APEX ACE

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

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

RESULTS HIGHLIGHT

- Revenue decreased by 47.9% to HK$1,936.8 million (2018: HK$3,717.6 million)
- Gross profit margin increased to 7.9% (2018: 4.8%)
- Net loss attributable to the owners of the Company for 2019 was HK$17.0 million (2018: net profit of HK$22.6 million)
- Basic loss per share for 2019 was 1.70 HK cents (2018: earnings per share 2.38 HK cents)

FINAL RESULTS

On behalf of the board of directors of Apex Ace Holding Limited (the "Company", the "Directors" and the "Board", respectively), I present the audited consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019 (the "Year") together with the comparative figures for the prior year (the "Year 2018"). These audited financial results for the Year 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 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	4	**1,936,844**	3,717,611
Cost of sales		**(1,783,026)**	(3,539,551)
Gross profit		**153,818**	178,060
Other income	5	**3,840**	3,944
(Decrease)/increase in fair value of investment property		**(2,300)**	2,400
Impairment loss on trade receivables		**(12,175)**	–
Impairment loss on purchase deposit paid		**(4,325)**	–
Distribution and selling expenses		**(78,138)**	(46,955)
Administrative expenses		**(61,848)**	(76,776)
Finance costs	6	**(7,121)**	(18,293)
(Loss)/profit before tax	7	**(8,249)**	42,380
Income tax expense	8	**(863)**	(9,098)
(Loss)/profit for the year		**(9,112)**	33,282
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(341)**	331
Total comprehensive (expense)/income for the year		**(9,453)**	33,613
(Loss)/profit for the year attributable to:			
— Owners of the Company		**(16,985)**	22,614
— Non-controlling interests		**7,873**	10,668
		(9,112)	33,282
Total comprehensive (expense)/income:			
— Owners of the Company		**(17,324)**	22,945
— Non-controlling interests		**7,871**	10,668
		(9,453)	33,613
(Loss)/earnings per share attributable to owners of the Company			
— Basic	9	**(1.70)HK cents**	2.38 HK cents
— Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**48,197**	50,648
Right-of-use assets		**2,915**	–
Investment property	11	**51,700**	54,000
Deposits paid for acquisition of property, plant and equipment, and intangible assets		**17,458**	9,691
Deposit paid for proposed acquisition of business		**11,123**	–
Deferred tax assets		**4,868**	–
		136,261	114,339
Current assets			
Inventories		**88,018**	84,834
Trade receivables	12	**485,861**	508,953
Other receivables, deposits and prepayments		**8,145**	66,251
Income tax receivable		**5,412**	5,392
Bank balances and cash		**211,809**	182,639
		799,245	848,069
Current liabilities			
Trade payables	13	**224,950**	205,889
Other payables, accruals and deposits received		**44,820**	31,314
Lease liabilities — current portion		**2,173**	–
Bank borrowings, secured		**346,092**	391,268
Income tax payable		**8,162**	3,819
		626,197	632,290
Net current assets		**173,048**	215,779
Total assets less current liabilities		**309,309**	330,118
Non-current liabilities			
Lease liabilities — non-current portion		**802**	–
Deferred tax liabilities		**125**	386
		927	386
Net assets		**308,382**	329,732
Capital and reserves			
Share capital	14	**10,000**	10,000
Reserves		**272,542**	295,866
Equity attributable to the owners of the Company		**282,542**	305,866
Non-controlling interests		**25,840**	23,866
Total equity		**308,382**	329,732

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 and the principal activities of its subsidiaries are sales and integration of semiconductors, electronic components and storage systems.

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

The consolidated financial statements are presented in Hong Kong dollar ("HK$") which is also the functional currency of the Company.

2. 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 principles of merger accounting as if the Company had been the holding company of the Group since 1 January 2018 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 Group's 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 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, or since their respective dates of incorporation or first came under the common control of the controlling shareholder, whichever is the shorter period.

All intra-group transactions and balances have been eliminated on consolidation.

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

(a) New and revised Hong Kong Financial Reporting Standards (the "HKFRSs") adopted as at 1 January 2019

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:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKFRS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as disclosed below, the application of the interpretation and amendments to HKFRSs had no material impact on the financial position and the financial results of the Group for the Year.

HKFRS 16 "Leases"

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

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

The Group has adopted HKFRS 16 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognises the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Group's financial statements are not restated. The Group has elected the practical expedient for not applying the new accounting model to short-term leases (leases with a lease term of 12 months or less) and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. In addition, based on the allowed practical expedients under HKFRS 16, the Group has elected not to apply the requirements of HKFRS 16 in respect of recognition of lease liability and right-of-use assets to leases for which the lease term ends within twelve months of the date of initial application. As all the existing leases at 1 January 2019 end within twelve months of the date of initial application, no right-of-use asset and lease liability is recognised at 1 January 2019. Payments associated with the short term leases are recognised as an expense on a straight-line basis over the lease term. In relation to the leases commenced on or after 1 January 2019, the Group recognised right-of-use assets of HK$2,915,000 and lease liabilities of HK$2,975,000 at 31 December 2019, and depreciation charges of HK$1,426,000 and interest costs of HK$102,000 for the Year.

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

Up to the date of this announcement, HKICPA has issued the following new and amendments to HKFRSs which are not yet effective for the accounting period beginning on 1 January 2019. The Group has not early applied these new and amendments to HKFRSs in the consolidated financial statements.

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, "the Amendments to References to the Conceptual Framework in HKFRS Standards", will be effective for annual periods beginning on or after 1 January 2020.

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

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 in the Year and Year 2018. Segment information reported internally was analysed on the basis of the type of products sold and activities carried out by the Group's operating division. The Group is currently operating in two operating segments as follows:

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

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

For Year 2018, there were three operating segments — memory products ("Memory Products"), data & cloud products ("Data & Cloud Products") and General Components.

Considering that the Memory Products segment of the Group is closely connected with the Data & Cloud Products segment, the Group's management has consolidated the two segments (Memory Products and Data & Cloud Products) in Year 2018 into one, namely Digital Storage Products segment, in the Year. The corresponding items of segment information for Year 2018 has been restated.

	2019	2018
	HK$'000	*HK$'000*
SEGMENT REVENUE		
Digital Storage Products	**1,393,662**	3,279,116
General Components	**543,182**	438,495
	1,936,844	3,717,611

	2019	2018
	HK$'000	*HK$'000*
SEGMENT RESULTS		
Digital Storage Products	**57,482**	124,312
General Components	**96,336**	53,748
Total reportable segment profit	**153,818**	178,060
Other income	**3,840**	3,944
(Decrease)/increase in fair value of investment property	**(2,300)**	2,400
Finance costs	**(7,121)**	(18,293)
Depreciation of property, plant and equipment	**(3,023)**	(2,738)
Depreciation of right-of-use assets	**(1,426)**	–
Impairment loss on trade receivables	**(12,175)**	–
Impairment loss on purchase deposit paid	**(4,325)**	–
Unallocated corporate expenses	**(135,537)**	(120,993)
(Loss)/profit before tax	**(8,249)**	42,380
Income tax expenses	**(863)**	(9,098)
(Loss)/profit for the year	**(9,112)**	33,282

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, intangible asset and business, and deferred tax assets is based on the physical location of the assets.

	2019	2018
	HK$'000	*HK$'000*
Revenue from external customers		
Hong Kong	**500,551**	942,091
The People's Republic of China (the "PRC")	**1,426,927**	2,743,533
Others	**9,366**	31,987
	1,936,844	3,717,611

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Non-current assets		
Hong Kong	**93,722**	98,476
The PRC	**9,011**	6,172
Others	**79**	–
	102,812	104,648

Information about major customers

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

	Segment	2019 HK$'000	2018 HK$'000
Customer A	Digital Storage Products and General Components	**268,491**	N/A*
Customer B	Digital Storage Products and General Components	**211,048**	N/A*
Customer C	Digital Storage Products	**203,298**	N/A*
Customer D	Digital Storage Products	**N/A***	547,499

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

5. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Bank interest income	**908**	176
Rental income	**1,440**	1,005
Sundry income	**1,492**	2,763
	3,840	3,944

6. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Discounting charges on factoring loans	**1,626**	9,869
Interest on other bank borrowings	**5,393**	8,424
Interest expense on lease liabilities	**102**	–
	7,121	18,293

7. (LOSS)/PROFIT BEFORE TAX

(Loss)/Profit for the year has been arrived at after charging and crediting:

	2019	2018
	HK$'000	*HK$'000*
Cost of inventories recognised as an expenses	**1,781,657**	3,539,551
Write-down of inventories	**1,369**	–
Auditor's remuneration	**1,230**	1,255
Depreciation of property, plant and equipment	**3,023**	2,738
Depreciation — right-of-use assets	**1,426**	–
Listing expenses	**–**	5,423
Net foreign exchange loss	**270**	1,653
Short term leases expenses (Year 2018: operating lease charges) in respect of land and buildings	**1,696**	2,189
Commission expenses	**65,003**	32,388
Research and development expenses	**439**	–
Staff costs including Director's emoluments		
— Basic salaries and allowance	**33,598**	36,449
— Contributions to defined contribution retirement plans	**2,845**	2,513
— Messing and welfare	**1,768**	1,402
Loss on disposal of property, plant and equipment	**4**	1

8. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Current tax —		
Hong Kong Profits Tax	**5,993**	9,022
PRC tax	**44**	–
Over-provision in prior years — Hong Kong profits tax	**(46)**	(90)
Under-provision in prior years — PRC tax	**–**	70
	5,991	9,002
Deferred tax	**(5,128)**	96
Total income tax expenses recognised in profit or loss for the year	**863**	9,098

For the Year and Year 2018, 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.

Pursuant to the relevant regulations in respect of the Notice on the Implementation of Inclusive Tax Concessions for Small and Micro Enterprises (Cai Shui [2019] No.13) jointly issued by the Ministry of Finance and the State Administration of Taxation in the PRC, for the portion of annual taxable income which does not exceed RMB1 million, the annual taxable income shall be deducted to 25% and the income tax shall be calculated at the rate of 20%; for the portion of annual taxable income from RMB1 million to RMB3 million (inclusive), the taxable income shall be deducted by 50% and the income tax shall be calculated at the rate of 20%. PRC subsidiaries of the Group enjoy this preferential income tax treatment for the Year. No Enterprise Income Tax had been provided for Year 2018 as the PRC subsidiary had no assessable profits for that period.

9. (LOSS)/EARNINGS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/profit for the year attributable to owners of the Company	**(16,985)**	22,614

	2019	2018
Number of ordinary shares		
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share	**1,000,000,000**	950,000,000

The weighted average number of ordinary shares as presented above for Year 2018 took into account the Reorganisation as detailed in the subsection headed "Reorganisation" under the section headed "History, Reorganisation and Group Structure" in the Prospectus and the capitalisation issue of 749,999,900 Shares, which was effective on 16 March 2018, the listing date of the Company.

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

10. DIVIDENDS

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

The Board resolved not to recommend any dividend for the Year (2018: final dividend of 0.6 HK cent per Share).

For the Year and Year 2018, the subsidiaries of the Company made the following distributions:

	2019	2018
	HK$'000	*HK$'000*
Dividends declared and paid to non-controlling shareholder by Data Star Inc.	**5,897**	2,184
Dividends declared and paid to its then controlling shareholder by Apex Team Limited ("Apex Team")	**–**	15,975

11. INVESTMENT PROPERTY

	2019	2018
	HK$'000	*HK$'000*
At fair value		
At 1 January	**54,000**	51,600
(Decrease)/increase in fair value	**(2,300)**	2,400
At 31 December	**51,700**	54,000

The Group's investment property is a commercial property situated in Hong Kong and leased out to a third party. The investment property was revalued by RHL Appraisal Limited, an independent professional property valuer, as at 31 December 2019 and 2018 on an open market value basis.

12. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**498,036**	508,953
Less: allowance for impairment	**(12,175)**	–
At 31 December	**485,861**	508,953

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

	2019	2018
	HK$'000	*HK$'000*
0–30 days	**168,870**	183,335
31–60 days	**132,380**	100,064
61–90 days	**90,243**	87,673
More than 90 days	**106,543**	137,881
	498,036	508,953
Less: Allowance for impairment	**(12,175)**	–
	485,861	508,953

The Group's trading terms with its customers are mainly on open account terms, except for new customers, where payment in advance is normally required. The balance of the trade receivables is on open account terms, which is normally covered by customers' letters of credit or factored to external financial institutions. The credit terms vary from 1 day to 120 days after the monthly statement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by management. Trade receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

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:

	2019	2018
	HK$'000	*HK$'000*
0–30 days	**149,451**	146,716
31–60 days	**72,035**	46,807
61–90 days	**2,965**	11,045
More than 90 days	**499**	1,321
	224,950	205,889

14. SHARE CAPITAL

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

Notes:

(a) On 15 February 2018, the authorised share capital of the Company 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 "Listing Date"), the Shares were initially 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 Hong Kong-based distributor of semiconductors and other electronic components and is engaged in the supply of digital storage products and general electronic components along with the provision of complimentary technical support to its customers. It focuses on identifying, sourcing, selling and distributing quality electronic components produced by branded upstream manufacturers to downstream manufacturers within the technology, media, and telecom (the "TMT") sector in the PRC and Hong Kong.

During the Year, to enhance the efficiency of the Group's product portfolio management, the Group has consolidated its Memory Products segment and Data & Cloud Products segment into one segment namely, Digital Storage Products. The General Components segment has remained unchanged.

Digital Storage Products

The Group's Digital Storage Products include DRAM, FLASH and MCP memory products, which are widely applied to multimedia and mobile devices such as set-top boxes, Smart TVs, wearable devices, mobile phones, etc. Along with optical and mass storage products, these products are mainly used in enterprise-level storage and server systems.

During the Year, the trade tension between the United States ("US") and China coupled with the global economic downturn adversely affected the global demand for consumer electronic products. Furthermore, the oversupply and weak demand of DRAM, NAND Flash and other memory products had a substantial impact on the average selling price of the Group's Digital Storage Products, which was only subsequently stabilised in the second half of the Year after months of price declining. Revenue generated from this product segment decreased by 57.5% to HK$1,393.7 million for the Year from HK$3,279.1 million in the Year 2018. Gross profit of this segment decreased year-on-year by 53.8% to HK$57.5 million from HK$124.3 million in the Year 2018. Gross profit margin slightly improved to 4.1% from 3.8% in the Year 2018, mainly due to the increased gross profit margin in the sales of DRAM and MCP memory products following a slight market recovery in the second half of the Year.

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 mobile and multimedia devices.

As mentioned above, the economic slowdown took a toll on the global demand for consumer electronic products such as personal computers, smartphones, portable devices, Smart TVs and set-top boxes, etc. The demand from the Group's downstream manufacturers for products in the General Components also decreased apart from the sale of main chips for Smart TVs and set-top boxes. During the Year, revenue of this business segment increased by approximately 23.9% year-on-year to HK$543.2 million from HK$438.5 million when compared with the Year 2018. Gross profit of the segment increased by approximately 79.2% to HK$96.3 million in the Year from HK$53.7 million in the Year 2018. The increased sales and gross profit margin were mainly due to higher margins generated from the sales of main chips for Smart TVs and set-top boxes, switches and connectors for multimedia and mobile device products, which were under the Group's volume incentive marketing campaigns collaborated with its upstream manufacturers.

FINANCIAL REVIEW

Revenue

The two major product segments, namely (i) Digital Storage Products; and (ii) General Components, contributed approximately 72.0% and 28.0% of the Group's total revenue for the Year, respectively.

The Group's revenue was HK$1,936.8 million for the Year (2018: HK$3,717.6 million), representing a drop of 47.9% from the previous year. The decrease in revenue was mainly due to a combination of (i) a decreased global demand for consumer electronic products; and (ii) an oversupply of memory products carried forward from the fourth quarter of Year 2018 combined with a lower demand for Memory Products, which caused a substantial decrease in the average unit selling price of Memory Products in the Group's Digital Storage Products segment. Nonetheless, the revenue in the second half of the Year improved slightly as compared to the first half, which reflected the stabilisation of the average unit selling price of the Memory Products.

Gross profit and gross profit margin

The Group's gross profit for the Year decreased by approximately 13.6% to HK$153.8 million compared to that of HK$178.1 million last year. The decrease in gross profit during the Year was generally in line with the downward trend of the sales revenue, but the Group recorded an increase in its gross profit margin for some of its products. The gross profit margin for the Year has increased to 7.9% (2018: 4.8%) mainly due to the increased gross profit margin from the sales of DDR and MCP memory products, which was categorised under the Digital Storage Products segment. Furthermore, the gross profit margin of main chips for Smart TVs and set-top boxes, switches and connectors, which was categorised under the General Components segment, increased to 17.7% (2018: 12.3%).

Other income and change in fair value of investment property

During the Year, the Group recognised a loss arising from changes in the fair value of an investment property of HK$2.3 million (2018: gain of HK$2.4 million). The Group's other income remained immaterial to the Group during the Year.

Impairment loss on trade receivables

The impairment loss on trade receivables of HK$12.2 million was recognised during the Year (2018: Nil). The increase in provision under expected credit loss model was due to significant increase in trade debts past due for more than one year.

Distribution and selling expenses

The selling and distribution costs mainly included marketing expenses and salaries for sales staff, commission expenses, transportation fees, freight charges as well as declarations and sample expenses. For the Year, selling and distribution expenses increased to approximately HK$78.1 million (2018: HK$47.0 million), mainly as a result of an increase in commission and agency fees in order to stimulate the Group's sales during the market slowdown.

Administrative expenses

Administrative expenses primarily consisted of salaries and benefits (including emoluments to the Directors), insurance premiums, short-term lease expenses and other premises fees, exchange differences, bank charges and depreciation expenses. The Group's administrative expenses decreased by HK$15.0 million to HK$61.8 million during the Year (2018: HK$76.8 million), which was mainly attributable to the effect of (i) the absence of IPO listing expenses of approximately HK$5.4 million; and (ii) a decrease in the insurance expenses in aggregate by approximately HK$6.5 million.

Finance costs

The Group's finance costs mainly represented interest expenses on its bank borrowings during the Year. Such bank borrowings were obtained by the Group for general working capital needs. The Group had finance costs of approximately HK$7.1 million (2018: HK18.3 million). The finance costs decreased as a result of the overall decreasing use of factoring loans.

Net loss for the Year

Net loss for the Year amounted to HK$9.1 million, compared to net profit of HK$33.3 million for the Year 2018.

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

The net loss attributable to the owners of the Company for the Year was HK$17.0 million, compared with the net profit attributable to the owners of the Company for the Year 2018 of HK$22.6 million. The change was mainly attributable to (i) the substantial drops in the Group's sales revenue and gross profit resulting from the slowdown of the global economy, the continuous and uncertain trade tension between the US and the PRC and the weaker market demand from China's TMT sector; (ii) a significant increase in distribution and selling expenses; (iii) a provision for impairment in the Group's inventory resulting from a drop in the net realisable value of a certain portion of the inventory of the Group; and (iv) an impairment loss on trade receivables.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group met its liquidity requirements principally through a combination of internal resources and bank borrowings. The Group's cash resources as at 31 December 2019 were approximately HK$211.8 million (31 December 2018: HK$182.6 million) which were mainly denominated in HK$, Renminbi ("RMB") and United States dollar ("US$").

As at 31 December 2019, the Group's total outstanding bank borrowings amounted to HK$346.1 million (31 December 2018: HK$391.3 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 liabilities. The gearing ratio decreased from 118.7% as at 31 December 2018 to 113.2% as at 31 December 2019 as a result of the prudent approach taken by the management of the Group on managing its business finances. Gearing ratio was calculated based on total loans and borrowings divided by total equity at the respective reporting date.

The Group's financial statements were presented in HK$. The Group carried out its business transactions mainly in HK$, RMB and US$. As the HK$ remained pegged to the US$, there was no material exchange risk in this respect. Since the portion of RMB revenue was 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 relevant hedging policy should the need arise. Credit risk was hedged mainly through credit policy and factored to external financial institutions.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities.

CHARGES ON ASSETS

As at 31 December 2019, the banking facilities of the Group were secured by trade receivables of the Group with an aggregate carrying amount of approximately HK$270.9 million (2018: HK$367.3 million), the legal charge over the investment property of the Group of HK$51.7 million (2018: HK$54.0 million), leasehold land and buildings of approximately HK$39.1 million (2018: HK$40.5 million) of the Group, insurance policy executed by a related company, personal guarantee executed by Mr. Pai Yin Lin (a director and a non-controlling shareholder of subsidiaries of the Company) and corporate guarantees executed by the Group.

DIVIDEND

The Board resolved not to recommend any final dividend for the Year (2018: 0.6 HK cents per Share).

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

CHANGES IN ACCOUNTING POLICIES

For the Year, the Group adopted for the first time the new and revised HKFRSs issued by HKICPA, which were relevant to its operations and effective for the Group's accounting period beginning on 1 January 2019. For details, please refer to Note 3 to the consolidated financial statements of the Company in this announcement.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2019, the Group had 122 employees (as at 31 December 2018: 104) in Hong Kong and the 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. In addition, the Company has adopted a share option scheme and a restricted share award scheme as an incentive or a reward for the eligible participants for their contribution to the Group, and provides continuous training to its employees to improve their marketing skills and enhance their product knowledge.

USE OF NET PROCEEDS FROM LISTING

The net proceeds received by the Company from the Global Offering (the "Net Proceeds") amounting to approximately HK$116.9 million after deducting underwriting commissions. All related expenses have been/and will be used in the manner consistent with that disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The Net Proceeds received have been applied by the Group from the Listing Date up to 31 December 2019 as follows:

	Application of Net Proceeds as stated in the Prospectus	**Actual Use of Net Proceeds from Global Offering up to 31 December 2019**	**Actual Use of Net Proceeds during the Year**	**Unused Net Proceeds**	**Percentage of Unused Net Proceeds**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*%*
Repayment of bank loans	39,045	39,045	–	–	–
Establishing a new product and development department	2,810	1,400	700	1,410	50
Strengthening sales and marketing and technical support team by recruiting staff and providing trainings	10,750	6,000	3,000	4,750	44
Enhancing warehouse and office in Hong Kong	4,600	930	206	3,670	80
Installing enterprise resource planning and supporting software	7,090	3,532	216	3,558	50
Establishing new offices in the PRC	5,027	318	318	4,709	94
Acquisition and establishment of Shenzhen head office	35,888	–	–	35,888	100
Working capital for general corporate purpose	11,690	11,690	–	–	–
	116,900	62,915	4,440	53,985	46

The Company has utilised, and will continue to utilise, the Net Proceeds in the manner as mentioned in the previous paragraph.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

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

Reference is made to the announcement of the Company dated 30 September 2019 whereby it was announced that an indirect wholly-owned subsidiary of the Company entered into an acquisition agreement with the holder of certain distributorship rights (the "Vendor") and the guarantors for the transfer of the distributorship rights from the Vendor at a consideration of US$5.0 million (the "Acquisition Agreement"). As at the date of this announcement, part of the distributorship rights has already been transferred to the Company.

Reference is also made to the announcement of the Company dated 7 November 2019 whereby it was announced that a subsidiary of the Company entered into a non-legally binding memorandum of understanding with the owner of the target company, the target company, the target business company and the guarantors in relation to the proposed acquisition of the target company (the "MOU"). Subject to the parties entering into a formal agreement, it is proposed that the Company will acquire 51% of the equity interest in the target company from the owner of the target company. The exact amount of the consideration for the proposed acquisition will be further negotiated and is estimated to be less than RMB110 million.

SUBSEQUENT EVENT

The Board is not aware of any significant event affecting the Group which requires disclosure that occurred subsequent to 31 December 2019 and up to the date of this announcement.

PROSPECTS

Looking forward, with the uncertainty of the US-China trade war, we believe that it will continue to cripple the global economy in the coming months. To date, the US has imposed tariffs on US$360 billion of Chinese goods, which is more than 50% of China's total exports to the US. This will most likely exert pressure on businesses within China's consumer electronics market, including the TMT sector.

With phase one of the US-China trade agreement implemented on 15 January 2020, the process of resolving the US-China trade war has begun and is likely to have a positive impact on the electronics industry growth rate in 2020. Unfortunately, the newly surfaced novel coronavirus ("COVID-19") outbreak in China has presented another challenge to the local as well as the global economy. The Group foresees that the electronic components industry will be negatively and adversely affected by the COVID-19 epidemic in the first half of the year 2020. In the event that the spread of the COVID-19 could be under control in the second half of the year 2020 globally, the Directors foresee that the demand and sales of consumer electronics products will ramp up rapidly and will begin its recovery in the second half or the last quarter of the year 2020.

World economists believe that both the Chinese economy and global economy will be significantly affected by the COVID-19 epidemic in the first half of the year 2020. The effects would be particularly felt by the electronics industry of which China plays a major market role as a key supplier of electronic products and related components. The Group will diligently monitor the changes in the electronics industry by balancing the risks and opportunities throughout Hong Kong and the PRC.

Wireless 5G networks are rolling out rapidly in China. This ultra-fast data transmission service is now available to consumers in approximately 50 cities in China and is expected to be adopted throughout the country from 2020 onwards. The demand for digital storage and general electronic component products is, therefore, expected to grow in the coming years. Meanwhile, the Belt and Road Initiative is steaming ahead, delivering trillions of dollars to infrastructure financing across Asia, Europe, Africa and indirectly increasing the demand for electronic components and goods in those countries and regions.

According to some industry analysts, the automotive industry is in better shape than it was five years ago, where profits and sales generated from the industry have recorded growths following the recent economic crises around the world. Hence, the Group plans to allocate more resources to the automotive segment to capture more opportunities.

The energy security and urban air-pollution concerns that emerge from rapid growth in the number of vehicles on the road have spurred China to initiate the Thousands of Vehicles, Tens of Cities Program to accelerate the commercialisation of new energy vehicles ("NEV"). Hence, the Group plans to allocate more resources to the NEV (automotive) segment to capture potential more opportunities.

China's artificial intelligence ("AI") industry is expected to reach US$30 billion by 2022 according to a report released by the Chinese Institute of Electronics. Hence, the Group plans to allocate more resources to the AI segment to seize new opportunities.

With the online market for study courses market set to grow by 20% annually, China is poised to become one of the world's most vibrant online education markets. The growth is contributed by China's growing household spending power, the under-supply of education resources and the introduction of the two-child policy. As a result, the opportunities for eLearning businesses in China are significant. The Group plans to allocate more resources to the commercial-server segment to capture more opportunities in this aspect here.

To maintain and expand its market share, the Group will continue its diversification strategy to develop new applications of its products in the industry. The Group is in the process of acquiring the distributorship rights of certain electronic components and other ancillary products for automotive and multimedia applications from a well-respected company located in the PRC. The Group has signed an MOU in relation to the acquisition of a 51% equity in a company engaged in electronic components distribution for segments including industrial automation, electricity system and metering, automotive, NEV and consumer electronics in the PRC. The Group expects its product portfolio to be further strengthened upon the completion of the acquisition. The Group continues to evaluate potential acquisitions in the future in order to seize more promising business opportunities and to generate additional revenue in the future.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is dedicated to adopting, maintaining and ensuring high standards of corporate governance practices and principles in the best interest of the Group and the Shareholders. The Company has adopted the applicable code provisions and, where appropriate, adopted certain recommended best practices as set out in 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). Save as disclosed below, the Board considered that the Company had complied with all applicable code provisions set out in the CG Code during the Year.

Under code provision 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. A specific enquiry was made by the Company with each of the Directors and all the Directors confirmed that they had complied with the requirements set out in the Model Code throughout the Year.

REVIEW OF 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 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 Company's independent auditor, Graham H.Y. Chan & Co., to the amounts set out in the Group's consolidated financial statements for the Year. 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 containing all the information required by Appendix 16 to the Listing Rules will be published on the respective websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.apexace.com) in the manner as required by the Listing Rules and will be despatched to the Shareholders on or before Wednesday, 22 April 2020.

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
Executive Director, Chairman and
Chief Executive Officer

Hong Kong, 27 March 2020

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.