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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

RESULTS HIGHLIGHT

- Revenue increased by 30.9% to HK$3,717,611,000 (2017: HK$2,840,308,000)
- Gross profit margin was 4.8% (2017: 5.0 %)
- The net profit attributable to the owners of the Company for 2018 was HK$22,614,000 (2017: HK$34,986,000) as a result of significant increase in distribution and selling expenses and administrative expenses
- Basic earnings per share for 2018 was 2.38 HK cents (2017: 4.66 HK cents)
- The Board proposed the payment of a final dividend of 0.6 HK cents per share for the year ended 31 December 2018 (2017: nil)

FINAL RESULTS

On behalf of the board of directors of Apex Ace Holding Limited ("Apex Ace" or the "Company" and the "Board", respectively), I am pleased to present the audited consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 (the "Year 2018") together with the comparative figures for the prior year (the "Year 2017"). These audited financial results for the Year 2018 have been reviewed by the audit committee of the Board (the "Audit Committee").

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	4	**3,717,611**	2,840,308
Cost of sales		**(3,539,551)**	(2,698,945)
Gross profit		**178,060**	141,363
Other income	5	**3,944**	2,496
Increase in fair value of an investment property		**2,400**	2,200
Distribution and selling expenses		**(46,955)**	(15,937)
Administrative expenses		**(76,776)**	(60,745)
Finance costs	6	**(18,293)**	(11,368)
Profit before tax	7	**42,380**	58,009
Income tax expense	8	**(9,098)**	(12,642)
Profit for the year		**33,282**	45,367
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**331**	147
Total comprehensive income for year		**33,613**	45,514
Profit for the year attributable to:			
— Owners of the Company		**22,614**	34,986
— Non-controlling interests		**10,668**	10,381
		33,282	45,367
Total comprehensive income for the year attributable to:			
— Owners of the Company		**22,945**	35,133
— Non-controlling interests		**10,668**	10,381
		33,613	45,514
Earnings per share attributable to owners of the Company			
— Basic	9	**2.38 HK cents**	4.66 HK cents
— Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	**2018** **HK$'000**	2017 HK$'000
Non-current assets			
Property, plant and equipment		**50,648**	51,263
Investment property	11	**54,000**	51,600
Deposits paid for acquisition of property, plant and equipment, and intangible asset		**9,691**	–
		114,339	102,863
Current assets			
Inventories		**84,834**	174,631
Trade receivables	12	**508,953**	642,336
Other receivables, deposits and prepayments		**66,251**	95,308
Tax recoverable		**5,392**	–
Bank balances and cash		**182,639**	66,302
		848,069	978,577
Current liabilities			
Trade payables	13	**205,889**	360,857
Other payables, accruals and deposits received		**31,314**	20,647
Amount due to a director		**-**	8,247
Amount due to a related party		**-**	1,560
Bank borrowings, secured		**391,268**	479,486
Tax payable		**3,819**	10,019
		632,290	880,816
Net current assets		**215,779**	97,761
Total assets less current liabilities		**330,118**	200,624
Non-current liabilities			
Deferred tax liabilities		**386**	290
Net assets		**329,732**	200,334
Capital and reserves			
Share capital	14	**10,000**	–
Reserves		**295,866**	184,952
Equity attributable to owners of the Company		**305,866**	184,952
Non-controlling interests		**23,866**	15,382
Total equity		**329,732**	200,334

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 Unit 2–3, 1/F., Sun Cheong Industrial Building, 1 Cheung Shun Street, Kowloon, Hong Kong. The Company is an investment holding company, the principal activities of its subsidiaries are sales of electronic components, and sales and integration of storage systems.

The Shares of the Company have been listed on the Main Board of The Exchange of Hong Kong Limited 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. 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.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Year 2018 and Year 2017 included the results, changes in equity and cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the Year 2018 and Year 2017, or since their respective dates of incorporation or first came under the common control of the controlling shareholder, whichever is the shorter period. The consolidated statements of financial position of the Group as at 31 December 2018 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure has been in existence at those dates taking into account the respective dates of incorporation or acquisition of relevant entities, where applicable.

All intra-group transactions and balances have been eliminated on consolidation. The assets and liabilities of the companies comprising the Group are combined using the existing book values. No amount is recognised in respect of goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKRSs")

(a) New and revised HKFRSs adopted as at 1 January 2018

The Group has applied the following new standards, interpretation and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28
Amendments to HKAS 40	Transfer of Investment Property
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration

Except for the adoption of HKFRS 9 and HKFRS 15, the adoption of the interpretation and amendments to HKFRSs has no material effect on the Group's financial position and financial performance for the current and prior years. The impacts on HKFRS 9 and HKFRS 15 are described as follows:

HKFRS 9 "Financial Instruments"

The Group has adopted HKFRS 9 on 1 January 2018. 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. Under HKFRS 9, the classification for all of the Group's financial assets and financial liabilities measured at amortised cost remain the same. 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.

The loss allowance for trade receivables applying the lifetime expected credit loss as compared to incurred loss model of HKAS 39 did not result in a material difference and hence did not result in an adjustment of opening retained earnings as of 1 January 2018. Adoption of HKFRS 9 has no material impact on the financial results and financial position of the Group for Year 2018.

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.

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

HKFRS 15 does not prohibit an entity from using alternative descriptions in the statement of financial position for contract assets and contract liabilities, provided that sufficient information is available for a financial statements user to distinguish between receivables and contract assets, payables and contract liabilities. The Group does not have any significant contract asset and continues to use the term "Customer deposit received" instead of contract liability in the consolidated financial statements.

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

Up to the date of this announcement, HKICPA has issued the following new and revised standards, amendments or interpretations which are not yet effective for the accounting period beginning on 1 January 2018. The Group has not early applied these new and revised standards, amendments or interpretations in the consolidated financial statements.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)–Int 23	Uncertainty over Income Tax Treatment[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment of Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendments, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020
4 Effective for annual periods beginning on or after 1 January 2021
5 Effective for annual periods beginning on or after a date to be determined

Except as disclosed below, the directors of the Company 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 31 December 2018 amounting to HK$930,000. The directors of the Company 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.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received and receivable for goods sold by the Group at invoiced value, net of returns and discounts. The timing of revenue recognition of all revenue is at a point in time for Year 2018 and Year 2017. 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.

	2018	2017
	HK$'000	*HK$'000*
SEGMENT REVENUE		
Memory products	**2,344,048**	1,799,083
Data & Cloud products	**935,068**	655,122
General components	**438,495**	386,103
	3,717,611	2,840,308

	2018	2017
	HK$'000	*HK$'000*
SEGMENT RESULTS		
Memory products	**69,642**	72,255
Data and Cloud products	**54,670**	41,637
General components	**53,748**	27,471
Total reportable segment profit	**178,060**	141,363
Other income	**3,944**	2,496
Increase in fair value of an investment property	**2,400**	2,200
Finance costs	**(18,293)**	(11,368)
Depreciation of property, plant and equipment	**(2,738)**	(2,420)
Unallocated corporate expenses	**(120,993)**	(74,262)
Profit before tax	**42,380**	58,009
Income tax expenses	**(9,098)**	(12,642)
Profit for the year	**33,282**	45,367

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 intangible asset is based on the physical location of the assets.

	2018	2017
	HK$'000	*HK$'000*
Revenue from external customers		
Hong Kong	**942,091**	421,363
The PRC	**2,743,533**	2,391,476
Others	**31,987**	27,469
	3,717,611	2,840,308

	2018	2017
	HK$'000	*HK$'000*
Non-current assets		
Hong Kong	**98,476**	95,961
The PRC	**6,172**	6,902
	104,648	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:

	2018 *HK$'000*	2017 *HK$'000*
Customer A	**547,499**	362,412
Customer B	**N/A***	345,087

Sales to customer A and customer B are included in the segment of sales of Data & Cloud products, and segment of sales of memory products respectively.

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

5. OTHER INCOME

	2018 *HK$'000*	2017 *HK$'000*
Bank interest income	**176**	21
Rental income	**1,005**	1,620
Gain on disposal of property, plant and equipment	**-**	88
Gain on disposal of a subsidiary	**-**	11
Sundry income	**2,763**	756
	3,944	2,496

6. FINANCE COSTS

	2018 *HK$'000*	2017 *HK$'000*
Discounting charges on factoring loans	**9,869**	6,838
Interest on other bank borrowings	**8,424**	4,530
	18,293	11,368

7. PROFIT BEFORE TAX

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

	2018 *HK$'000*	2017 *HK$'000*
Cost of inventories recognised as an expenses	**3,539,551**	2,698,640
Write-down of inventories	**-**	305
Auditor's remuneration for current year	**1,255**	1,125
Depreciation of property, plant and equipment	**2,738**	2,420
Loss on disposal of property, plant and equipment	**1**	–
Listing expenses	**5,423**	14,676
Net foreign exchange loss/(gain)	**1,653**	(1,845)
Operating lease charges in respect of land and buildings	**2,189**	1,697
Staff costs including director's emoluments		
— Basic salaries and allowance	**36,449**	23,386
— Contributions to defined contribution retirement plans	**2,513**	1,788
— Messing and welfare	**1,402**	1,021

8. INCOME TAX EXPENSE

	2018 *HK$'000*	2017 *HK$'000*
Current tax —		
Hong Kong Profits Tax	**9,022**	12,437
PRC tax	**–**	218
(Over-provision)/under-provision in prior years		
— Hong Kong profits tax	**(90)**	4
Under-provision in prior years — PRC tax	**70**	–
	9,002	12,659
Deferred tax	**96**	(17)
Total income tax expense recognised in profit or loss for the year	**9,098**	12,642

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. 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%.

Accordingly, starting from the year ended 31 December 2018, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

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 Year 2018 and 2017. No Enterprise Income Tax has been provided for Year 2018 as the PRC subsidiary has no assessable profit for the Year 2018.

9. EARNINGS PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company	**22,614**	34,986

	2018	2017
Number of ordinary shares		
Weighted average number of ordinary shares in issue For the purpose of basic earnings per share	**950,000,000**	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 years ended 31 December 2018 and 2017.

10. DIVIDENDS

The Board has recommended the payment of final dividend of 0.6 HK cents per ordinary share (2017: Nil).

The final dividends proposed after the end of the reporting period have not been recognised as liabilities at the end of the reporting period.

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

	2018	2017
	HK$'000	*HK$'000*
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.	**2,184**	–

11. INVESTMENT PROPERTY

	2018	2017
	HK$'000	*HK$'000*
At fair value		
At 1 January	**51,600**	49,400
Fair value adjustment	**2,400**	2,200
At 31 December	**54,000**	51,600

The Group's investment property is a commercial property situated in Hong Kong and leased out to third parties. The investment property was revalued by RHL Appraisal Limited and International Valuation Limited as at 31 December 2018 and 2017 respectively on an open market value basis.

12. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivable	**508,953**	644,455
Less: allowance for impairment	**–**	(2,119)
At 31 December	**508,953**	642,336

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

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**183,335**	304,722
31–60 days	**100,064**	172,688
61–90 days	**87,673**	104,106
More than 90 days	**137,881**	62,939
	508,953	644,455
Less: Allowance for impairment	**-**	(2,119)
	508,953	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.

13. 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:

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**146,716**	190,721
31–60 days	**46,807**	120,533
61–90 days	**11,045**	48,368
More than 90 days	**1,321**	1,235
	205,889	360,857

14. 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 31 December 2018		2,000,000,000	20,000,000
Issued and fully paid:			
As 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 31 December 2018		1,000,000,000	10,000,000

Notes:

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

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

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

(d) On 16 March 2018, the Company was listed on the Main Board of The Stock Exchange with the global offering of 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 shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Listing") on 16 March 2018, which marks a key milestone for the Group.

Apex Ace is a distributor of semiconductor and other electronic components with core focus on identifying, sourcing, selling and distributing quality electronic components produced by branded upstream manufacturers. The Group offers a wide-range of products including digital storage products that comprise memory and data & cloud products, and general electronic components, along with the provision of our complimentary technical supports. Our customers are primarily market players in the Technology, Media and Telecom ("TMT") sector in the PRC and Hong Kong.

For the year ended 31 December 2018, the Group engaged in its three principal business divisions, namely, distribution of (i) Memory products; (ii) Data & Cloud products and (iii) General components.

The US-China trade tension, coupled with the global economic downturn in the second half of 2018, have adversely affected the overall market of the TMT sector. However, due to the strong position of the Group's core market being in the PRC, we were able to grasp the opportunities arising from the booming demands in the PRC region. Meanwhile, the Group was able to promptly respond to market challenges brought forth by the trade tension. The proactive exploration of new products, new suppliers and new customers outside of the affected regions allowed the Group to sustain growth in the year of 2018.

Memory products

During the Year 2018, the Group offered memory products including DRAM and flash memory which are widely applied to multimedia and mobile devices such as set-top boxes, smart TVs, wearable devices and mobile phones, etc. Market demand for such devices recorded substantial growth which led to an increasing demand for our memory products. Revenue generated from this segment surged by 30.3% year-on-year to HK$2,344.0 million from HK$1,799.1 million in Year 2017, accounting for approximately 63.1% of the Group's total revenue. Gross profit of the segment decreased by 3.6% year-on-year to HK$69.6 million from HK$72.2 million when compared with the same period.

Data & Cloud Products

The Group's Data & Cloud products include RAID controller cards, controller ICs and networking processors, which are mainly used in enterprise-level storage and server systems. Thanks to our strong relationships with some of the global top five data & cloud solution integrators, the Group received exponential purchase orders. Revenue of this segment surged by 42.7% year-on-year to HK$935.1 million from HK$655.1 million when compared to Year 2017, which accounted for 25.1% of the Group's total revenue. Gross profit of the segment increased by 31.3% to HK$54.7 million from HK$41.6 million in Year 2017.

General components

General components include switches, connectors, passive components, main chips, sensors, power semiconductors and analog-to-digital converters, which are mainly designed and used in the mobile and multimedia devices. During the Year 2018, revenue generated from this segment leaped by approximately 13.6% year-on-year to HK$438.5 million from HK$386.1 million in Year 2017, accounting for approximately 11.8% of the Group's total revenue. This was mainly driven by an increasing number of new customers and a growth in sales of ceramic inductor, capacitor and main chip for the assembling of smart TVs and set-top boxes and artificial intelligence devices, etc. Gross profit of this segment surged year-on-year by 95.7% to HK$53.7 million from HK$27.5 million in Year 2017.

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 63.1%, 25.1%, 11.8% of the Group's total revenue respectively.

The sales revenue of the Group for the Year 2018 increased to HK$3,717.6 million (2017: HK$2,840.3 million), representing an increase of 30.9%, as compared with that of last year. The increase in revenue was driven by the growth in sales of all three major types of our products.

Gross profit and gross profit margin

Gross profit for the Year 2018 amounted to HK$178.1 million (2017: HK$141.4 million), representing a rise of 26.0%, compared with that of last year. The increasing trend in gross profit during the Year 2018 was generally in line with the upward trend of revenue despite a minor drop in gross profit margin. The gross profit margin for the Year 2018 has dropped slightly to 4.8% (2017: 5.0%).

Other income and increase in fair value of an investment property

During the Year 2018, the Group recognised a gain arising from changes in the fair values of an investment property of HK$2.4 million (2017: HK$2.2 million). The Group's other income remained immaterial to Group during the Year 2018.

Distribution and selling expenses

The selling and distribution costs mainly include marketing and sales staff salaries, commission expense, transportation freight charges, declaration and sample expenses. For the Year 2018, selling and distribution costs amounted to approximately HK$47.0 million (2017: HK$15.9 million).

Administrative expenses

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

The administrative expenses increased by approximately HK$16.0 million in the Year 2018 mainly as a result of (i) the increase in the salaries and staff benefits in aggregate by approximately HK$10.4 million as the Group had expanded operation in response to the significant growth of its business; (ii) the increase in bank charges and insurance in aggregate by approximately HK$4.3 million mainly due to increase of other bank loan; and (iii) an increase in other expense by HK$1.3 million, mainly due to increase in rental expense and travelling expenses.

Finance costs

The Group's finance costs represented mainly interest expenses on its bank borrowings during the Year 2018. Such bank borrowings were obtained by the Group for general working capital needs. The Group had finance costs of approximately HK$18.3 million (2017: HK$11.4 million). The increased finance costs was a result of the increasing interest rate and the overall increasing use of factoring loans in response to the increasing sales in the Year 2018.

Net profit for the Year 2018

Net profit for the Year 2018 amounted to HK$33.3 million (2017: HK$45.4 million), representing a drop of 26.6%, comparing with that of Year 2017.

Net profit attributable to the owners of the Company

The net profit attributable to the owners of the Company for the Year 2018 was HK$22.6 million, representing a decrease of 35.4% as compared with that of Year 2017 mainly due to significant increase in administrative, distribution and selling expenses despite a growth in revenue.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year 2018, 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 2018 were approximately HK$182.6 million (2017: HK$66.3 million). They were mainly denominated in Hong Kong dollar, Renminbi and United States dollar.

As at 31 December 2018, the Group's total outstanding bank borrowings amounted to HK$391.3 million (31 December 2017: HK$479.5 million) which comprised mainly bank factoring loans, import loans, trust receipts loans, instalment loans and revolving loans. 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 bank borrowings were denominated in Hong Kong dollar and United States dollar and were subject to interest at commercial lending rates. The gearing ratio decreased from 244.2% in 2017 to 118.7% in 2018. Gearing ratio is calculated based on total loans and borrowings (including amounts due to a director and a related party and bank borrowings) divided by total equity at the respective reporting date.

The Group's financial statements are presented in Hong Kong dollars. The Group carried out its business transactions mainly in Hong Kong dollar, Renminbi, and United States dollar. As the Hong Kong dollar remained pegged to the United States dollar, there was no material exchange risk in this respect. As the portion of Renminbi 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 2018, the Group did not have any material 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

Such banking facilities utilised by the related companies as at 31 December 2017 amounted to HK$30.1 million. These guarantees have been released during the Year 2018.

CHARGES ON ASSETS

As at 31 December 2018, the banking facilities of the Group were secured by trade receivables of the Group with an aggregate carrying amount of approximately HK$367.3 million (2017: HK$466.8 million), the legal charge over the investment property of the Group of HK$54.0 million (2017: HK$51.6 million), leasehold land and buildings of approximately HK$40.5 million (2017: HK$41.9 million) of the Group, insurance policy executed by a related company, personal guarantee executed by Mr. Pai Yin Lin (a director and non-controlling shareholder of subsidiaries of the Group) and corporate guarantees executed by the Group.

DIVIDEND

The Board has recommended the payment of a final dividend of 0.6 HK cents per ordinary share (2017: Nil) for the Year 2018. The proposed final dividend is subject to the Shareholders' approval at the forthcoming annual general meeting and is expected to be distributed on or before Friday, 5 July 2019.

On 13 February 2018, dividend of approximately HK$16.0 million was declared and paid 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.

CHANGES IN ACCOUNTING POLICIES

For the Year 2018, the Group has adopted for the first time the new and revised Hong Kong Financial Reporting Standards issued by 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 3 to the consolidated financial statements of the Company in this announcement.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2018, the Group employed 104 staff (31 December 2017: 102) inclusive of all its staff in the Hong Kong and PRC. The Group's remuneration policy is built on the principle of equitability with incentive-based, motivating, performance oriented and market-competitive remuneration packages for its employees. Remuneration packages are normally reviewed on a regular basis. Apart from salary, other staff benefits include provident fund contributions, medical insurance coverage and performance-based bonuses.

USE OF NET PROCEEDS FROM LISTING

The net proceeds received by the Company from the Global Offering (as defined below) in the amount of approximately HK$116.9 million after deducting underwriting commissions and all related expenses will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" in the prospectus (the "Prospectus). The net proceeds received were applied by the Group from the Listing Date up to 31 December 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	700	2,110	75
Strengthening sales and marketing and technical support team by recruiting staff and providing trainings	10,750	3,000	7,750	72
Enhancing warehouse and office in HK	4,600	724	3,876	84
Installing ERP and supporting software	7,090	3,316	3,774	53
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	58,475	58,425	50

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save as disclosed in the Prospectus, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during Year 2018.

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

Reference is made to the announcement dated 28 November 2018, AVT International Limited("AVT"), a wholly-owned subsidiary of the Company, entered into a non-legally binding Memorandum of Understanding with the holder of certain distributorship rights (the "JV Partner") and the guarantors, for formation of a joint venture(the "JV Company") with the JV Partner. In consideration of the payment of an amount not more than US$5.0 million by AVT to the JV Partner, AVT and the JV Partner shall establish the JV Company and the JV Partner shall transfer the distributorship rights to the JV Company, which owned as to 60% by AVT (or such other nominee as directed by AVT) and 40% by the JV Partner.

The above transaction has been under due diligence review up to the date of this announcement.

SUBSEQUENT EVENT

The Board is not aware of any significant event affecting the Group and requiring disclosure that has been taken place subsequent to 31 December 2018 and up to the date of this announcement.

PROSPECTS

With China pioneering the 5G network applications, coupled with the popularity of fibre-to-home internet, the demand for digital storage (memory and data & cloud) and general components products are expected to grow in the coming years. The Group shall cautiously excel its competitiveness to broaden the product mix and to expand market share. The Group shall devote continuous effort on securing distributorships of existing and newly emerging digital storage products, as well as enhancing its technical support to strengthen the relationships with its customers and suppliers.

To uphold and expand its market share, the Group shall continue to adhere to its "high volume — low margin" business strategy. By maintaining its gross profit margin at a reasonable level and aiming for a balance between sales volume and profit, the Group shall strive to ensure sustainability in business expansion. The Group also plans to expand its newly developed market research team, which has been actively analyzing and researching on market intelligence and conditions, in order to enhance the competitiveness of the Group in securing distributorship of a more comprehensive product mix from existing and new suppliers. In addition, the Group shall put bigger focus on the sales of electronic components applied in automotive, medical electronic equipment and industrial applications, to seize more business opportunities in promising markets to generate additional contributions to its operating results in the future.

Facing the threats of continued trade tension and global economic headwinds, the Group will strive to become an agile and adaptive leader, capable on making timely decisions to adapt to any possible changes of government regulations. We will also continue to devote effort to enhance technology and staff training, so as to ensure the sustainable growth of the Group in challenging times.

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 since the Listing Date up to 31 December 2018 (the "Period").

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 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules" and the "CG Code", respectively) 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 throughout the Period.

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 effect from the Listing Date.

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

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group, has reviewed and confirmed the Group's final results for the Year 2018 and has 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.

The figures in respect of the preliminary announcement of the Group's results for the Year have been agreed by the Group's independent auditor, Graham H.Y. Chan & Co., to the amounts set out in the Group's consolidated financial statements for the Year 2018. The work performed by Graham H.Y. Chan & Co. in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently, no assurance has been expressed by Graham H.Y. Chan & Co. on the preliminary announcement.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Company for the Year 2018 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) and will be despatched to the Shareholders on or before Wednesday, 24 April 2019.

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.

On behalf of the Board
Apex Ace Holding Limited
Lee Bing Kwong
Chairman

Hong Kong, 22 March 2019

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