APEX ACE HOLDING LIMITED
光麗科技控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6036)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

RESULTS HIGHLIGHT

- Revenue amounted to approximately HK$720.8 million in 1H2020, representing a decrease of approximately 8.3% as compared with 1H2019
- Gross profit amounted to approximately HK$58.1 million in 1H2020, representing an increase of approximately 11.6% as compared with 1H2019
- The net profit attributable to owners of the Company for 1H2020 was approximately HK$1.0 million (1H2019: net loss of approximately HK$5.7 million)
- Basic earnings per share for 1H2020 was approximately 0.10 HK cents

INTERIM RESULTS

On behalf of the board of directors of Apex Ace Holding Limited (the "Company", the "Directors" and the "Board" respectively), I present the unaudited financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2020 ("1H2020" or the "Review Period") together with the comparative figures for the six months ended 30 June 2019 ("1H2019" or the "Last Corresponding Period"). These unaudited financial results for the 1H2020 have been reviewed by the audit committee of the Board (the "Audit Committee").

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	**1H2020** **HK$'000** **(Unaudited)**	1H2019 *HK$'000* (Unaudited)
Revenue	*3*	**720,781**	786,229
Cost of sales		**(662,672)**	(734,172)
Gross profit		**58,109**	52,057
Other income	*4*	**1,512**	2,203
Increase in fair value of investment property		**–**	2,600
Impairment on trade receivables		**(1,007)**	(2,862)
Distribution and selling expenses		**(25,886)**	(24,245)
Administrative expenses		**(25,355)**	(27,583)
Finance costs	*5*	**(2,996)**	(3,388)
Profit/(loss) before tax	*6*	**4,377**	(1,218)
Income tax expense	*7*	**(1,187)**	(508)
Profit/(loss) for the period		**3,190**	(1,726)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
— Exchange differences arising on translation of foreign operations		**(919)**	(191)
Total comprehensive income/(expense) for the period		**2,271**	(1,917)
Profit/(loss) for the period attributable to:			
— Owners of the Company		**960**	(5,677)
— Non-controlling interests		**2,230**	3,951
		3,190	(1,726)
Total comprehensive income/(expense) for the period attributable to:			
— Owners of the Company		**39**	(5,868)
— Non-controlling interests		**2,232**	3,951
		2,271	(1,917)
Earnings/(loss) per share attributable to owners of the Company			
— Basic	*8*	**0.10 HK cents**	(0.57) HK cents
— Diluted	*8*	**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Notes	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited) (Restated)
Non-current assets			
Property, plant and equipment		**60,195**	62,045
Intangible assets		**22,791**	–
Right-of-use assets		**1,765**	2,915
Investment property	*10*	**51,700**	51,700
Deposits paid for acquisition of property, plant and equipment, and intangible assets		**1,858**	17,458
Deposit paid for proposed acquisition of business		**11,123**	11,123
Deferred tax assets		**5,529**	4,868
		154,961	150,109
Current assets			
Inventories		**105,664**	88,018
Trade receivables	*11*	**301,061**	485,861
Other receivables, deposits and prepayments		**28,633**	8,145
Income tax recoverable		**1,259**	5,412
Bank balances and cash		**138,458**	211,809
		575,075	799,245
Current liabilities			
Trade payables	*12*	**138,476**	224,950
Other payables, accruals and deposits received		**26,094**	44,820
Bank borrowings, secured		**236,564**	346,092
Tax payable		**2,494**	8,162
Lease liabilities — current portion		**1,766**	2,173
		405,394	626,197
Net current assets		**169,681**	173,048

	Notes	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited) (Restated)
Total assets less current liabilities		**324,642**	323,157
Non-current liabilities			
Lease liabilities — non-current portion		**69**	802
Deferred tax liabilities		**2,590**	2,643
		2,659	3,445
Net assets		**321,983**	319,712
Capital and reserves			
Share capital	*13*	**10,000**	10,000
Reserves		**283,911**	283,872
Equity attributable to owners of the Company		**293,911**	293,872
Non-controlling interests		**28,072**	25,840
Total equity		**321,983**	319,712

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The interim financial results set out in this announcement do not constitute the Group's interim financial statements for Review Period (the "Interim Financial Statements") but are extracted from the Interim Financial Statements.

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

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the consolidated financial statements of the Group for the year ended 31 December 2019 except for the accounting policy changes that are expected to be reflected in the consolidated financial statements of the Group for the year ending 31 December 2020. Details of any changes in accounting policies are set out in Note 2.

The Interim Financial Statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The Interim Financial Statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The Interim Financial Statements are unaudited, but have been reviewed by Graham H. Y. Chan & Co. in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA.

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

(a) New and revised HKFRSs adopted as at 1 January 2020

For the current period, the Group has adopted for the first time the new and revised HKFRSs issued by the HKICPA, which are relevant to its operations and effective for the Group's accounting period beginning on 1 January 2020.

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

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

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

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

(c) Revaluation of leasehold land and buildings

The Group re-assessed its accounting for property, plant and equipment with respect to measurement of certain class of property, plant and equipment after initial recognition. The Group had previously measured all property, plant and equipment using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses, if any.

The Group elected to change the method of accounting for leasehold land and buildings classified as property, plant and equipment, as the Group believes that the revaluation model provides more relevant information to the users of its financial statements. In addition, available valuation techniques provide reliable measures of the leasehold land and buildings' revalued amounts. The Group applied the revaluation model retrospectively and the consolidated statement of financial position as at 31 December 2019 was restated. The application of revaluation model does not have any material impact on the Group's financial position as at 1 January 2019 and therefore the Group does not present the consolidated statement of financial position as at that date.

After the change in method of accounting for leasehold land and buildings, they are measured at revalued amounts at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the consolidated statement of profit or loss and other comprehensive income. Any subsequent revaluation surplus is credited to the consolidated statement of profit or loss and other comprehensive income to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Key sources of estimation uncertainty for revaluation of leasehold land and buildings

The revalued amounts of the leasehold land and buildings as at 31 December 2019 are determined by the management with reference to the appraisal undertaken by an independent professional qualified valuer based on market evidence of recent transaction prices or market askings for similar properties for the respective locations and types of properties.

Effect of change in method of accounting for leasehold land and buildings

The following table summarises the effect of change in method of accounting for leasehold land and buildings as at 31 December 2019:

	Previously reported *HK$'000*	**Effect** *HK$'000*	**As restated** *HK$'000*
Consolidated statement of financial position as at 31 December 2019			
Property, plant and equipment	48,197	13,848	62,045
Total non-current assets	**136,261**	**13,848**	**150,109**
Total assets less current liabilities	**309,309**	**13,848**	**323,157**
Deferred tax liabilities	125	2,518	2,643
Total non-current liabilities	**927**	**2,518**	**3,445**
Net assets	**308,382**	**11,330**	**319,712**
Equity attributable to owners of the Company	282,542	11,330	293,872
Total equity	**308,382**	**11,330**	**319,712**

(d) New accounting policy and key estimation for intangible assets

During the current interim period, the Group completed acquisition of intangible assets which are the distributorship rights for electronic components and other ancillary products in the People's Republic of China (the "PRC" or "China"). The new accounting policies for intangible assets are set out as follows:

Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their estimated useful lives of 5 years. The amortisation expenses are recognised in the consolidated statement of profit or loss and other comprehensive income and included in administrative expenses.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Key sources of estimation uncertainty for intangible assets

The Group's management determines the estimated useful lives and related amortisation charges for its intangible assets. This estimate is based on the contractual terms and the extension options that the Group could exercise under the acquisition agreement.

3. REVENUE AND SEGMENT INFORMATION

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

(a) Digital storage products; and

(b) General components.

	1H2020	1H2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Segment Revenue		
Digital storage products	**487,288**	599,925
General components	**233,493**	186,304
	720,781	786,229

	1H2020	1H2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Segment Results		
Digital storage products	**30,368**	21,357
General components	**27,741**	30,700
Total reportable segment profit	**58,109**	52,057
Other income	**1,512**	2,203
Fair value change of investment property	**–**	2,600
Finance costs	**(2,996)**	(3,388)
Depreciation of property, plant and equipment	**(1,829)**	(1,493)
Depreciation of right-of-use assets	**(1,056)**	(341)
Amortisation of intangible assets	**(392)**	–
Impairment loss on trade receivables	**(1,007)**	(2,862)
Unallocated corporate expenses	**(47,964)**	(49,994)
Profit/(loss) before tax	**4,377**	(1,218)
Income tax expenses	**(1,187)**	(508)
Profit/(loss) after tax	**3,190**	(1,726)

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 assets, and for proposed acquisition of business and deferred tax assets is based on the physical location of the assets in case of property, plant and equipment, investment property and right-of-use assets, and the location of operation to which they are allocated in case of intangible assets.

	1H2020 ***HK$'000*** **(Unaudited)**	1H2019 *HK$'000* (Unaudited)
Revenue from external customers		
Hong Kong	**224,716**	165,247
The PRC	**494,493**	614,368
Others	**1,572**	6,614
	720,781	786,229

	30 June 2020 ***HK$'000*** **(Unaudited)**	31 December 2019 *HK$'000* (Audited) (Restated)
Non-current assets		
Hong Kong	**103,391**	104,827
The PRC	**33,060**	11,754
Others	**–**	79
	136,451	116,660

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:

	Segment	**1H2020** ***HK$'000*** **(Unaudited)**	1H2019 *HK$'000* (Unaudited)
Customer A	Digital storage products	**116,041**	N/A*
Customer B	Digital storage products and General components	**77,998**	N/A*
Customer C	Digital storage products and General components	**N/A***	124,442
Customer D	General components	**N/A***	111,270

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

4. OTHER INCOME

	1H2020	1H2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Bank interest income	**321**	415
Rental income	**720**	720
Sundry income	**471**	1,068
	1,512	2,203

5. FINANCE COSTS

	1H2020	1H2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Discounting charges on factoring loans	**298**	975
Interest on other bank borrowings	**2,647**	2,386
Interest expense on lease liabilities	**51**	27
	2,996	3,388

6. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging and crediting:

	1H2020	1H2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories recognised as an expenses	**662,523**	732,449
Write-down of inventories	**149**	1,723
Auditor's remuneration	**400**	615
Depreciation of property, plant and equipment	**1,829**	1,493
Depreciation — right-of-use assets	**1,056**	341
Amortisation of intangible assets *(Note 1)*	**392**	–
Net foreign exchange loss	**23**	157
Short term leases expenses	**575**	1,196
Commission expenses	**18,793**	18,059
Research and development expenses *(Note 2)*	**1,199**	–
Staff costs including director's emoluments		
— Basic salaries and allowance	**15,980**	13,023
— Contributions to defined contribution retirement plans	**863**	1,629
— Messing and welfare	**1,082**	694
Loss on disposal of property, plant and equipment	**–**	4

Note 1: Amortisation of intangible assets was included in administrative expenses.

Note 2: Staff costs of approximately HK$878,000 (1H2019: HK$ nil) was included in research and development expenses for 1H2020.

7. INCOME TAX EXPENSE

	1H2020	1H2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax —		
Hong Kong Profits Tax for the period	**1,805**	2,963
PRC tax for the period	**83**	3
	1,888	2,966
Deferred tax	**(701)**	(2,458)
Total income tax expense recognised in profit or loss for the period	**1,187**	508

For 1H2020 & 1H2019, Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits of the qualifying group entity and at 16.5% on the estimated assessable profits above HK$2 million. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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 Periods.

8. EARNINGS/(LOSS) PER SHARE

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

	1H2020	1H2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Profit/(loss) for the period attributable to owners of the Company	**960**	(5,677)

	30 June 2020	30 June 2019
	(Unaudited)	(Unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares in issue	**1,000,000,000**	1,000,000,000

The earnings/(loss) per share as presented above is calculated using the weighted average number of ordinary shares of 1,000,000,000 shares for the six months ended 30 June 2020 and 2019.

No diluted earnings/(loss) per share is presented as the Company did not have any dilutive ordinary shares for the periods ended 30 June 2020 and 2019.

9. DIVIDENDS

The Board has resolved not to declare any dividend for 1H2020 (1H2019: nil).

For the periods, a subsidiary of the Company made the following distributions:

	1H2020	1H2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Dividends declared and paid to non-controlling shareholder by Data Star Inc.	**–**	3,276

10. INVESTMENT PROPERTY

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
At fair value		
At 1 January	**51,700**	54,000
Fair value adjustment	**–**	(2,300)
At 30 June 2020/31 December 2019	**51,700**	51,700

11. TRADE RECEIVABLES

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**314,243**	498,036
Less: allowance for impairment	**(13,182)**	(12,175)
At 30 June 2020/31 December 2019	**301,061**	485,861

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

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–30 days	**100,990**	168,870
31–60 days	**57,791**	132,380
61–90 days	**51,538**	90,243
More than 90 days	**103,924**	106,543
	314,243	498,036
Less: allowance for impairment	**(13,182)**	(12,175)
	301,061	485,861

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. Certain balances are covered by customers' letters of credit or are factored to external financial institutions without recourse. The credit terms vary from 1 day to 120 days after monthly statement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by management. Trade receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

12. TRADE PAYABLES

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

	30 June 2020 *HK$'000* **(Unaudited)**	31 December 2019 *HK$'000* (Audited)
Trade payables:		
0–30 days	**97,575**	149,451
31–60 days	**37,264**	72,035
61–90 days	**23**	2,965
More than 90 days	**3,614**	499
	138,476	224,950

13. SHARE CAPITAL

	Number of shares	**Amount** *HK$*
The Company		
Ordinary shares of HK$0.01 each (the "Shares")		
Authorised:		
As at 1 January 2019, 31 December 2019, 1 January 2020 and **30 June 2020**	**2,000,000,000**	**20,000,000**
Issued and fully paid:		
As at 1 January 2019, 31 December 2019 (audited), 1 January 2020 and **30 June 2020** (unaudited)	**1,000,000,000**	**10,000,000**

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a Hong Kong-based distributor of semiconductors and other electronic components. It is engaged in the supply of digital storage products and various electronic components along with the provision of complimentary technical support, and focuses on identifying, sourcing, selling and distributing quality electronic components produced by branded upstream manufacturers to downstream manufacturers within the technology, media and telecom ("TMT") and consumer electronics segments in the People's Republic of China (the "PRC") and Hong Kong.

During the Review Period, the outbreak of the coronavirus disease 2019 ("COVID-19") pandemic and the trade disputes between the United States of America (the "US") and the PRC have cast uncertainties over the global economic environment. Due to the two black swan events, most countries faced significant challenges and the PRC recorded a 1.6% year-on-year ("YoY") decline in gross domestic product. In the semiconductor industry, higher levels of inventory in specific areas such as mobile phones resulted in pricing pressure while the strength in demand for computing and connectivity products remained resilient.

In response to the challenging business environment, the Group continued to strengthen its product lineup and customer base. The Group's revenue decreased YoY by 8.3% to HK$720.8 million from HK$786.2 million for the Last Corresponding Period. Thanks to margin expansion gained from the product diversification strategy and benefiting from the effective cost control efforts across the board, its gross profit increased by 11.6% YoY to HK$58.1 million (1H2019: HK$52.1 million), with gross profit margin increasing to 8.1% YoY from 6.6% as compared to the Last Corresponding Period. The Group achieved a profit attributable to owners of the Company of HK$1.0 million during the Review Period, turning around from the loss attributable to owners of the Company amounting to HK$5.7 million in the Last Corresponding Period.

Digital Storage Products

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

During the Review Period, revenue generated from this product segment decreased by 18.8% YoY to HK$487.3 million (1H2019: HK$599.9 million), mainly due to a combination of decreasing product volume sold and the competitive pricing environment. Nevertheless, the decrease in revenue was in part offset by growth in sales of memory products for some consumer areas including smart TVs which benefited from the COVID-19 pandemic. Gross profit of the segment increased to HK$30.4 million (1H2019: 21.4 million), up by 42.2% YoY. Gross profit margin increased to 6.2% YoY for 1H2020 (1H2019: 3.6%), mainly attributable to a higher percentage of revenue derived from sales of certain digital storage products for consumer electronics delivering relatively higher gross margins.

General Components

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

The Group has achieved a healthy growth of revenue in this segment during the Review Period. In line with its strategic goals of product diversification, the Group exerted tremendous efforts towards expanding its business scale from upstream suppliers and product mix to downstream markets. Additional positive contributions came from acquiring distributorship rights for electronic components and other ancillary products from a company located in the PRC. The acquisition has been completed during the Review Period. Revenue of this segment increased by 25.3% YoY to HK$233.5 million from HK$186.3 million of the Last Corresponding Period. Yet, prices of most general components fell and while sales of new products included under the distributorship rights have relatively high gross margin. Gross profit of this segment nonetheless decreased by 9.6% to HK$27.7 million (1H2019: HK$30.7 million), with gross profit margin lowered to 11.9% (1H2019: 16.5%).

FINANCIAL REVIEW

Revenue

The two major product segments, namely (i) Digital storage products; and (ii) General components, contributed 67.6% and 32.4%, respectively of the Group's total revenue during the Review Period.

The Group's revenue for the Review Period was HK$720.8 million (1H2019: HK$786.2 million), representing a drop of 8.3% compared with the Last Corresponding Period. The decrease was a result of a combination of (i) weaker global demand for consumer electronic products after the COVID-19 outbreak; and (ii) a drop in demand for memory products.

Gross Profit and Gross Profit Margin

The Group's gross profit for the Review Period amounted to HK$58.1 million (1H2019: HK$52.1 million), representing an increase of 11.6% when compared with the Last Corresponding Period. The gross profit margin increased to 8.1% YoY from 6.6% for 1H2019. The improvement in gross margin was driven primarily by sales of new products included from the acquisition of distributorship rights which commanded higher gross profit margin. This improvement was partially offset by competitive pricing pressure from most general components.

Change in Fair Value of an Investment Property

During the Review Period, the Group recognised no changes in the fair value of an investment property (1H2019: gain of HK$2.6 million).

Distribution and Selling Expenses

The distribution and selling costs mainly include salaries of marketing and sales staff, commission expenses, transportation fees, freight charges, declarations and sample expenses. For the 1H2020, distribution and selling expenses amounted to approximately HK$25.9 million (1H2019: HK$24.2 million), mainly as a result of increased staff cost.

Administrative Expenses

Administrative expenses primarily consist of salaries and benefits (including Directors' emoluments), legal and professional fees, insurance, short-term lease expenses and other premises fees, foreign exchange differences, bank charges and depreciation expenses. The Group's administrative expenses decreased by HK$2.2 million to HK$25.4 million in 1H2020 (1H2019: HK$27.6 million), which was mainly resulted from of the absence of compensation expenses of approximately HK$2.8 million.

Finance Costs

The Group's finance costs represented mainly interest expenses on its bank borrowings during 1H2020. Such bank borrowings were obtained by the Group for general working capital needs. The Group had finance costs of approximately HK$3.0 million (1H2019: HK3.4 million). The decrease in finance costs was a result of the overall decreasing use of factoring loans and drop in interest rate.

Net Profit for 1H2020

Net profit for 1H2020 amounted to HK$3.2 million, compared with net loss of HK$1.7 million for 1H2019.

Net Profit/(Loss) Attributable to the Owners of the Company

The net profit attributable to the owners of the Company for 1H2020 was HK$1.0 million, compared with the net loss attributable to the owners of the Company for 1H2019 of HK$5.7 million. The improvement was mainly attributable to (i) a significant increase in higher margin sales of digital storage products for consumer end products; (ii) an increase in higher margin sales of new products of the general components segment; and (iii) savings from administrative expenses, and finance costs.

LIQUIDITY AND FINANCIAL RESOURCES

During the Review Period, the Group met its liquidity requirements principally through a combination of internal resources and bank borrowings. The Group's cash resources as at 30 June 2020 were approximately HK$138.5 million (31 December 2019: HK$211.8 million) and were mainly denominated in Hong Kong dollars ("HK$") and United States dollars ("US$").

As at 30 June 2020, the Group's total outstanding bank borrowings amounted to HK$236.6 million (31 December 2019: HK$346.1 million) which comprised mainly bank factoring loans, import loans, trust receipts loans, instalment loans and revolving loans. The Group's bank borrowings which were carried at amortised cost with a clause of repayment on demand are classified as current liabilities. The gearing ratio decreased from 109.2% at 31 December 2019 to 74.0% at 30 June 2020 as a result of the prudent approach taken by the management of the Group on managing its business finances. Gearing ratio is calculated based on total loans and borrowings (including lease liabilities) divided by total equity at the respective reporting date and then multiplied by 100%.

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

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any material contingent liabilities (31 December 2019: nil).

CAPITAL COMMITMENTS

As at 30 June 2020, the Group has capital commitments in respect of acquisition of intangible assets of approximately HK$15,600,000 (31 December 2019: HK$23,400,000) and capital commitments in respect of the proposed acquisition of business as detailed in "Significant Investments Held and Future Plans for Material Investments or Capital Assets" section.

CHARGES ON ASSETS

As at 30 June 2020, the banking facilities of the Group were secured by its trade receivables with an aggregate carrying amount of approximately HK$66.6 million (31 December 2019: HK$270.9 million), the legal charge over the investment property of the Group of HK$51.7 million (31 December 2019: HK$51.7 million), leasehold land and buildings of the Group valued at approximately HK$49.3 million (31 December 2019 (restated): HK$50.2 million), an 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 has resolved not to declare any interim dividend for the 1H2020 (1H2019: nil).

CHANGE OF ACCOUNTING POLICY

During the Review Period, the Group elected to change the method of accounting for leasehold land and buildings classified as property, plant and equipment, as the Group believes that the revaluation model provides more relevant information to the users of its financial statements. Further details of change in the method of accounting are set out in note 2(c) above.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group had 128 employees (as at 31 December 2019: 122) 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 of Shares (the "Global Offering") amounting to approximately HK$116.9 million after deducting underwriting commissions and all related expenses are to be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 28 February 2018 (the "Prospectus"). The net proceeds received have been applied by the Group from 16 March 2018, the listing date up to 30 June 2020 as follows:

	Application of Net Proceeds as Stated in the Prospectus	Actual Use of Net Proceeds from Global Offering up to 30 June 2020	Actual Use of Net Proceeds During the Review Period	Unused Net Proceeds	Percentage of Unused Net Proceeds	Expected timeframe of full utilisation 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	1,575	175	1,235	44	Q3 2020–Q3 2021
Strengthening sales and marketing and technical support team by recruiting staff and training	10,750	7,500	1,500	3,250	30	Q3 2020–Q3 2021
Enhancing warehouse and office in Hong Kong	4,600	957	27	3,643	79	Q3 2020–Q1 2021
Installing enterprise resource planning and supporting software	7,090	3,698	166	3,392	48	Q3 2020–Q2 2021
Establishing new offices in the PRC	5,027	318	–	4,709	94	Q3 2020–Q2 2021
Acquisition and establishment of Shenzhen headquarters	35,888	–	–	35,888	100	Q1–Q2 2021
Working capital for general corporate purposes	11,690	11,690	–	–	–	–
	116,900	64,783	1,868	52,117	45	

The Company has already utilised, and will continue to utilise, the net proceeds from the Global Offering for the purposes as mentioned in the previous paragraph.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During 1H2020, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

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

Reference is made to the announcement of the Company dated 6 August 2020, whereby it was announced that a wholly-owned subsidiary of the Company entered into a non-legally binding supplemental memorandum of understanding (the "Supplemental MOU") with the owner of a target company on 6 August 2020. Pursuant to the Supplemental MOU, the Group will acquire 60% of the equity interest in the target company from the owner and the consideration is estimated to be not more than RMB40 million, the exact amount to be further negotiated.

SUBSEQUENT EVENT

The Group is in the process of discussing and negotiating the terms of the formal agreement with the owner of the target company. Save as disclosed above, the Board is not aware of any significant event affecting the Group and requiring disclosure that has been taken place subsequent to 30 June 2020 and up to the date of this announcement.

PROSPECTS

We believe that tensions between the PRC and the US will continue to cripple the global economy in coming months. The economic conflicts triggered by trade imbalances between the two countries have escalated into a technology cold war as the US has banned the use of networking equipment by a Chinese telecom firm and the United Kingdom aligns with the US view on blocking the Chinese brand from its 5G network. The technology restrictions will continue disrupting the global supply chains of the TMT sector, and will have a deep impact on the market sentiment and future investment.

Meanwhile, the semiconductor industry is expected to emerge stronger after the COVID-19 pandemic although the situation is still serious and many governments are still imposing social distancing and lockdown measures. People around the world have coped by adopting new ways of working, studying, and communicating through video conferencing and other online tools over the past few months. Such trends could have a lasting impact on the existing products and services, increasing demands for semiconductors that enable servers, connectivity and cloud usage.

With the rapid development of new technologies such as big data, cloud computing, and the internet-of-things, the PRC has positioned "new infrastructure" construction as a key policy pillar of its post-pandemic economic recovery. The country will develop next-generation information networks and expand 5G applications while more charging facilities will be built to promote wider use of new energy vehicles. The government-led stimulus initiative is likely to not only boost consumption but also enhance the sustainability of growth. Investment in new infrastructure will bring a new round of market opportunities for electronic products.

Wireless 5G networks are rolling out rapidly in the PRC. Despite the COVID-19 pandemic, the PRC is well on its way to deploy over 600,000 5G base stations by the end of the year, covering cities above the prefecture level across the country. It is forecasted that 807 million PRC's mobile connections (or 47% of the country's total) will be running on 5G networks by 2025, according to industry analysts. Demand for digital storage and general electronic component products is, thus, expected to grow in coming years.

Likewise, demand for automotive semiconductors is continuing to rise due to greater complexity in car designs. Several global automotive suppliers and automotive manufacturers are keen on introducing innovative sensors, mapping applications, and other new technologies along with the expansion of electric vehicles (EVs). A potential market space for various types of automotive semiconductors has been created and it is expected to expand over the years at a higher rate than the overall electronic market growth.

In view of the above industry trends, the Group will continue its diversification strategy and take measures to expand its business in the telecom, automotive and industrial end-markets in addition to consumer electronics end-market. Leveraging the acquisition of distributorship rights completed during the Review Period, we have realised efficiencies from selling a wider product portfolio in the rapidly changing and advancing electronic component distribution market. The Group's product offering will be further enriched with the acquisition of 60% equity interests in an electronic components distribution company in the event that a formal agreement is to be entered into between the parties after further negotiation and discussion. The Group will continue to implement strategic restructuring and enhancement measures to capture synergies arising from the two acquisitions. The Group will also continue to evaluate potential acquisitions in order to seize more promising business opportunities in order to facilitate further revenue and profit growth in the future.

The Group will continue implementing more stringent financial management so as to support greater growth by investing in its businesses. To that end, it will align its overall cost structure, capital investments and other expenditures with its expected revenue, development plans and market conditions.

All in all, the Group remains cautiously optimistic about the market development as it has worked to realise the full potential of its product portfolio and operating model. The Group believes that its growing portfolio addresses emerging and disruptive automotive, industrial and cloud-power applications and strongly positions itself in the micro-electronic industry. Against the backdrop of global economic uncertainties, the Group will continue to diversify its product portfolio and customer base so as to defend against economic headwinds and industrial challenges and enhance its competitiveness to stride forward in a quality manner.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code for dealing in securities of the Company by the Directors.

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

REVIEW OF THE INTERIM RESULTS

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

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

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

PUBLICATION OF THE INTERIM REPORT

The interim report of the Company for the Review Period containing all the information required by Appendix 16 to the Listing Rules will be published on the 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 Friday, 18 September 2020.

APPRECIATION

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

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

Hong Kong, 21 August 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.