AVT International Limited ("AVT"), a wholly-owned subsidiary of the Company, entered into a non-legally binding Memorandum of Understanding with the holder of certain distributorship rights (the "JV Partner") and the guarantors, for the formation of a joint venture (the "JV Company") with the JV Partner. In consideration of the payment of an amount not more than US$5.0 million (equivalent to approximately HK$39.0 million) by AVT to the JV Partner, AVT and the JV Partner shall establish the JV Company and the JV Partner shall transfer the distributorship rights to the JV Company, which will be owned as to 60% by AVT (or such other nominee as directed by AVT) and 40% by the JV Partner. The above transaction has been under due diligence review up to the date of this announcement.

SUBSEQUENT EVENT

The Group has paid a second earnest deposit of US$1.0 million as earnest money to the JV Partner on 5 August 2019 for the formation of the JV Company.

Save as disclosed above, the Board is not aware of any significant event affecting the Group and requiring disclosure that has been taken place subsequent to 30 June 2019 and up to the date of this announcement.

PROSPECTS

Looking forward, macro factors including the ongoing US-China trade dispute, depreciation of RMB, slowdown of the China's economic growth and weaker-than-expected demand from downstream manufacturers will continue to exert pressure on China's TMT sector.

Furthermore, the US government will impose 10% tariffs on another US$300 billion of goods and products importing from China. It will certainly create further uncertainty over the global economy.

Hence, it is also believed that the semiconductor market conditions will further deteriorate and the performance could be worse-than-expected this year as there is an oversupply of memory chips in the global market and the decline of memory pricing would continue to hammer the industry harder than the original market forecast.

Although favourable measures including policy support from the Chinese government on the commercial rollout of 5G, tremendous investment has been triggered in the construction of 5G network applications, coupled with the huge demand for fiber connection and high-speed internet services have created a prosperous environment for the demand of digital storage and general electronic component products from the Group, the overall TMT market is still full of challenges and uncertainties, and the Group is currently facing difficult times. The Group will strive to stabilise its business performance by improving management efficiency, broaden its product-line selection and maintaining close relationships with its customers and suppliers in order to alleviate the impact from market fluctuations while capturing more opportunities from the industry, automotive and medical sectors.

The Group will continue to adhere to its "high volume-low margin" business strategy in order to maintain the market share in such a competitive market. The Group will cautiously aim to diversify on its product-line portfolio by seeking out upstream manufacturers whose products are highly demanded from its customers in the PRC and HK regions. Moreover, the Group will consider adjusting its product portfolio sourcing direction to minimise the geographical risks and downward pressure on the profit margin in the electronic components' distribution business. The Group will proactively seek out business partners whose businesses would complement the Group's current product-line portfolio and its business strategy. The Group will continue to invest resources in various research and development activities and continue to expand its experienced engineering team and marketing team to analyse the latest market trends and conditions, solicit new sales orders, and maintain collaborative relationships with its suppliers and customers.

Facing the threats and uncertainty of the continued US-China trade tension and global economic headwinds, the severity of the impact on the TMT sector is inevitable. The Group will continue to take a prudent approach towards its business strategies, finance management and strive to become an agile and adaptive leader in the industry by promptly and flexibly responding to the ever-changing market, making timely decisions to adapt to any possible changes of the Chinese government regulations. The Group will also continue to devote efforts to enhance staff knowledge capability in capturing the latest technology intelligence, hence ensuring a steady business operation and striving to create favorable value for its Shareholders in these challenging times.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem any of its Shares listed on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares during the Review Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is dedicated in maintaining and ensuring the adoption of high standards of corporate governance practices and the corporate governance principles of the Company in the best interest of the Group as well as the Shareholders. The Company had adopted and complied with all the applicable code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "CG Code") during the Review Period, except for the following:

Under code provision A.2.1 of the CG Code, the responsibilities between the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Lee Bing Kwong ("Mr. Lee"), who has considerable experience in the semiconductor and other electronic components industry, is the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO"). The Board believes that vesting the roles of both the Chairman and the CEO in Mr. Lee has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group. The Board will, nevertheless, review the structure from time to time and separate the roles of the Chairman and the CEO to two individuals, if appropriate.

COMPLIANCE WITH THE MODEL CODE

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 the code for dealing in securities of the Company by the Directors.

A specific enquiry had been made by the Company with each of the Directors and all the Directors have confirmed that they had complied with the requirements set out in the Model Code during the Review Period.

REVIEW OF THE INTERIM RESULTS

The Audit Committee has reviewed and confirmed the accounting principles and practices adopted by the Group, and the Group's unaudited financial results for the Review Period and discussed the auditing, internal control, risk management systems and financial reporting matters of the Group.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Yim Kwok Man (chairman), Mr. Cheung Siu Kui and Dr. Chow Terence. None of them is employed by or otherwise affiliated with the former or current independent auditor of the Company.

In addition, the interim financial statements of the Group for the Review Period are unaudited but Graham H.Y. Chan & Co., the independent auditor of the Company, has reviewed the interim financial statements for the Review Period in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

PUBLICATION OF THE INTERIM REPORT

The interim report of the Company for the Review Period containing all the information required by Appendix 16 to the Listing Rules will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.apexace.com) and will be despatched to the Shareholders on or before Friday, 20 September 2019.

APPRECIATION

I, on behalf of the Board, would like to take this opportunity to thank all the Shareholders, business partners, bankers and customers for their continuing support to the Group. I would also like to thank my fellow Directors, the management team and our staff for their dedication and commitment in contributing to the success of the Group.

By Order of the Board
Apex Ace Holding Limited
Lee Bing Kwong
Chairman and Chief Executive Officer

Hong Kong, 23 August 2019

As at the date of this announcement, the executive Directors are Mr. Lee Bing Kwong (Chairman and Chief Executive Officer), Mr. Lo Yuen Kin and Ms. Lo Yuen Lai; and the independent non-executive Directors are Mr. Cheung Siu Kui, Mr. Yim Kwok Man and Dr. Chow Terence.