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APEX ACE
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 ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021
AND
DELAY IN PUBLICATION OF AUDITED ANNUAL RESULTS**

UNAUDITED ANNUAL RESULTS

Due to the disruption caused by the surge in the COVID-19 pandemic in Hong Kong and mainland China since February 2022, the reaching of its peak in early March 2022 and up to the date of this announcement, which affected much of the audit process in obtaining necessary information by the auditor of Apex Ace Holding Limited (the “Company”) in order to complete the audit work timely for the annual results of the Company for the year ended 31 December 2021 (the “Year” or “Year 2021”), on behalf of the board of directors of the Company (the “Directors” and the “Board”, respectively), I present herewith the unaudited consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the Year together with the comparative figures for the prior year (“Year 2020”). These unaudited financial results for the Year have been reviewed by the audit committee of the Board (the “Audit Committee”).

RESULTS HIGHLIGHT

- Revenue increased by 52.2% to HK\$2,673.3 million (Year 2020: HK\$1,756.0 million)
- Gross profit margin was 8.5% (Year 2020: 7.9%)
- Net profit attributable to the owners of the Company for Year 2021 was HK\$6.7 million (Year 2020: net loss of HK\$5.1 million)
- Basic earnings per share for Year 2021 was 0.67 HK cents (Year 2020: loss per share 0.51 HK cents)

Note: Amounts and percentage figures included in this announcement, including information presented in thousands or millions of units, have been subjected to rounding adjustments.

* For identification purposes only

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE YEAR ENDED 31 DECEMBER 2021

| | <i>Notes</i> | Year 2021 HK\$'000 (Unaudited) | Year 2020 HK\$'000 (Audited) |
|---|--------------|---|------------------------------------|
| Revenue | 3 | 2,673,335 | 1,756,038 |
| Cost of sales | | (2,447,392) | (1,617,012) |
| Gross profit | | 225,943 | 139,026 |
| Other income | 4 | 9,813 | 11,912 |
| Decrease in fair value of investment property | | – | (700) |
| Impairment loss on trade receivables, net | | (40,393) | (18,781) |
| Impairment loss on loans and interest receivable | | (2,345) | (1,350) |
| Distribution and selling expenses | | (75,629) | (62,127) |
| Administrative expenses | | (84,698) | (59,574) |
| Finance costs | 5 | (9,584) | (6,635) |
| Profit before tax | 6 | 23,107 | 1,771 |
| Income tax expense | 7 | (6,487) | (1,650) |
| Profit for the year | | 16,620 | 121 |
| Other comprehensive income/(expense) | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | 1,605 | 2,567 |
| <i>Items that may not be reclassified subsequently to profit or loss:</i> | | | |
| Surplus on revaluation of leasehold land and buildings | | 2,889 | 2,360 |
| Deferred tax arising on revaluation of leasehold land and buildings | | (544) | (318) |
| Other comprehensive income for the year, net of tax | | 3,950 | 4,609 |
| Total comprehensive income for the year | | 20,570 | 4,730 |

| | <i>Notes</i> | Year 2021 HK\$'000 (Unaudited) | Year 2020 <i>HK\$'000</i> (Audited) |
|---|--------------|---|--|
| Profit/(loss) for the year attributable to: | | | |
| – Owners of the Company | | 6,735 | (5,115) |
| – Non-controlling interests | | 9,885 | 5,236 |
| | | 16,620 | 121 |
| Total comprehensive income/(expenses): | | | |
| – Owners of the Company | | 10,511 | (458) |
| – Non-controlling interests | | 10,059 | 5,188 |
| | | 20,570 | 4,730 |
| Earnings/(loss) per share attributable to owners of the Company | | | |
| – Basic | 8 | 0.67 HK cents | (0.51) HK cents |
| – Diluted | | 0.67 HK cents | N/A |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

| | | 31 December 2021 | 31 December |
|---|--------------|-----------------------------|------------------|
| | <i>Notes</i> | HK\$'000 | 2020 |
| | | (Unaudited) | HK\$'000 |
| | | | (Audited) |
| Non-current assets | | | |
| Property, plant and equipment | | 63,486 | 63,843 |
| Right-of-use assets | | 1,216 | 816 |
| Investment property | 10 | 51,000 | 51,000 |
| Intangible assets | | 18,409 | 22,474 |
| Deposits paid for acquisition of property, plant and equipment | | 1,305 | 256 |
| Deferred tax assets | | 9,784 | 7,743 |
| | | 145,200 | 146,132 |
| Current assets | | | |
| Inventories | | 251,865 | 229,265 |
| Trade receivables | 11 | 484,626 | 499,348 |
| Other receivables, deposits and prepayments | | 67,924 | 57,486 |
| Income tax receivable | | 759 | 1,259 |
| Bank balances and cash | | 143,743 | 95,039 |
| | | 948,917 | 882,397 |
| Current liabilities | | | |
| Trade payables | 12 | 160,863 | 188,908 |
| Other payables, accruals and deposit received | | 44,442 | 33,779 |
| Lease liabilities – current portion | | 668 | 921 |
| Bank borrowings, secured | | 538,545 | 478,779 |
| Income tax payable | | 5,014 | 1,639 |
| | | 749,532 | 704,026 |
| Net current assets | | 199,385 | 178,371 |
| Total assets less current liabilities | | 344,585 | 324,503 |

| | | 31 December 2021 | 31 December 2020 |
|---|--------------|-----------------------------|---------------------|
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Audited) |
| Non-current liabilities | | | |
| Lease liabilities – non-current portion | | 556 | – |
| Deferred tax liabilities | | 3,683 | 3,009 |
| | | 4,239 | 3,009 |
| Net assets | | 340,346 | 321,494 |
| Capital and reserves | | | |
| Share capital | 13 | 10,096 | 10,000 |
| Reserves | | 294,733 | 283,414 |
| Equity attributable to owners of the Company | | 304,829 | 293,414 |
| Non-controlling interests | | 35,517 | 28,080 |
| Total equity | | 340,346 | 321,494 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 4 July 2012 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the address of its principal place of business is Units 2–3, 1/F., Sun Cheong Industrial Building, 1 Cheung Shun Street, Kowloon, Hong Kong. The Company is an investment holding company and the principal activities of its subsidiaries are sales and integration of semiconductors, electronic components and storage systems.

The shares of the Company (the “Shares”) in issue were initially listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 March 2018.

The consolidated financial statements are presented in Hong Kong dollar (“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 2021

For the current year, the Group has adopted for the first time the following amendments to HKFRSs issued by the HKICPA, which are effective for the Group’s accounting period beginning on 1 January 2021.

| | |
|--|--|
| Amendments to HKFRS 16 | Covid-19-Related Concessions |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2 |

The application of amendments to HKFRSs had no material impact on the financial position and the financial results of the Group.

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

The Group has not applied the following new and amendments to HKFRSs that have been issued but are not yet effective for the current year.

| | |
|---|--|
| HKFRS 17 | Insurance Contracts and the related amendments ³ |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework ² |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴ |
| Amendments to HKFRS 16 | Covid-19 Related Rent Concessions beyond 30 June 2021 ¹ |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³ |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies ³ |
| Amendments to HKAS 8 | Definition of Accounting Estimates ³ |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from Single Transaction ³ |
| Amendments to HKAS 16 | Property, Plant and Equipment: Proceeds before Intended Use ² |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract ² |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018–2020 ² |
| Accounting Guideline 5 (Revised) | Merger Accounting for Common Control Combinations ² |

¹ Effective for annual periods beginning on or after 1 April 2021.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2023.

⁴ Effective for annual periods beginning on or after a date to be determined.

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

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; and
- (b) General components.

| | Year 2021 HK\$'000 (Unaudited) | Year 2020 HK\$'000 (Audited) |
|--|--------------------------------------|------------------------------------|
| SEGMENT REVENUE | | |
| Digital Storage Products | 2,022,076 | 1,173,692 |
| General components | 651,259 | 582,346 |
| | <u>2,673,335</u> | <u>1,756,038</u> |
| | Year 2021 HK\$'000 (Unaudited) | Year 2020 HK\$'000 (Audited) |
| SEGMENT RESULTS | | |
| Digital Storage Products | 146,259 | 66,164 |
| General components | 79,684 | 72,862 |
| | <u>225,943</u> | <u>139,026</u> |
| Total reportable segment profit | 225,943 | 139,026 |
| Other income | 9,813 | 11,912 |
| Decrease in fair value of investment property | – | (700) |
| Finance costs | (9,584) | (6,635) |
| Depreciation of property, plant and equipment | (4,282) | (3,736) |
| Depreciation of right-of-use assets | (1,305) | (2,135) |
| Amortisation of intangible asset | (4,607) | (2,576) |
| Impairment loss on trade receivables, net | (40,393) | (18,781) |
| Impairment loss on loan and interest receivables | (2,345) | (1,350) |
| Unallocated corporate expenses | (150,133) | (113,254) |
| | <u>23,107</u> | <u>1,771</u> |
| Profit before tax | 23,107 | 1,771 |
| Income tax expenses | (6,487) | (1,650) |
| | <u>16,620</u> | <u>121</u> |
| Profit for the year | 16,620 | 121 |

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 location of the customers. The geographical location of the non-current assets other than deposits paid for acquisition of property, plant and equipment, and deferred tax assets is based on the physical location of the assets in case of property, plant and equipment, investment property and right-of-use assets, and the location of operations to which they are allocated in case of intangible asset.

| | Year 2021 <i>HK\$'000</i> (Unaudited) | Year 2020 <i>HK\$'000</i> (Audited) |
|--|---|---|
| Revenue from external customers | | |
| Hong Kong | 586,810 | 552,937 |
| The People's Republic of China ("PRC") | 1,972,372 | 1,198,128 |
| Others | 114,153 | 4,973 |
| | 2,673,335 | 1,756,038 |
| | 31 December 2021 <i>HK\$'000</i> (Unaudited) | 31 December 2020 <i>HK\$'000</i> (Audited) |
| Non-current assets | | |
| Hong Kong | 105,413 | 105,867 |
| The PRC | 28,698 | 32,266 |
| | 134,111 | 138,133 |

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:

| | | Year 2021 <i>HK\$'000</i> (Unaudited) | Year 2020 <i>HK\$'000</i> (Audited) |
|------------|---|---|---|
| | Segment | | |
| Customer A | Digital storage products | 483,081 | 211,721 |
| Customer B | Digital storage products & General components | N/A* | 206,789 |

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

4. OTHER INCOME

| | Year 2021 HK\$'000 (Unaudited) | Year 2020 HK\$'000 (Audited) |
|----------------------|--------------------------------------|------------------------------------|
| Bank interest income | 341 | 2,011 |
| Rental income | 1,440 | 1,440 |
| Government Subsidies | – | 1,862 |
| Commission income | 4,824 | 6,034 |
| Sundry income | 3,208 | 565 |
| | 9,813 | 11,912 |

5. FINANCE COSTS

| | Year 2021 HK\$'000 (Unaudited) | Year 2020 HK\$'000 (Audited) |
|--|--------------------------------------|------------------------------------|
| Discounting charges on factoring loans | 2,907 | 949 |
| Interest on other bank borrowings | 6,636 | 5,602 |
| Interest expense on lease liabilities | 41 | 84 |
| | 9,584 | 6,635 |

6. PROFIT BEFORE TAX

Profit for the year has been arrived at after charging and crediting:

| | Year 2021 HK\$'000 (Unaudited) | Year 2020 HK\$'000 (Audited) |
|---|--------------------------------------|------------------------------------|
| Cost of inventories recognised as an expenses | 2,442,425 | 1,617,012 |
| Write-down of inventories | 4,967 | – |
| Auditor's remuneration | 1,448 | 1,350 |
| Depreciation of property, plant and equipment | 4,282 | 3,736 |
| Depreciation – right-of-use assets | 1,305 | 2,135 |
| Amortisation of distribution right | 4,607 | 2,576 |
| Net foreign exchange loss/(gain) | 366 | (1,449) |
| Short term leases expenses in respect of land and buildings | 2,111 | 1,259 |
| Commission expenses | 42,426 | 47,114 |
| Research and development expenses | 2,804 | 2,825 |
| Staff costs including director's emoluments | | |
| – Basic salaries and allowance | 54,469 | 33,263 |
| – Share-based payments | 903 | – |
| – Contributions to defined contribution retirement plans | 4,424 | 2,542 |
| – Messing and welfare | 1,378 | 929 |
| Loss on disposal of property, plant and equipment | – | 9 |

7. INCOME TAX EXPENSE

| | Year 2021 HK\$'000 (Unaudited) | Year 2020 HK\$'000 (Audited) |
|--|--------------------------------------|------------------------------------|
| Current tax – | | |
| Hong Kong Profits Tax | 7,990 | 4,436 |
| PRC tax | 256 | 163 |
| Under/(over)-provision in prior years – Hong Kong profits tax | 63 | (70) |
| Under-provision in prior years – PRC tax | 94 | – |
| | <u>8,403</u> | <u>4,529</u> |
| Deferred tax | <u>(1,916)</u> | <u>(2,879)</u> |
| Total income tax expense recognised in profit or loss for the year | <u><u>6,487</u></u> | <u><u>1,650</u></u> |

For the Year and Year 2020, Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits of the qualifying group entity and at 16.5% on the estimated assessable profits above HK\$2 million. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Pursuant to the relevant regulations in respect of the Notice on the Implementation of Inclusive Tax Concessions for Small and Micro Enterprises (Cai Shui [2019] No.13) jointly issued by the Ministry of Finance and the State Administration of Taxation in the PRC, for the portion of annual taxable income which does not exceed RMB1 million, the annual taxable income shall be deducted to 25% and the income tax shall be calculated at the rate of 20%; for the portion of annual taxable income from RMB1 million to RMB3 million (inclusive), the taxable income shall be deducted by 50% and the income tax shall be calculated at the rate of 20%. Certain PRC subsidiaries of the Company enjoy this preferential income tax treatment for the Years.

8. EARNINGS/(LOSS) PER SHARE

Basic Earnings per share

The calculation of basic earnings per share for the Year is based on the profit/(loss) for the year attributable to owners of the Company and the weighted average number of ordinary shares in issue for the year excluding the shares issued for the restricted share award scheme.

| | Year 2021 HK\$'000 (Unaudited) | Year 2020 HK\$'000 (Audited) |
|--|---|---|
| Profit/(loss) | | |
| Profit/(loss) for the year attributable to owners of the Company | <u><u>6,735</u></u> | <u><u>(5,115)</u></u> |
| | 31 December 2021 (Unaudited) | 31 December 2020 (Audited) |
| Number of ordinary shares | | |
| Weighted average number of ordinary shares in issue for the purpose of basic earnings per share | <u><u>1,000,000,000</u></u> | <u><u>1,000,000,000</u></u> |

Diluted Earnings per share

The calculation of diluted earnings per share for the Year is based on the profit for the year attributable to owners of the Company and the weighted average number of ordinary shares for the diluted earnings per share calculated as follows:

| | 31 December 2021 (Unaudited) |
|---|---|
| Number of ordinary shares | |
| Weighted average number of ordinary shares for basic earnings per share | 1,000,000,000 |
| Effect of restricted shares granted under restricted share scheme | 4,238,630 |
| | <hr/> |
| Weighted average number of shares for diluted earnings per share | 1,004,238,630 |
| | <hr/> <hr/> |

No diluted loss per share was presented as the Company did not have any dilutive potential ordinary shares for the Year 2020.

9. DIVIDENDS

The Board of Directors did not recommend any dividend for the Year (Year 2020: Nil).

For the Year, a subsidiary of the Company made the following distributions to its then controlling shareholder:

| | Year 2021 HK\$'000 (Unaudited) | Year 2020 HK\$'000 (Audited) |
|---|---|------------------------------------|
| Dividend declared and paid to non-controlling shareholder by Data Star Inc. | 2,621 | 2,948 |
| | <hr/> <hr/> | <hr/> <hr/> |

10. INVESTMENT PROPERTY

| | 31 December 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|------------------------|--|--|
| At fair value | | |
| At 1 January | 51,000 | 51,700 |
| Decrease in fair value | – | (700) |
| | <hr/> | <hr/> |
| At 31 December | 51,000 | 51,000 |
| | <hr/> <hr/> | <hr/> <hr/> |

The Group's investment property is commercial property situated in Hong Kong and leased out to a third party. The investment property was revalued by RHL International Property Consultants Limited, an independent professional property valuer, as at 31 December 2021 and 2020 on an open market value basis.

11. TRADE RECEIVABLES

| | 31 December 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|--------------------------------|--|--|
| Trade receivable | 555,873 | 530,304 |
| Less: allowance for impairment | (71,247) | (30,956) |
| At 31 December | <u>484,626</u> | <u>499,348</u> |

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

| | 31 December 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|--------------------------------|--|--|
| 0–30 days | 207,769 | 146,784 |
| 31–60 days | 148,497 | 138,844 |
| 61–90 days | 85,076 | 109,901 |
| More than 90 days | 114,531 | 134,775 |
| | <u>555,873</u> | <u>530,304</u> |
| Less: Allowance for impairment | (71,247) | (30,956) |
| | <u>484,626</u> | <u>499,348</u> |

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 trade receivables is on open account terms, which is normally covered by customers' letters of credit or factored to external financial institutions. The credit terms vary from 1 day to 120 days after the 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,

| | 31 December 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|-------------------|--|--|
| 0–30 days | 114,580 | 110,687 |
| 31–60 days | 26,844 | 66,957 |
| 61–90 days | 8,506 | 7,925 |
| More than 90 days | 10,933 | 3,339 |
| | <u>160,863</u> | <u>188,908</u> |

13. SHARE CAPITAL

| | Number of shares <i>Note</i> | Amount HK\$ |
|--|---------------------------------|-------------------|
| The Company | | |
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| As at 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021 | 2,000,000,000 | 20,000,000 |
| Issued and fully paid: | | |
| As at 1 January 2020, 31 December 2020 and 1 January 2021 | 1,000,000,000 | 10,000,000 |
| Shares issued under restricted share award scheme (a) | 9,550,000 | 95,500 |
| As at 31 December 2021 | <u>1,009,550,000</u> | <u>10,095,500</u> |

Note:

- (a) On 12 August 2021, pursuant to the restricted share award scheme, the Company issued and allotted 9,550,000 new restricted shares under the general mandate. Details of which were disclosed in the announcement and next day disclosure return dated 23 July 2021 and 12 August 2021 respectively.

These restricted shares are held on trust for the grantees by the custodian as 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a Hong Kong-based distributor of semiconductors and other electronic components, and is engaged in the supply of digital storage products and general electronic components along with the provision of complementary technical support. It focuses on identifying, sourcing, selling and distributing quality electronic components produced by branded upstream manufacturers to downstream manufacturers within the technology, media and telecommunications sector in the PRC and Hong Kong.

Driven by the trend of localization policy and affected by epidemic restrictions in the Year, an increasing number of enterprises chose domestic brand semiconductor products. On the supply side, due to COVID-19 and the influence of international political factors, the global semiconductor industry chain was interrupted, which has yet been fully recovered. Market supply was seriously insufficient, and the semiconductor price continued to rise under the imbalance between supply and demand. In addition, with the benefit from the surge in demand for semiconductor parts in emerging fields such as new energy vehicles, the demand in the semiconductor market remained robust. The Company, acting as a stable supplier of digital storage products and general electronic components, achieved an outstanding performance against the background of rising market volume and price. The Group's revenue for the Year was HK\$2,673.3 million, representing an increase of 52.2% over that of Year 2020, while net profit attributable to owners of the Company was HK\$6.7 million, representing a turn around from net loss of attributable to owners of the Company HK\$5.1 million for the Year 2020.

By Product type

Digital Storage Products

The Group's digital storage products include DRAM, FLASH and MCP memory products, which are widely applied to multimedia and mobile devices such as set-top boxes, smart TVs, wearable devices, mobile phones, etc. These products also include optical and mass storage products, which are mainly used in enterprise-level storage and server systems.

During the Year, revenue generated from this product segment increased by 72.3% to HK\$2,022.1 million (Year 2020: HK\$1,173.7 million), mainly due to a combination of the increases in (i) volume of products sold; and (ii) average selling price. Gross profit of the segment increased by 121.1% to HK\$146.3 million (Year 2020: HK\$66.2 million). Gross profit margin increased to 7.2% (Year 2020: 5.6%), which was mainly attributable to a further broadening of the customer base and a higher average selling price driven by an industry-wide semiconductor shortage and supply chain constraints.

General Components

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

The Group achieved stable growth in this segment during the Year, with revenue having increased by 11.8% to HK\$651.3 million for the Year (Year 2020: HK\$582.3 million). Gross profit of this segment grew by 9.4% to HK\$79.7 million (Year 2020: HK\$72.9 million) and gross profit margin decreased to 12.2% (Year 2020: 12.5%).

FINANCIAL REVIEW

Revenue

The two major product segments, namely (i) Digital Storage Products; and (ii) General Components, contributed 75.6% and 24.4% of the Group's total revenue during the Year respectively.

The Group's revenue for the Year was HK\$2,673.3 million (Year 2020: HK\$1,756.0 million), representing an increase of 52.2% from the previous year. The increase was a result of a combination of (i) the sales growth from both existing and new customers; and (ii) the increases in both average selling price and profit margin of digital storage products sold by the Group during the first half of the Year as a result of the current global shortage of electronic products.

Gross profit and gross profit margin

The Group's gross profit for the Year amounted to HK\$225.9 million (Year 2020: HK\$139.0 million), representing an increase of 62.5% when compared with last year. The gross profit margin is 8.5% (Year 2020: 7.9%). Such increase was mainly due to the increase in revenue during the Year as well as the increase in both average selling price and profit margin of the products sold by the Group during the Year as a result of the current global shortage of electronic products.

Other income and decrease in fair value of investment property

During the Year, the Group recognised no changes in the fair value of an investment property (Year 2020: loss of HK\$0.7 million). The other income dropped from HK\$11.9 million in Year 2020 to HK\$9.8 million in the Year, which was mainly due to receipt of HKSAR Government subsidies in Year 2020 which did not happen again in Year 2021.

Impairment loss on trade receivables, net

A net impairment loss on trade receivables of HK\$40.4 million was recognised during the Year (Year 2020: HK\$18.8 million). The increase in provision under the expected credit loss model was due to a significant increase in trade debts past due for more than one year during the Year.

Distribution and selling expenses

The distribution and selling expenses mainly include salaries of marketing and sales staff, commission expenses, transportation fees, freight charges, declarations and sample expenses. For the Year, distribution and selling expenses amounted to HK\$75.6 million (Year 2020: HK\$62.1 million), mainly as the result of the increases in bonus payment to marketing staff and additional promotion expenses to agents to boost the Group's revenue.

Administrative expenses

Administrative expenses primarily comprise salaries and benefits (including emoluments to executive Directors), legal and professional fees, insurance, short-term lease expenses and other premises fees, foreign exchange differences, bank charges and depreciation expenses. The Group's administrative expenses increased by HK\$25.1 million to HK\$84.7 million in Year 2021 (Year 2020: HK\$59.6 million), resulting from an increase in bonus payment to the management of the Group.

Finance costs

The Group's finance costs mainly represent interest expenses on its bank borrowings during the Year. Such bank borrowings were obtained by the Group for general working capital needs. The Group had finance costs of HK\$9.6 million (Year 2020: HK\$6.6 million). The increase in finance costs was the result of an increased use of factoring loans.

Net Profit for the Year

Net profit for the Year amounted to HK\$16.6 million, compared with a net profit of HK\$0.1 million in Year 2020.

Net profit/(loss) attributable to the owners of the Company

The net profit attributable to the owners of the Company for the Year was HK\$6.7 million, compared with a HK\$5.1 million net loss attributable to the owners of the Company in Year 2020. The turnaround position was mainly due to (a) the increase in revenue for the Year; (b) the increase in gross profit during the Year mainly attributable to the increase in both average selling price and profit margin of the products sold by the Group during the Year as a result of the current global shortage of electronics products. However, such increase was partly offset by the increase in doubtful debt provision, increase in distribution and selling expenses, administrative expenses and finance costs during the Year.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group met its liquidity requirements principally through a combination of internal resources and bank borrowings. The Group's cash resources as at 31 December 2021 were HK\$143.7 million (31 December 2020: HK\$95.0 million) and were mainly denominated in HK\$ and United States dollars ("US\$").

As at 31 December 2021, the Group's total outstanding bank borrowings amounted to HK\$538.5 million (31 December 2020: HK\$478.8 million), which mainly comprised bank factoring loans, import loans, trust receipts loans, instalment loans and revolving loans. The Group's bank borrowings that were unrestricted and carried at amortised cost with a clause of repayment on demand are classified as current liabilities. The gearing ratio increased from 149.2% as at 31 December 2020 to 158.6% as at 31 December 2021 as a result of higher utilisation rate of banking facilities. Gearing ratio is calculated based on total loans and borrowings divided by total equity at the respective reporting dates.

As at 31 December 2021, the Group breached the covenant requirements relating to the Group's gearing ratio of certain banking facilities with a bank and has obtained one-off waiver from strict compliance with the covenant requirements in relation to all the outstanding bank borrowings.

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 is no material exchange risk in this respect. The Group currently does not have any interest rate hedging policies. However, the management monitors the Group's exposure to interest rate risk on an ongoing basis and will consider hedging that risk should the need arise. Credit risk was mainly hedged through credit policy and factored into external financial institutions.

Perpetual Subordinated Convertible Securities and Convertible Bonds

On 21 October 2021, I-Sky Electronic Limited, a wholly-owned subsidiary of the Company (the “Purchaser”), the Company and Nicegoal Limited, which is ultimately wholly-owned by Mr. Lee Bing Kwong, a controlling Shareholder, an executive director, the chairman of the Board of directors and the chief executive officer of the Company (the “Vendor”) entered into a sale and purchase agreement (as supplemented on 25 November 2021) (the “Agreement”), pursuant to which the Vendor has agreed to sell, and the Purchaser has conditionally agreed to purchase, the Target Property at the consideration of HK\$30.0 million (the “Consideration”). The consideration shall be settled by the issue of the perpetual subordinated convertible securities (the “PSCS”) in the principal amount of HK\$10.0 million and convertible bond in the principal amount of HK\$20.0 million (the “CB”).

On 23 February 2022, the Company has issued the CB in the principal amount of HK\$20.0 million and the PSCS in the principal amount of HK\$10.0 million to the Vendor for the acquisition of the Target Property pursuant to the terms of the Agreement as detailed in the announcement dated 21 October 2021, 25 November 2021 (the “Announcements”) and the circular dated 13 January 2022 (the “Circular”) respectively. Unless otherwise defined, capitalised terms in this section shall have the same meanings as defined in the Announcements and the Circular.

The PSCS was issued without maturity date, it bears a distribution rate of 0.5% per annum and carries rights to convert the principal amount into Shares at a conversion price of HK\$0.35 per Share (rounded down to the nearest board lot of 5,000 Shares as per the Deed Poll and the CB Instrument), representing 28,570,000 conversion shares or 2.83% of the issued share capital of the Company as at the date of this announcement or 2.75% of the issued share capital of the Company as at the date of this announcement as enlarged by the conversion shares. The Company has the option to redeem the PSCS at any time at 100% or 50% of their principal amount plus any accrued but unpaid distribution.

The CB was issued with a maturity of five years from date of issue, it bears an interest rate of 0.5% per annum and carries rights to convert the outstanding principal amount into Shares at a conversion price of HK\$0.35 per Share subject to adjustment, (rounded down to the nearest board lot of 5,000 Shares as per the Deed Poll and the CB Instrument), representing 57,140,000 conversion shares or 5.66% of the issued share capital of the Company as at the date of this announcement or 7.83% of the issued share capital of the Company as at the date of this announcement as enlarged by the conversion shares of both the PSCS and the CB. The Company has the option to redeem the CB at any time before their maturity in whole or in part of their principal amount plus any accrued but unpaid interest.

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any material contingent liabilities.

CHARGES ON ASSETS

As at 31 December 2021, the banking facilities of the Group were secured by its trade receivables with an aggregate carrying amount of HK\$284.5 million (31 December 2020: HK\$229.3 million), the legal charge over the investment property of the Group of HK\$51.0 million (31 December 2020: HK\$51.0 million), the Group's leasehold land and buildings valued at HK\$50.8 million (31 December 2020: HK\$50.3 million), personal guarantee executed by Mr. Pai Yin Lin (a director and a non-controlling shareholder of subsidiaries of the Company) and corporate guarantees executed by the Group.

DIVIDEND

The Board has resolved not to recommend any final dividend for the Year (Year 2020: nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2021, the Group had 140 employees (as at 31 December 2020: 128) in Hong Kong and the PRC. The Group's remuneration policy is built on the principle of equitability with incentive-based, performance-oriented and market-competitive remuneration packages for its employees. Remuneration packages are normally reviewed on a regular basis. Other staff benefits include provident fund contributions, medical insurance coverage and performance-based bonuses. In addition, the Company has adopted a share option scheme and a restricted share reward scheme as incentives or rewards for eligible participants for their contribution to the Group, and the Company also 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 of the Shares (the “Global Offering”) in March 2018 amounting to HK\$116.9 million after deducting underwriting commissions and all related expenses are to be used in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 28 February 2018 (the “Prospectus”). The net proceeds received have been applied by the Group from 16 March 2018 up to 31 December 2021 as follows:

| | Application of Net Proceeds as Stated in the Prospectus HK\$'000 | Actual Use of Net Proceeds from Global Offering up to 31 December 2021 HK\$'000 | Actual Use of Net Proceeds during the Year HK\$'000 | Unused Net Proceeds HK\$'000 | Percentage of Unused Net Proceeds % | Expected timeframe of full utilisation of unused Net Proceeds |
|--|--|---|--|------------------------------------|--|--|
| Repayment of bank loans | 39,045 | 39,045 | – | – | – | – |
| Establishing a new product and development department | 2,810 | 2,810 | 710 | – | – | – |
| Strengthening sales and marketing and technical support team by recruiting staff and providing trainings | 10,750 | 10,750 | 1,750 | – | – | – |
| Enhancing warehouse and office in Hong Kong | 4,600 | 2,122 | 330 | 2,478 | 54 | Q3 2022 – Q4 2023 |
| Installing enterprise resource planning and supporting software | 7,090 | 4,422 | 665 | 2,668 | 38 | Q3 2022 – Q4 2023 |
| Establishing new offices in the PRC | 5,027 | 5,027 | – | – | – | – |
| Acquisition and establishment of Shenzhen head office | 35,888 | – | – | 35,888 | 100 | Q3 2022 – Q4 2023 |
| Working capital for general corporate purpose | 11,690 | 11,690 | – | – | – | – |
| | <u>116,900</u> | <u>75,866</u> | <u>3,455</u> | <u>41,034</u> | <u>35</u> | |

There is a delay in the expected timeframe of the full utilisation of unused net proceeds, and the Group is expecting to utilise the balance of the net proceeds on the above-mentioned items between year 2022 and year 2023, due to the uncertainty caused by the COVID-19 pandemic and its scale of adverse impacts on the global and domestic economy still remains unpredictable with its cyclic resurgence of outbreak since early 2020 and even continued in the first quarter of 2022.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during the Year.

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

As at 31 December 2021, the Group did not hold any significant investment in equity interest in any other company except for investments in subsidiaries and did not have any plans to acquire any material investments or capital assets.

SUBSEQUENT EVENT

On 23 February 2022, the Company issued perpetual subordinated convertible securities and convertible bond. For details, please refer to the paragraph headed “Perpetual subordinated convertible securities and convertible bond” on page 19 in this announcement.

Save as disclosed herein, the Board is not aware of any significant event affecting the Group and requiring disclosure that has been taken place subsequent to 31 December 2021 and up to the date of this announcement.

PROSPECTS

Looking ahead, with the transformation of mode in China’s economic development, the adjustment of industrial structure, the deep integration of industrialization and informationization, and the development of information technology, the demand of China’s semiconductor market is expected to continue to grow. In addition, being the basic supporting industry of the national economy, the development of semiconductor industry is also highly valued by the Chinese government for whom actively promotes the localization of semiconductor industry. Therefore, the Group is optimistic about the overall development of the electronic market such as automotive, smart device, mobile device, green energy, data center, in the future and expects that product sales will maintain a strong growth trend in 2022.

On the supply side, since the outbreak of COVID-19, the shutdown of production has led to the reduction of production capacity and hence the chip supply in various semiconductor industry chains. Due to the serious impact of the epidemic, many industrial chain companies stopped production across borders especially for foreign countries, which resulting in a global wave of chip supply shortage. In addition, international trade frictions, technological restrictions and other factors have further led to limited chip supply. Against this background, on one hand, enterprises have increased their efforts to stock up, and on the other hand, they have begun to choose domestic brand semiconductor products to replace them. The Group has been expanding the vendors locally and will continue to put effort to development more business. On the demand side, the epidemic has changed people's work and lifestyle. The rapid development of new models such as online consumption, work, and education has led to an increase in demand for new electronic consumer products and accelerated the strong growth of semiconductor demand. Besides, the development of emerging markets such as the IoT & AIoT, new energy vehicles, 5G infrastructure deployment, artificial intelligence & machine learning, AV/VR, high definition video and big data centers have also led to a surge in demand in the semiconductor market.

With continuous international trade frictions and chip supply shortage, the Chinese market has been aware of the importance and necessity of establishing its own safe and controllable supply chain system, and chip localization has become a development trend. The Chinese government has successively issued industry development policies and regulations such as the Action Plan for the Development of Basic Electronic Components Industry (2021–2023) and the Guiding Opinions on Expanding Investment in Strategic Emerging Industries to Cultivate and Expand New Growth Points and Poles, etc., to support the acceleration of quality and efficiency improvement of the new generation of information technology industry and promote the development of the semiconductor industry. Driven by multiple factors, it is expected that domestic chips will usher in a golden period of development, the self-sufficiency rate of domestic chips will continue to improve, and the manufacturing capacity will continue to enhance.

Facing the development trend of chip industry, the Group will continue to implement its diversification development strategy. While based on the original market, the Group will increase product categories such as automotive electronic parts and passive components, so as to promote its business performance in the telecommunications, automotive and consumer electronics end markets, serve more customers and markets, and satisfy the growing demands of traditional and emerging markets. In the future, with the launch of products and the strong support of demand, the Company is expected to improve its profitability and further consolidate its competitiveness by relying on its cost advantages.

In terms of product supply, the Group will keep abreast of the domestic market demand, establish a more flexible supply chain, further strengthen close cooperation with suppliers and customers, strengthen its ability to quickly respond to supply chain risks or opportunities, seize the opportunity of market development, and create a new situation in the changing situation; meanwhile, the Group will continue to strengthen and expand the existing product portfolio, maintain the continuous innovation of products, and promote results growth to reward shareholders.

As the customers are having higher expectation in our technical services during their product development, the Group will deploy capable team to improve such supports and will also implement stricter financial management and achieve refined corporate management to support greater growth. To this end, the Group will strengthen control over its cost structure, capital investment and expenditure, so as to keep the expected revenue and development plan of the Group in line with the current market conditions.

Overall, given the global shortage of chips and the positive development momentum of the domestic semiconductor industry, with the promotion of the localization of chips and the rapid development of emerging markets such as new energy, 5G and the IoT, the Group's business will usher in a period with better development opportunities. The Group will actively exert the maximum potential of its product portfolio and operating model to enhance its market position in the microelectronics distribution industry and enhance its comprehensive market competitiveness.

PURCHASE, REDEMPTION OR SALE 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 Year.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is dedicated to adopting, maintaining and ensuring high standards of corporate governance practices and principles in the best interest of the Group and the Shareholders. The Company has adopted the applicable code provisions and, where appropriate, adopted certain recommended best practices as set out in Part 2 of Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules" and the "CG Code", respectively). Save as disclosed below, the Board considered that the Company had complied with all applicable code provisions set out in the CG Code during the Year.

Under code provision C.2.1 of the CG Code, the roles of the chairman and chief executive 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 considers that this structure will not impair the balance of power between the Board and the management of the Company. The balance of power is further enhanced by the Audit Committee, which comprises all independent non-executive Directors and is responsible for overseeing the internal control procedures of our Group. The independent non-executive Directors have free and direct access to the Company's independent auditor and independent professional advisers when considered necessary. 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 was made by the Company with each of the Directors and all the Directors confirmed that they had complied with the requirements set out in the Model Code throughout the Year.

REVIEW OF UNAUDITED ANNUAL RESULTS

As of the date of this announcement, due to the further surge in the COVID-19 pandemic in Hong Kong and mainland China since early 2022 and the reaching of its peak in early March 2022, the audit process for the annual results for the Year has not been completed and the auditor is still in the process of performing audit work. The unaudited annual results contained herein have not been agreed with the Company’s auditors as required under the Listing Rules but have been reviewed by the Audit Committee.

DELAY IN PUBLICATION OF AUDITED ANNUAL RESULTS AND FURTHER ANNOUNCEMENT(S)

It is expected that the Company will issue further announcement(s) in relation to the audited annual results for the Year as agreed by the Company’s auditor and the material differences (if any) as compared with the unaudited annual results contained herein around mid-April 2022 following completion of the audit process. In addition, the Company will issue further announcement(s) as and when necessary if there are other material development in the completion of the audit process.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Company for the Year containing all the information required by Appendix 16 to the Listing Rules will be published on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.apexace.com>) in the manner as required by the Listing Rules and will be despatched to the Shareholders around the end of April 2022.

APPRECIATION

I, on behalf of the Board, would like to take this opportunity to thank all our 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.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditor. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

On behalf of the Board
Apex Ace Holding Limited
Lee Bing Kwong
Executive Director, Chairman and Chief Executive Officer

Hong Kong, 25 March 2022

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.