APEX ACE

APEX ACE HOLDING LIMITED

光麗科技控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6036)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

RESULTS HIGHLIGHT

- Revenue amounted to approximately HK$929.6 million in 1H2023 representing a decrease of 43.1% as compared with 1H2022
- Gross profit amounted to approximately HK$50.6 million in 1H2023, representing a decrease of 32.6% as compared with 1H2022
- The net loss attributable to owners of the Company for 1H2023 amounted to approximately HK$17.7 million (1H2022: net profit of HK$6.5 million)
- Basic loss per share for 1H2023 amounted to 1.67 HK cents (1H2022: earnings per share: 0.64 HK cents)

INTERIM RESULTS

The board of directors of Apex Ace Holding Limited (the "Company", the "Directors" and the "Board", respectively), hereby announces the unaudited financial results of Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2023 ("1H2023" or the "Review Period") together with the comparative figures for the six months ended 30 June 2022 ("1H2022" or the "Last Corresponding Period"). These unaudited financial results for 1H2023 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

	Note	**1H2023**	1H2022
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**929,606**	1,634,873
Cost of sales		**(878,965)**	(1,559,702)
Gross profit		**50,641**	75,171
Other income	*4*	**1,568**	2,182
Increase in fair value of investment property		**–**	200
(Impairment loss)/reversal of impairment loss on trade receivables		**(3,659)**	4,384
Impairment loss on other receivable		**–**	(3,865)
Fair value gain in financial instrument at fair value through profit or loss		**272**	–
Fair value gain in derivative asset		**319**	–
Distribution and selling expenses		**(18,887)**	(17,042)
Administrative expenses		**(33,636)**	(40,242)
Finance costs	*5*	**(14,369)**	(7,857)
(Loss)/profit before tax	*6*	**(17,751)**	12,931
Income tax expense	*7*	**(174)**	(4,354)
(Loss)/profit for the period		**(17,925)**	8,577
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		**(2,922)**	(3,455)
Total comprehensive (expense)/income for the period, net of tax		**(20,847)**	5,122

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

	Note	**1H2023**	1H2022
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to:			
– Owners of the Company		**(17,688)**	6,509
– Non-controlling interests		**(237)**	2,068
		(17,925)	8,577
Total comprehensive (expense)/income, net of tax			
– Owners of the Company		**(20,585)**	3,270
– Non-controlling interests		**(262)**	1,852
		(20,847)	5,122
(Loss)/earnings per share attributable to owners of the Company			
– Basic	*8*	**(1.67) HK cents**	0.64 HK cents
– Diluted	*8*	**(1.67) HK cents**	0.63 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2023** ***HK$'000*** **(Unaudited)**	As at 31 December 2022 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**87,797**	90,807
Right-of-use assets		**7,250**	9,367
Investment property	*10*	**51,200**	51,200
Financial instrument at fair value through profit or loss		**12,946**	12,674
Intangible assets		**9,399**	12,280
Deferred tax assets		**11,869**	11,806
		180,461	188,134
Current assets			
Derivative asset		**1,320**	1,001
Inventories		**179,660**	174,970
Trade and bills receivables	*11*	**496,381**	499,292
Other receivables, deposits and prepayments		**54,460**	49,682
Income tax recoverable		**1,018**	793
Bank balances, restricted balance and cash		**109,626**	99,562
		842,465	825,300
Current liabilities			
Trade payables	*12*	**96,555**	131,812
Other payables, accruals and deposits received		**15,527**	22,789
Lease liability – current portion		**2,643**	2,885
Bank borrowings		**562,426**	483,666
Income tax payable		**336**	3,873
		677,487	645,025
Net current assets		**164,978**	180,275
Total assets less current liabilities		**345,439**	368,409

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Non-current liabilities			
Convertible bond	*13*	**15,639**	15,227
Lease liabilities – non-current portion		**5,188**	6,731
Deferred tax liabilities		**3,470**	3,901
		24,297	25,859
Net assets		**321,142**	342,550
Capital and reserves			
Share capital	*14*	**10,751**	10,751
Reserves		**269,159**	290,413
Equity attributable to owners of the Company		**279,910**	301,164
Perpetual subordinated convertible securities		**10,000**	10,000
Non-controlling interests		**31,232**	31,386
Total equity		**321,142**	342,550

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 the 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 of Hong Kong Limited (the "Stock Exchange" and the "Listing Rules", respectively), including compliance with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. 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 2022 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 HKFRSs

(a) New and revised HKFRSs adopted as at 1 January 2023

For the current period, the Group has adopted for the first time the following new standard and amendments to HKFRSs issued by the HKICPA, which are effective for the Group's accounting period beginning on 1 January 2023.

HKFRS 17	Insurance Contracts and the related amendments
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

Except for the adoption of Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction", the Group did not have any material changes of its accounting policies and impact on the Group's financial position and financial performance when adopting these new standard and amendments.

Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with (i) right-of-use assets and lease liabilities; and (ii) decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments as of 31 December 2022 was not material and hence no adjustment was made to the beginning retained earnings, or another component of equity. In addition, the change will impact disclosures of components of deferred tax assets and liabilities in the annual financial statements, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

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

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

Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current and related Amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 1	Non-Current Liabilities with Covenants[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

1 Effective for annual periods beginning on or after 1 January 2024.

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

The Group is currently assessing the full impact of the amendments to standards and interpretation.

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.

	1H2023 *HK$'000* (Unaudited)	1H2022 *HK$'000* (Unaudited)
Segment Revenue		
Digital storage products	**634,164**	1,299,543
General components	**295,442**	335,330
Total reportable segment revenue	**929,606**	1,634,873
Segment Results		
Digital storage products	**26,628**	49,443
General components	**24,013**	25,728
Total reportable segment profit	**50,641**	75,171
Other income	**1,568**	2,182
Increase in fair value of investment property	**–**	200
Fair value gain in financial instrument at fair value through profit or loss	**272**	–
Fair value gain in derivative asset	**319**	–
Finance costs	**(14,369)**	(7,857)
Depreciation of property, plant and equipment	**(2,752)**	(2,403)
Depreciation of right-of-use assets	**(1,790)**	(511)
Amortisation of intangible assets	**(2,453)**	(2,404)
(Impairment loss)/reversal of impairment loss on trade receivables	**(3,659)**	4,384
Impairment loss on other receivable	**–**	(3,865)
Unallocated corporate expenses	**(45,528)**	(51,966)
(Loss)/profit before tax	**(17,751)**	12,931
Income tax expenses	**(174)**	(4,354)
(Loss)/profit for the period	**(17,925)**	8,577

Geographical information

The Group is domiciled in Hong Kong. The following tables set 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 financial instrument at fair value through profit or loss, and deferred tax assets is based on the physical location of the assets in case of property, plant and equipment, investment property and right-of-use assets, and the location of operations to which they are allocated in case of intangible assets.

	1H2023	1H2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue from external customers		
Hong Kong	**185,149**	250,545
The People's Republic of China ("PRC")	**724,958**	1,326,833
Others	**19,499**	57,495
	929,606	1,634,873

	As at 30 June 2023	As at 31 December 2022
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Non-current assets		
Hong Kong	**130,783**	132,970
The PRC	**24,825**	30,609
Others	**38**	75
	155,646	163,654

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	**1H2023** ***HK$'000*** **(Unaudited)**	1H2022 *HK$'000* (Unaudited)
Customer A	Digital storage products and general components	**153,992**	428,959
Customer B	Digital storage products and general components	**N/A***	174,480

* *The corresponding revenue did not account for over 10% of the total revenue of the Group for that period.*

4. OTHER INCOME

	1H2023 ***HK$'000*** **(Unaudited)**	1H2022 *HK$'000* (Unaudited)
Bank interest income	**274**	32
Rental income	**672**	698
Government subsidies	**–**	296
Sundry income	**622**	1,156
	1,568	2,182

5. FINANCE COSTS

	1H2023 ***HK$'000*** **(Unaudited)**	1H2022 *HK$'000* (Unaudited)
Discounting charges on factoring loans	**2,656**	2,062
Interest on convertible bond ("CB")	**512**	341
Interests on other bank borrowings	**10,974**	5,415
Interest expense on lease liabilities	**227**	39
	14,369	7,857

6. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit for the period has been arrived at after charging/(crediting):

	1H2023	1H2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories recognised as an expenses	**874,721**	1,559,046
Write-down of inventories	**4,244**	656
Auditor's remuneration	**700**	700
Depreciation of property, plant and equipment	**2,752**	2,403
Depreciation – right-of-use assets	**1,790**	511
Amortisation of intangible assets *(note 1)*	**2,453**	2,404
Net foreign exchange (gain)/loss	**(289)**	2,771
Short term leases expenses in respect of land and buildings	**412**	915
Commission expenses	**6,402**	4,309
Research and development expenses *(note 2)*	**1,304**	1,533
Staff costs including director's emoluments		
– Basic salaries and allowance	**18,893**	18,877
– Contributions to defined contribution retirement plans	**1,911**	2,692
– Share-based payment expenses	**351**	741
– Messing and welfare	**612**	567
Loss on disposal of property, plant and equipment	**10**	–

Notes:

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

2. Staff costs of approximately HK$1,081,000 (1H2022: HK$1,147,000) were included in research and development expenses.

7. INCOME TAX EXPENSE

	1H2023	1H2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**611**	2,082
PRC tax	**–**	1,058
Under/(over) -provision in prior years:		
Hong Kong Profits Tax	**–**	(83)
PRC tax	**2**	(123)
	613	2,934
Deferred tax	**(439)**	1,420
Total income tax expense recognised in profit or loss for the period	**174**	4,354

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

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

For qualified small and thin-profit enterprises in the PRC, the annual taxable income up to RMB3 million (inclusive) (1H2022: exceeds RMB1 million but does not exceed RMB3 million (inclusive), the amount in excess of RMB1 million) is subject to an effective Enterprise Income Tax rate of 5% (1H2022: 5%) from 1 January 2023 to 31 December 2024. For 1H2022, the annual taxable income up to RMB1 million (inclusive) was subject to an effective Enterprise Income Tax rate of 2.5%. Certain PRC subsidiaries of the Company enjoy this preferential income tax treatment for the periods.

8. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

The (loss)/earnings and weighted average number of ordinary shares used in the calculation of basic (loss)/earnings per share are as follows:

	1H2023	1H2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to owners of the Company	**(17,688)**	6,509
Interest on perpetual subordinated convertible securities ("PSCS")	**(50)**	(50)
(Loss)/earnings used in the calculation of basic earnings per share	**(17,738)**	6,459

	1H2023	1H2022
	(Unaudited)	(Unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares in issue for the purpose of basic (loss)/earnings per share	**1,059,418,508**	1,010,615,414

For 1H2023 and 1H2022, the weighted average number of ordinary shares for the purpose of calculation of basic (loss)/earnings per share has been adjusted for the effect of shares held by the custodian of restricted share award scheme (the "Custodian") pursuant to the restricted share award scheme adopted by the Company on 30 August 2019 (the "Restricted Share Award Scheme").

Diluted (loss)/earnings per share

The (loss)/earnings used in the calculation of diluted earnings per share are as follows:

	1H2023	1H2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/earnings used in the calculation of basic earnings per share	**(17,738)**	6,459
Interest on PSCS	**–**	50
(Loss)/earnings used in the calculation of basic earnings per share	**(17,738)**	6,509

For 1H2023, as the Group incurred losses, the potential ordinary shares under Restricted Share Award Scheme, PSCS and CB are not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive.

For 1H2022, weighted average number of ordinary shares for the purpose of diluted earnings per share is as follows:

	1H2022 (Unaudited)
Number of ordinary shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,010,615,414
Unvested shares under Restricted Share Award Scheme	3,489,000
PSCS	20,204,199
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share	1,034,308,613

9. DIVIDENDS

The Board has resolved not to declare any dividend for 1H2023 (1H2022: nil).

10. INVESTMENT PROPERTY

	As at 30 June 2023	As at 31 December 2022
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
At fair value	**51,200**	51,200

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 Ravia Global Appraisal Advisory Limited, independent professional property valuers, as at 30 June 2023 and 31 December 2022 respectively on an open market value basis.

11. TRADE AND BILLS RECEIVABLES

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Trade receivables	**562,414**	562,741
Bills receivables	**956**	–
	563,370	562,741
Less: allowance for impairment	**(66,989)**	(63,449)
	496,381	499,292

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

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
0 – 30 days	**215,311**	211,630
31 – 60 days	**163,455**	142,883
61 – 90 days	**53,987**	64,134
More than 90 days	**129,661**	144,094
	562,414	562,741
Bills receivables	**956**	–
Less: allowance for impairment	**(66,989)**	(63,449)
	496,381	499,292

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 and bills 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:

	As at 30 June 2023 *HK$'000* (Unaudited)	As at 31 December 2022 *HK$'000* (Audited)
Trade payables:		
0 – 30 days	**58,061**	71,745
31 – 60 days	**21,369**	14,045
61 – 90 days	**5,306**	9,303
More than 90 days	**11,819**	36,719
	96,555	131,812

13. CONVERTIBLE BOND

	As at 30 June 2023 *HK$'000* (Unaudited)	As at 31 December 2022 *HK$'000* (Audited)
Liability component:		
– Non-current liabilities	**15,639**	15,227

Movement of liability component is as follows:

	1H2023 *HK$'000*
At 1 January 2023 (Audited)	**15,227**
Interest charged	**512**
Repayment	**(100)**
At 30 June 2023 (Unaudited)	**15,639**

The Company issued a CB with principal amount of HK$20,000,000 to Nicegoal Limited on 23 February 2022. The coupon rate of the CB is 0.5% per annum. The CB will mature in the fifth anniversary of the issue date, i.e. 23 February 2027 (the "Maturity Date"), or can be converted into 57,140,000 shares at any time up to and including the date falling on the seventh day immediately prior to the Maturity Date at the bondholder's option at the conversion price of HK$0.35 per share. At any time prior to the Maturity Date, the Company shall have the right to partly or fully redeem the CB early, by giving 10 business days' prior notice in writing to the bondholder.

The CB comprises a liability component, an equity conversion component and an early redemption option. The Group appointed a professional valuer to estimate the fair values of the CB and its components and option at 30 June 2023 and 31 December 2022.

14. SHARE CAPITAL

	Number of shares	Amount
		HK$
The Company		
Ordinary shares of HK$0.01 each		
Authorised:		
As at 1 January 2022, 31 December 2022, 1 January 2023 and 30 June 2023	**2,000,000,000**	20,000,000
Issued and fully paid:		
As at 1 January 2022	**1,009,550,000**	10,095,500
Issued during the year	**65,560,000**	655,600
As at 31 December 2022 (audited), 1 January 2023 and 30 June 2023 (unaudited)	**1,075,110,000**	10,751,100

Note:

During 1H2023, the Company instructed the Custodian to purchase the Company's shares on the Stock Exchange for the Restricted Share Award Scheme as follows:

1H2023

Month of purchase	Number of ordinary shares	Price per share Highest *HK$*	Price per share Lowest *HK$*	Aggregate consideration paid *HK$'000*
April 2023	**2,380,000**	**0.425**	**0.400**	**995**

As at 30 June 2023, 17,090,000 (31 December 2022: 14,710,000) shares of the Company are held by the Custodian.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

During the Review Period, demand in the consumer electronics market was sluggish and prices of major electronic components continued to fall. However, with the continuous progress of technology and social development, the semiconductor industry has also been constantly innovated and transformed. Benefiting from the steady advancement of carbon neutrality strategy, increasing emphasis on environmental protection, widespread acceptance of environmental, social and governance development concept by society and technological progress, the new energy industry has developed rapidly with the rapid growth of the electric vehicle market. Emerging industries represented by artificial intelligence ("AI"), cloud computing, electric automobiles and the Internet of Things have flourished, giving rise to many new demands for chip applications. Some sectors such as AI chips, industrial semiconductors and vehicle-loaded chips have replaced the original consumer, computer, communication ("3C") and other consumer electronics sectors as new growth drivers for the semiconductor industry. By end-use, demand for semiconductors in the industrial and automotive markets reached 28% of the total semiconductor demand in 2022, with a total value of US$83.1 billion and US$79.3 billion respectively, representing a corresponding annual growth rate of 24.2% and 13.4%.

Besides, the United States has continuously strengthened its restrictions on chip exports to China in recent years and the scope of control has expanded to advanced chips, advanced process equipment, components and personnel and such restriction policies have also been followed by Japan and the Netherlands. In the context of tightening restriction measures from the United States, Japan and the Netherlands, the autonomous and controllable demand in the semiconductor industry chain will accelerate the promotion of the localisation rate of semiconductors. This environment has led to a sustained growth in demand for domestic electronic components in China's market and it is expected that the domestic brands will continue to benefit from the industry's development wave.

As a supplier of digital storage products and general electronic components, facing the ever-changing market environment and rapid technological progress, the Group adopted a diversified strategy to expand its market layout to achieve sustainable development. During the Review Period, the Group achieved revenue of approximately HK$929.6 million, representing a decrease of 43.1% compared to the Last Corresponding Period; the net loss attributable to the owners of the Company was approximately HK$17.7 million, compared with net profit attributable to the owners of the Company of approximately HK$6.5 million during the 1H2022.

By product type

Digital storage products

The Group's digital storage products include dynamic random access memory ("DRAM"), flash ("FLASH") and multi chip package ("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 51.2% to approximately HK$634.2 million (1H2022: HK$1,299.5 million), which was mainly due to the decline in selling prices of the Group's products. Gross profit of this segment also decreased to approximately HK$26.6 million (1H2022: HK$49.4million), representing a decrease of 46.1% when compared with the Last Corresponding Period. Meanwhile, gross profit margin for this segment rose to 4.2% (1H2022: 3.8 %), which was mainly due to the increased proportion in sales of higher margin product during the first half of 2023.

General Components

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

During the Review Period, revenue in this segment decreased by 11.9% to approximately HK$295.4 million (1H2022: HK$335.3 million). Gross profit of this segment decreased by approximately 6.7% to approximately HK$24.0 million (1H2022: HK$25.7 million), while the gross profit margin was 8.1% (1H2022: 7.7%).

FINANCIAL REVIEW

Revenue

The two major product segments, namely digital storage products and general components contributed 68.2% and 31.8% of the Group's total revenue during the Review Period, respectively.

The Group's revenue for the Review Period was approximately HK$929.6 million (1H2022: HK$1,634.9 million), representing a decrease of 43.1% compared to the Last Corresponding Period. The decline in revenue was primarily due to the continued decline in the selling prices of certain products.

Gross profit and gross profit margin

The Group's gross profit for the Review Period amounted to approximately HK$50.6 million (1H2022: HK$75.2 million), representing a decrease of 32.6% when compared with the Last Corresponding Period, while the gross profit margin was 5.4% (1H2022: 4.6%). The increase in gross profit margin was mainly due to the increase in the proportion of higher margin products.

Impairment loss/reversal of impairment loss on trade receivables

An impairment loss on trade receivables of approximately HK$3.7 million was recognised during the Review Period (1H2022: reversal of impairment loss of HK$4.4 million). The increase in impairment loss was caused by the prolonged outstanding sums owed to the Group.

In respect of trade receivables, the Group has put in place a credit policy and will perform credit evaluations on all customers requiring credit over a certain amount. Certain trade receivable balances on open account terms are covered by customers' letters of credit or are factored to external financial institutions.

As at 31 December 2022, trade receivables past due over one year amounted to approximately HK$60.5 million, of which approximately HK$0.2 million (the "Settlement Sum") had been settled during the 1H2023.

As at 30 June 2023, trade receivables past due over one year amounted to HK$60.8 million (31 December 2022: HK$60.5 million) and provision for impairment loss of HK$60.0 million had been made (31 December 2022: HK$60.5 million). Substantially all of which was brought forward from the Year 2022. To the best knowledge of the Directors, the past due over one year as at 30 June 2023 was mainly attributable to the business deterioration of several customers as a result of COVID-19 pandemic. Up to the date of this announcement, settlement of HK$0.2 million has been made by these customers save for the Settlement Sum.

The Group has been negotiating various repayment schedules with customers taking into account their respective circumstances. Contemporaneous to the negotiations and rescheduling, we have also sought legal advice from our Hong Kong legal advisor and PRC legal advisor on the procedures for taking legal actions against the relevant customers and/or their guarantors (if any).

For the customers who have been making partial repayments from time to time, we have not taken any legal action. The Group will pay close attention to their business development and continue monitoring their progress of repayment. If they cease to make any further repayment or if the amount of their further repayment is not to the Group's satisfaction, the Group shall take necessary legal actions.

The Group aims to maintain healthy business relationships with these customers while taking all reasonable steps to recover the trade receivables as it is the Group's belief that their business performance should progressively improve as the COVID-19 pandemic gradually subsides.

Distribution and selling expenses

The distribution and selling expenses mainly include salaries of marketing and sales staff, commission expenses, transportation fees, freight charges, declarations and sample expenses. For the Review Period, selling and distribution expenses amounted to approximately HK$18.9 million (1H2022: HK$17.0 million), such increase mainly resulted from the rise in commission expenses.

Administrative expenses

Administrative expenses primarily comprise salaries and benefits (including emoluments to executive Directors), legal and professional fees, insurance, short-term lease expenses and other premises fees, foreign exchange differences, bank charges and depreciation expenses. The Group's administrative expenses decreased by approximately HK$6.6 million to approximately HK$33.6 million during the Review Period (1H2022: HK$40.2 million). Such decrease was mainly attributable to the appropriate cost control measures implemented by the Group.

Finance costs

The Group's finance costs mainly represent the interest expenses on bank borrowings obtained by the Group for general working capital needs. During the Review Period, the Group had finance costs of approximately HK$14.4 million (1H2022: HK$7.9 million), which edged up on the back of an increased use of factoring loans, import loans and trust receipts loans and increase in market interest rate.

Net (loss)/profit for the Review Period

Net loss for the Review Period amounted to approximately HK$17.9 million, compared with a net profit of approximately HK$8.6 million for the Last Corresponding Period.

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

The net loss attributable to the owners of the Company for the Review Period was approximately HK$17.7 million, compared with a net profit attributable to the owners of the Company of approximately HK$6.5 million for the Last Corresponding Period. This was mainly due to continued decline in the selling prices of certain products, leading to a reduction in the gross profit.

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 2023 were approximately HK$109.6 million (31 December 2022: HK$99.6 million) , which includes restricted balance of approximately HK$10.1 million (31 December 2022: HK$10.0 million) and were mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$").

As at 30 June 2023, the Group's total outstanding bank borrowings amounted to approximately HK$562.4 million (31 December 2022: HK$ 483.7 million), which mainly comprised bank factoring loans, import loans, trust receipts loans, instalment loans and revolving loans. The Group's bank borrowings carried at amortised cost with a clause of repayment on demand are classified as current liabilities. The gearing ratio increased from 148.4% as at 31 December 2022 to 182.4% as a result of utilisation of bank facilities for settlement of trade payables. Gearing ratio is calculated based on total loans and borrowings divided by total equity at the respective reporting dates.

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

PSCS and CB

As at 30 June 2023, the Group has the following PSCS and CB outstanding:

(a) The Company issued PSCS in the amount of HK$10.0 million on 23 February 2022 to Nicegoal Limited, which is ultimately wholly-owned by Mr. Lee Bing Kwong ("Mr. Lee"), a controlling Shareholder, an executive Director, the chairman of the Board and the chief executive officer of the Company. The PSCS was issued without maturity date, it bears a distribution rate of 0.5% per annum and carries rights to convert the principal amount into shares of the Company ("Shares") at a conversion price of HK$0.35 per Share (to be rounded down to the nearest board lot of 5,000 Shares as per the deed poll constituting the PSCS), convertible into 28,570,000 conversion shares, representing 2.66% of the issued shares of the Company as at 30 June 2023 and at the date of this announcement or 2.59% as enlarged by the conversion shares. The Company has the option to redeem the PSCS at any time at 100% or 50% of their principal amount plus any accrued but unpaid distribution.

(b) The Company issued CB in the principal amount of HK$20.0 million on 23 February 2022 to Nicegoal Limited. The CB was issued with a maturity of five years from the date of issue (i.e. 23 February 2022), it bears an interest rate of 0.5% per annum and carries rights to convert the outstanding principal amount into Shares at a conversion price of HK$0.35 per Share subject to adjustment (to be rounded down to the nearest board lot of 5,000 Shares as per the instrument constituting the CB), convertible into 57,140,000 conversion shares, representing 5.31% of the issued shares of the Company as at 30 June 2023 and at the date of this announcement or 5.05% as enlarged by the conversion shares of CB. The Company has the option to redeem the CB at any time before their maturity in whole or in part of their principal amount plus any accrued but unpaid interest.

The aggregate conversion shares of CB and PSCS represents 7.97% of the issued shares of the Company as at 30 June 2023 and at the date of this announcement or 7.38% as enlarged by the conversion shares.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any material contingent liabilities (31 December 2022: nil).

CHARGES ON ASSETS

As at 30 June 2023, the banking facilities of the Group were secured by its trade receivables with an aggregate carrying amount of approximately HK$227.6 million (31 December 2022: HK$138.5 million), the legal charge over the investment property of the Group of approximately HK$51.2 million (31 December 2022: HK$51.2 million), the Group's leasehold land and buildings of approximately HK$77.6 million (31 December 2022: HK$79.2 million), the deposit placed for life insurance policy of the Group of approximately HK$12.9 million (31 December 2022: HK$12.7 million) personal guarantee executed by Mr. Pai Yin Lin (a director and a non-controlling shareholder of certain subsidiaries of the Company) and corporate guarantees executed by the Group.

DIVIDEND

The Board has resolved not to declare any interim dividend for the Review Period (1H2022: nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2023, the Group had 139 employees (31 December 2022: 144) in Hong Kong and the PRC. The Group's remuneration policy is built on the principle of equitability with incentive-based, performance-oriented and market-competitive remuneration packages for its employees. Remuneration packages are normally reviewed on a regular basis. Other staff benefits include provident fund contributions, medical insurance coverage and performance-based bonuses. In addition, the Company has adopted the share option scheme ("Share Option Scheme") and the Restricted Share Award Scheme as incentives or rewards for eligible participants for their contribution to the Group, and the Company also provides continuous training to its employees to improve their marketing skills and enhance their product knowledge.

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 15 February 2018 and is valid for a period of 10 years from its adoption. No options have been granted under the Share Option Scheme since its adoption.

RESTRICTED SHARE AWARD SCHEME

The Company adopted the Restricted Share Award Scheme on 30 August 2019. On 23 July 2021, the Board of the Group resolved to grant 9,550,000 restricted shares (the "Restricted Shares") to nine selected participants (the "Grantees") in accordance with the terms of the Restricted Share Award Scheme at nil consideration and were accepted by the Grantees. On 12 August 2021, the Company issued and allotted 9,550,000 new Shares as the Restricted Shares, which represents 0.89% of the issued Shares as at 30 June 2023 and the date of the this announcement, respectively. These Restricted Shares are held on trust for the Grantees by the Custodian who shall transfer the Restricted Shares to them in three tranches subject to satisfaction of the vesting conditions as specified in the grant notice issued to each Grantee. Details of the grant of the Restricted Shares are set out in the Company's announcement dated 23 July 2021.

During the Review Period, the Custodian purchased a total of 2,380,000 Shares on the market under the Restricted Share Award Scheme on 17 April 2023 and 18 April 2023.

Grantee	**Date of grant**	**Vesting period** *(note 1)*	**Not yet vested as at 1 January 2023**	**Granted** *(note 2)*	**Vested** *(note 3)*	**Lapsed**	**Cancelled**	**Not yet vested as at 30 June 2023**
Employees	23 July 2021	10 March 2022	–	–	–	–	–	–
		10 March 2023	3,820,000	–	–	–	–	3,820,000
		10 March 2024	3,820,000	–	–	–	–	3,820,000
Total			7,640,000	–	–	–	–	7,640,000

Notes:

1. Subject to the rules of the Restricted Share Award Scheme, the Restricted Shares will be vested to the Grantees in three tranches of which 20% of the Restricted Shares were vested on 10 March 2022, 40% of the Restricted Shares were supposed to be vested on 10 March 2023, but the vesting arrangement is still in progress and 40% of the Restricted Shares will be vested on 10 March 2024, subject to the fulfilment of the vesting condition that each of the Grantees shall be graded "Satisfactory" or better during the annual year-end performance appraisal conducted before the respective vesting dates.

2. The Restricted Shares granted under the Restricted Share Award Scheme were the average closing price of the Shares for the five consecutive trading days immediately preceding the date of grant as quoted on the Stock Exchange is approximately HK$0.312 per Share. According to the rules of the Restricted Share Award Scheme, the Board shall consider certain matters when determining the grant of such Restricted Shares to grantees, including the performance and contributions of grantees with an objective of recognising their contributions and increasing their incentives in working for the continual operation and development of the Group.

3. The Share price on which the Restricted Shares were vested in employees under the Restricted Share Award Scheme on 10 March 2022 was HK$0.315.

USE OF NET PROCEEDS FROM LISTING

The net proceeds received by the Company from the global offering of the Shares (the "Global Offering") in March 2018 was approximately HK$116.9 million and the net proceeds received by the Company under the placing on 26 May 2022 (the "Placing") was approximately HK$25,566,000. The net proceeds received under the Global Offering and the Placing had been applied by the Company from 16 March 2018 up to 30 June 2023 as follows:

	Application of Net Proceeds as Stated in the Prospectus	Actual Use of Net Proceeds from Global Offering up to 30 June 2023	Actual Use of Net Proceeds during the Period	Unused Net Proceeds	Unused Net Proceeds	Expected timeframe of full utilisation of unused Net Proceeds
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*%*	*%*
Under the Global Offering						
Repayment of bank loans	39,045	39,045	–	–	–	–
Establishing a new product and development department	2,810	2,810	–	–	–	–
Strengthening sales and marketing and technical support team by recruiting staff and providing trainings	10,750	10,750	–	–	–	–
Enhancing warehouse and office in HK	4,600	2,589	130	2,011	44	Q3 2023-Q4 2024
Installing ERP and supporting software	7,090	4,942	129	2,148	30	Q3 2023-Q4 2024
Establishing new offices in the PRC	5,027	5,027	–	–	–	–
Acquisition and establishment of Shenzhen head office	35,888	–	–	35,888	100	Q3 2023-Q4 2024
Working capital for general corporate purpose	11,690	11,690	–	–	–	–
Under the Placing						
General working capital	25,566	25,566	–	–	–	–

The Company will continue to utilise the net proceeds from the Global Offering for the purposes as mentioned above.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFLIATED COMPANIES

The Group did not have any material acquisitions and disposal of subsidiaries, associates and joint ventures during the Review Period.

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

The Group did not have significant investments held as at 30 June 2023 and did not have any future plans for material investments or capital assets as of the date of this announcement.

SUBSEQUENT EVENT

The Board is not aware of any significant event affecting the Group and requiring disclosure that has taken place subsequent to 30 June 2023 and up to the date of this announcement.

PROSPECTS

China's production and consumption capacity has generated huge market demand for electronic components, providing strong impetus and market space for the electronics industry. In recent years, benefiting from the booming development of smartphones and other terminals and the global semiconductor industry chain capacity transfer, China's integrated circuit market scale continues to grow, and it has become the world's largest integrated circuit sales market for three consecutive years. In the future, with the rapid development of third-generation semiconductor materials, 5G technology, AI, automotive electronics and other emerging fields, the electronic components industry will usher in new growth points and innovation opportunities.

The rapid development of the new energy field (including electric vehicles/smart car and photovoltaic energy storage) will drive the explosive growth in demand for related electronic products. Under the dual effects of policies and market, China's new energy vehicles developed rapidly with its production and sales volume being ranked first in the world for eight consecutive years, and China became the world's largest vehicle exporter in the first half of 2023. According to the data of China Association of Automobile Manufacturers (CAAM), China exported approximately 534,000 new energy vehicles from January 2023 to June 2023, a year-on-year increase of 1.6 times. The continuous rapid growth pace of the new energy vehicle industry, will bring a large demand for electronic components.

In the field of energy storage, insulated gate bipolar transition ("IGBT"), as the core component of photovoltaic and energy storage systems, has gradually replaced metal-oxide-semiconductor field-effect transistor ("MOSFET") as the core component of photovoltaic inverters due to its large on-state current, high voltage resistance, voltage drive and other features. According to the China Photovoltaic Industry Association forecast, China's annual average newly installed capacity of photovoltaic will reach 83-99GW from 2022 to 2025, and the continued increase in newly installed photovoltaic capacity will drive demand for IGBT. In terms of energy storage, with the iteration of energy storage technology and cost reduction, the growth rate of installed energy storage capacity has accelerated. According to the IHSMarkit report shows that by 2025, the annual size of new grid-connected storage inverters is expected to increase to 10.6GW, further expanding the market for third-generation semiconductors with the adoption of storage inverters.

Despite the rapid growth of China's semiconductor parts and components market scale, China's core semiconductor equipment and materials are still mainly relying on imports due to the lack of core technology, the localisation rate is at a relatively low level, and there is a huge pressure and risk. In recent years, the United States against China in the field of high-tech containment continued to increase, attempting to limit the development of China's electronics industry by increasing sanctions. It is an inevitable choice for China's electronics industry to establish an independent and controllable supply chain as soon as possible. The demand for domestic substitution of electronic components is huge, which generates huge business opportunities.

In line with the development trend of the electronic components market, the Group is actively responding to the cyclical changes in the electronics industry and is implementing a diversified development strategy by continuously expanding the distribution of its product agents, consolidating its business share in the traditional market while continuously expanding the proportion of its business in new products, which will help the Group to maintain its competitive edge in the ever-changing market, and support the sustainable and healthy development of the Group.

In order to meet the challenge of global climate change, about 130 countries and regions have put forward carbon neutrality targets, and green, low-carbon and sustainable development has become an international consensus. Among them, building a new type of power system with renewable energy as the main body is an important path to achieve carbon neutrality. In order to realise the goal of carbon neutrality, the market demand for energy storage batteries and power batteries is growing. In order to fully capitalise on the incremental market opportunities brought about by the new energy industry, the Group has proactively stepped up its presence in the new energy sector. In 2022, the Group established a new energy product design company, which is in the process of designing its own brand of inverters and energy storage products. Meanwhile, the Group has also set up a trading platform company for new materials to accelerate the introduction of new material products to meet the growing market demand and increase the proportion of the business in this segment, so as to promote the diversified development of the Group's business and move to a new level, and to reward our shareholders and investors with better performance.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save for the purchase of 2,380,000 Shares of the Company during the Review Period, as set out in the section headed "Restricted Share Award Scheme" above, 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 to adopting, maintaining and ensuring high standards of corporate governance practices and principles in the best interest of the Group and the Shareholders. The Company has adopted the applicable code provisions and, where appropriate, adopted certain recommended best practices as set out in Part 2 of Appendix 14 to the Listing Rules (the "CG Code"). 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 Review Period.

Under code provision C.2.1 of the CG Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lee, who has considerable experience in the semiconductor and other electronic components industry, is the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO"). The Board believes that vesting the roles of both the Chairman and the CEO in Mr. Lee has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group. The Board considers that this structure will not impair the balance of power between the Board and the management of the Company. The balance of power is further enhanced by the Audit Committee, which comprises all independent non-executive Directors and is responsible for overseeing the internal control procedures of our Group. The independent non-executive Directors have free and direct access to the Company's independent auditor and independent professional advisers when considered necessary. The Board will, nevertheless, review the structure from time to time and separate the roles of the Chairman and the CEO to two individuals, if appropriate.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code for dealing in securities of the Company by the Directors. A specific enquiry was made by the Company with each of the Directors and all the Directors confirmed that they had complied with the requirements set out in the Model Code throughout the 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, for whom 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 around Mid- September 2023.

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

Hong Kong, 30 August 2023

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.