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 2018

RESULTS HIGHLIGHT

- Revenue amounted to HK$2,089.7 million in 1H2018 representing an increase of approximately 65.4% as compared with 1H2017
- Gross profit amounted to HK$96.4 million, representing an increase of approximately 58.7% in 1H2018 as compared with 1H2017
- The net profit attributable to owners of the Company for 1H2018 was HK$21.7 million (1H2017: HK$15.8 million)
- Basic earnings per share for 1H2018 was 2.41 HK cents

INTERIM RESULTS

On behalf of the board of directors (the "Board"), I am pleased to present the unaudited financial results of Apex Ace Holding Limited ("Apex Ace" or the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2018 (the "1H2018" or the "Review Period") together with the comparative figures for the six months ended 30 June 2017 (the "1H2017"). These unaudited financial results for the 1H2018 have been reviewed by the audit committee of the Board (the "Audit Committee") and the auditor of the Company.

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Note	**1H2018** **HK$'000** **(unaudited)**	1H2017 *HK$'000* *(unaudited)*
Revenue	*3*	**2,089,693**	1,263,336
Cost of sales		**(1,993,286)**	(1,202,585)
Gross profit		**96,407**	60,751
Other income	*4*	**2,200**	1,196
Increase in fair value of investment property		**400**	600
Distribution and selling expenses		**(17,245)**	(4,074)
Administrative expenses		**(37,925)**	(25,253)
Finance costs	*5*	**(8,750)**	(4,834)
Profit before tax	*6*	**35,087**	28,386
Income tax expense	*7*	**(7,521)**	(6,169)
Profit for the period		**27,566**	22,217
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**86**	3
Total comprehensive income for period		**27,652**	22,220
Profit for the period attributable to:			
– Owners of the Company		**21,681**	15,786
– Non-controlling interests		**5,885**	6,431
		27,566	22,217
Total comprehensive income for the period attributable to:			
– Owners of the Company		**21,767**	15,789
– Non-controlling interests		**5,885**	6,431
		27,652	22,220
Earnings per share attributable to owners of the Company			
– Basic	*8*	**2.41 HK cents**	2.10 HK cents
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	**30 June 2018** ***HK$'000*** **(unaudited)**	31 December 2017 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment		**51,175**	51,263
Investment properties	*10*	**52,000**	51,600
		103,175	102,863
Current assets			
Inventories		**339,580**	174,631
Trade receivables	*11*	**818,891**	642,336
Other receivables, deposits and prepayments		**117,332**	95,308
Bank balances and cash		**88,310**	66,302
		1,364,113	978,577
Current liabilities			
Trade payables	*12*	**517,849**	360,857
Other payables, accruals and deposit received		**21,095**	20,647
Amount due to a director		**–**	8,247
Amount due to a related party		**–**	1,560
Bank borrowings, secured		**592,811**	479,486
Tax payable		**11,399**	10,019
		1,143,154	880,816
Net current assets		**220,959**	97,761
Total assets less current liabilities		**324,134**	200,624
Non-current liabilities			
Deferred tax liabilities		**363**	290
Net assets		**323,771**	200,334
Capital and reserves			
Share capital	*13*	**10,000**	–
Reserves		**294,688**	184,952
Equity attributable to owners of the Company		**304,688**	184,952
Non-controlling interests		**19,083**	15,382
Total equity		**323,771**	200,334

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Pursuant to the group reorganisation (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"), the Company became the holding company of all subsidiaries now comprising the Group on 15 February 2018. The companies now comprising the Group, were under the common control of the controlling shareholder, Mr. Lee Bing Kwong ("Mr. Lee"), before and after the Reorganisation. Accordingly, the Group's financial statements have been prepared on a combined basis by applying the principals of merger accounting as if the Company had been the holding company of the Group since 1 January 2017 taking into account the respective date of incorporation or the respective date the combining entities first came under the common control of the controlling shareholder of the Group where this is a shorter period.

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

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual report of the Group for the year ended 31 December 2017.

The condensed consolidated financial statements have been prepared under the historical cost basis, except for the investment properties which are measured at fair value, and in accordance with the same accounting policies adopted in the annual report of the Group for the year ended 31 December 2017, except for the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are adopted for the first time for the current period as disclosed in note 2.

The preparation of 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 2018

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 2018. 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 9 "Financial Instruments"

HKFRS 9 introduced new requirements for the classification and measurement of financial assets and financial liabilities, expected credit losses for the financial assets, and general hedge accounting. Key changes in accounting policies resulting from adoption of HKFRS 9 is impairment of financial assets. HKFRS 9 replaces the 'Incurred loss' model in HKAS 39 with the "expected credit loss" model. Expected credit losses are measured on either of the following bases:

– Lifetime expected credit losses: the losses that are expected to result from all possible default events over the expected life of the relevant instrument; and

– 12-month expected credit losses: the losses that are expected to result from possible default events within 12 months after the reporting date.

The Group applies simplified approach to recognise lifetime expected credit losses on trade and other receivables, and general approach to recognise 12-month expected credit losses on other financial assets. The Group measures the loss allowance at an amount equal to lifetime expected credit losses for trade and other receivables. The Group has established provision for impairment based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. For other financial assets, the Group recognises a loss allowance for expected credit losses at an amount equal to 12-month expected credit losses.

Adoption of HKFRS 9 has no material impact on the financial results and financial position of the Group.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 provides a single, principles based five-step model in accounting for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised in accordance with the core principle by identifying the contract(s) with a customer, identifying the performance obligation in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract and recognising revenue when (or as) the performance obligation is satisfied. The Group's major revenue is revenue from sales of goods. The Group recognises revenue when 'control' of the goods underlying the particular performance obligation is transferred to the customers. Adoption of HKFRS 15 has no material impact on the Group's financial results and financial position.

(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.

Except as disclosed below, the directors of the Company (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.

HKFRS 16 “Leases”

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a 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. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

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.

Total operating lease commitment of the Group as at 30 June 2018 amounting to HK$2,165,000. The Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s financial performance but it is expected that certain portion of the lease commitments will be required to be recognised in the Group’s statement of financial position as right-of-use assets and lease liabilities.

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. 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 three operating segments as follows:

(a) Memory products;
(b) Data & Cloud products; and
(c) General components.

	1H2018	1H2017
	HK$’000	*HK$’000*
	(unaudited)	(unaudited)
Segment Revenue		
Memory products	**1,327,807**	909,388
Data & Cloud products	**522,639**	243,267
General components	**239,247**	110,681
	2,089,693	1,263,336

	1H2018	1H2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Segment Results		
Memory products	**41,313**	37,340
Data & Cloud products	**33,183**	17,201
General components	**21,911**	6,210
Total reportable segment profit	**96,407**	60,751
Other income	**2,200**	1,196
Fair value change of investment property	**400**	600
Finance costs	**(8,750)**	(4,834)
Depreciation of property, plant and equipment	**(1,308)**	(1,200)
Unallocated corporate expenses	**(53,862)**	(28,127)
Profit before tax	**35,087**	28,386
Income tax expenses	**(7,521)**	(6,169)
Profit after tax	**27,566**	22,217

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 is based on the physical location of the assets.

	1H2018	1H2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue from external customers		
Hong Kong	**488,980**	162,759
The People's Republic of China (the "PRC")	**1,596,963**	1,083,026
Others	**3,750**	17,551
	2,089,693	1,263,336

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Non-current assets		
Hong Kong	**96,587**	95,961
The PRC	**6,588**	6,902
	103,175	102,863

Information about major customers

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

	1H2018	1H2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Customer A	**325,051**	N/A*
Customer B	**221,311**	N/A*
Customer C	**208,597**	192,286

Sales to customer A, customer B and customer C are included in the segment of sales of Data & Clouds products, and segment of sales of Memory products respectively.

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

4. OTHER INCOME

	1H2018	1H2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Bank interest income	**65**	7
Rental income	**405**	810
Gain on disposal of a subsidiary	**–**	11
Sundry income	**1,730**	368
	2,200	1,196

5. FINANCE COSTS

	1H2018	1H2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Discounting charges on factoring loans	**4,763**	2,830
Interest on other bank borrowings	**3,987**	2,004
	8,750	4,834

6. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging and crediting:

	1H2018	1H2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Cost of inventories recognised as an expenses	**1,993,286**	1,202,280
Write-down of inventories	**–**	305
Auditor's remuneration	**550**	234
Depreciation of property, plant and equipment	**1,308**	1,200
Listing expenses	**5,592**	6,785
Net foreign exchange loss/(gain)	**1,021**	(754)
Operating lease charges in respect of land and buildings	**951**	876
Staff costs including Directors' emoluments		
– Basic salaries and allowance	**14,883**	9,377
– Contributions to defined contribution retirement plans	**1,126**	890
– Messing and welfare	**640**	549

7. INCOME TAX EXPENSE

	1H2018	1H2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax –		
Hong Kong Profits Tax for the period	**7,465**	6,182
PRC tax for the period	**–**	–
Over-provision in prior years – Hong Kong profits tax	**(90)**	–
Under-provision in prior years – PRC tax	**73**	–
	7,448	6,182
Deferred tax	**73**	(13)
Total income tax expense recognised in profit or loss for the period	**7,521**	6,169

Hong Kong Profits Tax has been provided at a rate of 16.5% based on the estimated assessable profit arising in Hong Kong for 1H2018 and 1H2017.

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 subsidiary of the Company is 25% for the periods. No Enterprise Income Tax has been provided for six months ended 30 June 2018 and 2017 as the PRC subsidiary has no assessable profit for the periods.

8. EARNINGS PER SHARE

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

	1H2018	1H2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owner of the Company	**21,681**	15,786

	1H2018	1H2017
Number of ordinary shares		
Weighted average number of ordinary shares in issue	**899,171,271**	750,000,000

The weighted average number of ordinary shares as presented above has taken into account of the Reorganisation and the capitalisation issue of 749,999,900 shares, which was effective on 16 March 2018, the listing date of the Company (the "Listing Date"). Accordingly, the weighted average number of ordinary shares in issue have been adjusted retrospectively as if it was effective from 1 January 2017.

No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary shares for the periods ended 30 June 2018 and 2017.

9. DIVIDENDS

The Board did not recommend any dividend for the 1H2018.

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

	1H2018	1H2017
	$'000	*$'000*
	(unaudited)	(unaudited)
Dividends declared and paid to its then controlling shareholder by Apex Team Limited ("Apex Team")	**15,975**	–
Dividends declared and paid to non-controlling shareholder by Data Star Inc. ("Data Star")	**2,184**	–

10. INVESTMENT PROPERTIES

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
At fair value		
At 1 January	**51,600**	49,400
Fair value adjustment	**400**	2,200
At 30 June 2018/31 December 2017	**52,000**	51,600

11. TRADE RECEIVABLES

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Trade receivable	**821,010**	644,455
Less: allowance for impairment	**(2,119)**	(2,119)
At 30 June 2018/31 December 2017	**818,891**	642,336

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

	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
0 – 30 days	**369,006**	304,722
31 – 60 days	**282,985**	172,688
61 – 90 days	**98,120**	104,106
More than 90 days	**70,899**	62,939
	821,010	644,455
Less: Allowance for impairment	**(2,119)**	(2,119)
	818,891	642,336

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. 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 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**277,667**	190,721
31 – 60 days	**238,830**	120,533
61 – 90 days	**117**	48,368
More than 90 days	**1,235**	1,235
	517,849	360,857

13. SHARE CAPITAL

	Note	**Number of shares**	**Amount**
			HK$
The Company			
Ordinary shares of HK$0.01 each			
Authorised:			
As at 1 January 2017, 31 December 2017 and 1 January 2018		38,000,000	380,000
Increase of authorised share capital	(a)	1,962,000,000	19,620,000
As at 30 June 2018		2,000,000,000	20,000,000
Issued and fully paid:			
At 1 January 2017, 31 December 2017 and 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 30 June 2018 (unaudited)		1,000,000,000	10,000,000

Note

(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 ordinary shares of HK$0.01 each of the Company, 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 supplier of digital storage products and electronic components along with its technical support. Possessing an extensive product portfolio and an experienced engineering team, the Group mainly offers downstream manufacturers in the technology, media and telecom ("TMT") sector in the PRC and Hong Kong with quality electronic components produced by brand name upstream manufacturers. Having established long-standing cooperative relationships with its major customers and suppliers, the Group is able to continue its business development and capture more market shares in Greater China.

On 16 March 2018, shares of the Company were listed on the Main Board of the Stock Exchange (the "Listing"), marking a milestone in the Group's development. The Listing has provided the Group with a more effective fund-raising platform to strengthen its financial capability and have more flexible responses to cope with the ever-changing demand of the TMT market.

In the 1H2018, the Group continued to actively sustain the growth of its business operation, generating a total revenue amounted to approximately HK$2,089.7 million, representing a surge of approximately 65.4% when compared with the same period of last year. The significant growth in revenue was mainly attributed to the continuously booming technological products market, which drove a notable growth in demand for digital storage products and electronic components from downstream manufacturers. Together with the impressive rise in purchase orders and the Group's effort to develop new customer sources, gross profit also increased by 58.7% to HK$96.4 million (1H2017: HK$60.8 million) with gross profit margin at 4.6% (1H2017: 4.8%).

During the Review Period, profit attributable to owners of the Company was HK$21.7 million (1H2017: HK$15.8 million), representing a 37.3% year-on-year growth. Excluding the listing expenses during the period, the adjusted net profit would be HK$33.2 million.

The Group's memory products, data & cloud product and general components business segments all achieved outstanding performance in the 1H2018.

Memory Products

Memory products offered by the Group, such as DRAM and flash memory, are widely used in multimedia and mobile devices such as set-top boxes, smart TVs, wearable devices and mobile phones. In the 1H2018, with multimedia devices such as smart TV and set-top boxes continuing to increase in sales, demands for memory products from the Group's customers also surged. Revenue of the segment climbed by 46.0% to HK$1,327.8 million, accounting for approximately 63.5% of the Group's total revenue. Gross profit of the segment increased to HK$41.3 million, up by 10.6% when compared with the same period as last year. Gross profit margin dropped to 3.1% (1H2017: 4.1%).

Data & Cloud Products

The Group's Data & Cloud products are mostly RAID controller cards, controller ICs and networking processors, which are mainly used in enterprise-level data & cloud storage systems. The segment's major customers of the Group includes some of the top five data & cloud solution providers in the world. During the Review Period, the Group saw a notable climb in both number of customers and purchase orders. Attributing to more than double the sales amount from one of its major customers, revenue of the segment leaped by 114.8% to HK$522.6 million, compared to the same period as last year, making up one-fourth of the Group's total revenue. Gross profit margin was approximately 6.3% (1H2017: 7.1%). Although the Group's gross profit margin has decreased slightly, but the sales volume has risen substantially. Gross profit of the segment increased by 92.9% to HK$33.2 million from HK$17.2 million in the same period as last year.

General Components

General components sales mainly include switches, connectors, passive components, main chips, sensors, power semiconductors and analog-to-digital converters which are designed for use in mobile and multimedia devices. During the Review Period, sales of this segment soared by 116.2% to HK$239.2 million, driven by the Group's success in securing new customers and increasing purchase of inductors, capacitors and main chips for smart TVs and set-top boxes to meet market demand from its existing and new customers. For 1H2018, the segment's gross profit margin increased to 9.2% from 5.6% in the same period of last year and gross profit has rocketed by 252.8% to HK$21.9 million.

Prospects

With the demand of electronic products rising, and consumers craving for quality living and innovative technological products have kept emerging, bright prospects prevail for the global consumer electronics market. Such development shall continue to support the increasing sales performance of memory products and electronic components across-the-board for the Group. Driven by strong demand, memory products have been selling rather well and the price of DRAM in particular holds firm. With the sales volume and prices of memory products both climbing, the Group is expecting to maintain its existing performance in the second half of the year.

Mainland China has become one of the largest electronic products manufacturing and consumption of electronic components in the world. Along with the widespread application of 5G mobile technology expected in the future and continuous pursuit of fiber-to-home increasing Internet penetration in Mainland China, market demand for memory products and Data & Cloud products is set to increase. Between 2016 and 2021, the total sales value of electronic components distribution in Mainland China and Hong Kong is expected to grow at a CAGR of 16.4%*.

At the same time, supportive of a digital economy development in China, the Mainland government has hastened to implement measures to help traditional industries to adapt to the new digital and intelligent technologies era, creating new opportunities for its economic development. The "Made in China 2025" strategic directive published in 2016 clearly states that integrated circuit and information processing and communications products are the key categories in the information technology industry. Also, with Internet of things (IoT) identified as one of the five emerging strategic industries in Mainland China, efforts will be made to widen application of IoT and effect in-depth integration of IoT with the new digital economy. It will further drives market demand for related electronic components, such as increasing the scale of production for data & cloud application components. Therefore, the associated components distribution operations like our Group are expected to grow at an remarkable rate.

During the year, the Group faced the risks of uncertainties in global economic outlook, which would affect consumer spending sentiments on technological products as well as the demand for electronic components in the TMT sector from downstream manufacturers. The management would closely monitor the market conditions and adjust the Group's product portfolio to cope with the changing demand of the market and in the consumer preference. Although the Sino-US trade conflict has brought uncertainties to the technology industry, with most of the Group's transactions done with mainland companies and local consumption thus far, the Group's business has not been materially affected. To assure continuous sources of electronic components from the upstream manufacturers to cope with the demands in the market, some of the Group's customers who had purchased from US based companies are now willing to cooperate with mainland-based upstream manufacturers, which the Group represents. Therefore, the Group believes the Sino-US trade matter has indirectly benefited the Group.

* *Source of information: A research report on the electronic components trading industry prepared by Frost & Sullivan, a market research and consulting company, for the Company in February 2018*

To seize growth opportunities in the market, the Group shall continue to adhere to its low margin high volume business strategy. The Group will strive to maintain its gross profit margin, at a reasonable level and aim for a balance between sales volume and profit, so that its business can continue to expand at a sustainable level. The Group also plans to maximize its newly developed market research team, which has been actively studying market intelligence and conditions, enhancing the Group to secure distributorship of more product lines from existing and new suppliers. The Group shall focus more on the sales of electronic components used in medical equipment, automobile and industrial applications which shall seize more business opportunities in those promising markets to generate additional contributions to its operating results in the future.

FINANCIAL REVIEW

Revenue

The electronics components supplied by the Group are primarily categorised into three major segments, namely (i) Memory products, (ii) Data & Cloud products and (iii) General components, which contributed 63.5%, 25.0% and 11.5% of the Group's total revenue, respectively.

The sales revenue of the Group for 1H2018 increased to HK$2,089.7 million (1H2017: HK$1,263.3 million), representing an increase of 65.4%, as compared with that of last period. The increase in our revenue was driven by the growth in sales of all three major segments of products. For 1H2017 and 1H2018, the growth in sales of our memory products remained strong with the overall revenue derived from which grew from approximately HK$909.4 million to HK$1,327.8 million for the respective periods.

Gross profit and gross profit margin

Gross profit for 1H2018 amounted to HK$96.4 million (1H2017: HK$60.8 million), representing a rise of 58.7%, compared with that of last period. The increasing trend in our gross profit during 1H2018 was generally in line with the upward trend of our revenue. The gross profit margin for 1H2018 slightly dropped to 4.6% (1H2017: 4.8%) mainly due to the shortage supply of memory products in the market in 1H2017 and more stable supply in 1H2018, resulting in an overall lower gross profit margin during the Review Period.

Other income and increase in fair value of investment property

During 1H2018, the Group recognised other income and a gain arising from changes in the fair values of investment property of HK$2.6 million (1H2017: HK$1.8 million), remained immaterial to our Group during 1H2018.

Distribution and selling expenses

The selling and distribution costs mainly include marketing and sales staff salaries, commission expenses, transportation, freight charges and declaration and sample expense. For 1H2018, selling and distribution costs amounted to approximately HK$17.2 million (1H2017: HK$4.1 million).

Administrative expenses

Administrative expenses primarily consist of listing expenses, salaries and benefits (including Directors emoluments), insurance, operating lease and other premise fees, exchange differences, bank charges and depreciation expenses.

The administrative expenses increased by approximately HK$12.7 million in 1H2018 mainly as a result of (i) the increase in salaries, benefits and insurance in aggregate by approximately HK$4.2 million as the Group expanded its operation in response to the significant growth of its business; (ii) the increase in bank charges, insurance expenses in aggregate by approximately HK$4.4 million mainly due to the increasing use of factoring loan to meet the increasing sales volume; (iii) the increase in legal and professional expenses by HK$1.0 million mainly due to more consulting and legal services after Listing; (iv) an increase in other expenses by HK$3.1 million, mainly due to exchange loss suffered by the RMB depreciation.

Finance costs

The Group's finance costs represented mainly interest expenses on its bank borrowings during 1H2018 under review. Such bank borrowings were obtained by the Group for general working capital needs. The Group had finance costs of approximately HK$8.8 million (1H2017: HK$4.8 million). The increase in finance costs was the result of the overall increasing use of factoring loans in response to the increasing sales and inventories level in 1H2018.

Net profit for 1H2018

Net profit for 1H2018 amounted to HK$27.6 million (1H2017: HK$22.2 million), representing a rise of 24.1%, comparing with that of 1H2017.

Eliminating the non-recurring the Listing expenses in 1H2017 and 1H2018, the Group's adjusted net profit would be increased by 14.3% from HK$29.0 million in 1H2017 to HK$33.2 million in 1H2018.

Net profit attributable to the owners of the Company

Net profit attributable to the owners of the Company for 1H2018 was HK$21.7 million, representing an increase of 37.3% as compared with 1H2017.

LIQUIDITY AND FINANCIAL RESOURCES

During 1H2018, 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 2018 were approximately HK$88.3 million (31 December 2017: HK$66.3 million), consisting of bank balances and cash of approximately HK$86.3 million (31 December 2017: HK$64.3 million) and pledged fixed deposit of approximately HK$2.0 million (31 December 2017: HK$2.0 million). They were mainly denominated in Hong Kong dollar ("HKD") and United States dollar ("USD").

As at 30 June 2018, the Group's total outstanding bank borrowings amounted to HK$592.8 million (31 December 2017: HK$479.5 million) which comprised mainly of 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 244.2% as at 31 December 2017 to 183.1% as at 30 June 2018 mainly due to an increase in equity attributable to Global Offering and higher accumulated retained earnings. Gearing ratio is calculated based on total loans and borrowings (including amounts due to a director and related party) divided by total equity at the respective reporting dates.

The Group's financial statements are presented in HKD. The Group carried out its business transactions mainly in HKD, Renminbi ("RMB"), and USD. As the HKD remained pegged to the USD, the Board considers 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 through credit policy and factored to external financial institutions.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group had executed the following guarantees in respect of banking facilities granted to related companies in which Mr. Lee has beneficial interests.

– guarantee limited to HK$86 million plus default interest and other costs and expenses among the Group and related companies; and

– guarantee with unlimited amount between the Group and a related company

In the opinion of the Directors, the fair value of the guarantees at inception was not significant. Such banking facilities utilised by the related companies as at 31 December 2017 amounted to HK$30.1 million. The Directors do not consider it probable that a claim will be made against the Group under any of the aforesaid guarantees. These guarantees have been released during the Review Period.

As at 30 June 2018, the Group did not have any material contingent liabilities.

CHARGES ON ASSETS

At 30 June 2018, the banking facilities of the Group were secured by trade receivables of the Group with an aggregate carrying amount of HK$620.6 million (31 December 2017: HK$466.8 million), the legal charge over the investment properties of the Group, leasehold land and buildings of HK$41.2 million (31 December 2017: HK$41.9 million) of the Group, bank deposit of the Group of HK$2.0 million (31 December 2017: HK$2.0 million), property of Mr. Lee Bing Kwong ("Mr. Lee"), the Director and controlling shareholder of the Company, properties of a son of Mr. Lee, properties, securities and deposits owned by the companies controlled by Mr. Lee, insurance policy executed by a related company, personal guarantees executed by Mr. Lee, Ms. Lo (spouse of Mr. Lee), Mr. CH Lee (son of Mr. Lee) and Mr. Pai (a director and non-controlling shareholder of subsidiaries of the Company), and corporate guarantee executed by related companies.

DIVIDENDS

Before the Listing, dividends of approximately HK$16.0 million have been declared and paid on 13 February 2018 by Apex Team Limited, a wholly-owned subsidiary of the Company, to its then shareholder.

On 30 April 2018, dividends of approximately HK$5.6 million and HK$2.2 million have been declared and paid by Data Star Inc., a non-wholly-owned subsidiary of the Company, to its shareholders, Apex Team Limited and Mr. Pai respectively.

The Directors do not recommend the payment of an interim dividend for 1H2018.

CHANGES IN ACCOUNTING POLICIES

For the Review Period, the Group has adopted for the first time the new and revised Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are relevant to its operations and effective for the Group's accounting period beginning on 1 January 2018. For details, please refer to Note 2 to the condensed consolidated financial statements of the Company in this announcement.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2018, the Group employed 118 staff (31 December 2017: 102) 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 salaries, other staff benefits include mandatory provident fund contributions, medical insurance coverage and performance-based bonuses.

USE OF NET PROCEEDS FROM LISTING

The net proceeds received by the Company from the Global Offering (as defined in the Prospectus) in the amount of approximately HK$116.9 million after deducting underwriting commissions and all related expenses will be/has been 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 2018 as follows:

	Application of net proceeds as stated in the Prospectus	**Actual use of net proceeds**	**Unused net proceeds**	**Unused net proceeds**
	HK$'000	*HK$'000*	*HK$'000*	*%*
Repayment of bank loans	39,045	39,045	–	–
Establishing a new product and development department	2,810	350	2,460	88%
Strengthening sales and marketing and technical support team by recruiting staff and providing trainings	10,750	1,000	9,750	91%
Enhancing warehouse and office in HK	4,600	610	3,990	87%
Installing ERP and supporting software	7,090	2,275	4,815	68%
Establishing new offices in the PRC	5,027	–	5,027	100%
Acquisition and establishment of Shenzhen head office	35,888	–	35,888	100%
Working capital for general corporate purpose	11,690	11,690	–	–
	116,900	54,970	61,930	53%

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed in the Prospectus, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during 1H2018.

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

No significant investment was held by the Group as at 30 June 2018. Save as disclosed in the Prospectus, there is no plan for material investments or capital assets as at the date of this announcement.

SUBSEQUENT EVENT

The Board is not aware of any significant event affecting the Group and requiring disclosure that has been taken place subsequent to 30 June 2018 and up to the date of this announcement.

PURCHASE, SALE 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 since the Listing Date up to 30 June 2018.

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 Company and its shareholders (the "Shareholders"). The Company has adopted the applicable code provisions and, where appropriate, the recommended best practices as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "CG Code") with effect from the Listing Date. Save as disclosed below, the Board considered that the Company has complied with all applicable code provisions set out in the CG Code since the Listing Date up to 30 June 2018.

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, 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 with effective from the Listing Date.

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 during the period from the Listing Date to 30 June 2018.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has also reviewed and confirmed the Group's unaudited financial results for the Review Period and discussed 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, Graham H.Y. Chan & Co., the independent auditor of the Company, has reviewed the condensed consolidated 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 1H2018 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, 21 September 2018.

APPRECIATION

I 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

Hong Kong, 24 August 2018

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