

KEEN OCEAN INTERNATIONAL HOLDING LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8070



INTERIM REPORT

2017

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, for which the directors (the “**Directors**”) of Keen Ocean International Holding Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company and its subsidiaries (collectively refer to as the “**Group**”). The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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BOARD OF DIRECTORS

Executive directors

Mr. Chung Chi Hang, Larry (*Chairman*)
Mr. Chung Tin Shing
Mr. Wong Shek Fai, Johnson

Independent non-executive directors

Mr. Wong Choi Chak
Mr. Li Chung Pong, Stephen
Mr. Lam Chon Loi

COMPANY SECRETARY

Ms. Chau Hing Ling

COMPLIANCE OFFICER

Mr. Wong Shek Fai, Johnson

BOARD COMMITTEES

Audit committee

Mr. Wong Choi Chak (*Chairman*)
Mr. Li Chung Pong, Stephen
Mr. Lam Chon Loi

Nomination committee

Mr. Li Chung Pong, Stephen (*Chairman*)
Mr. Lam Chon Loi
Mr. Chung Tin Shing

Remuneration committee

Mr. Lam Chon Loi (*Chairman*)
Mr. Wong Choi Chak
Mr. Chung Chi Hang, Larry

Risk management committee

Mr. Chung Tin Shing (*Chairman*)
Mr. Wong Shek Fai, Johnson
Mr. Lam Chon Loi

AUTHORISED REPRESENTATIVES

Mr. Chung Chi Hang, Larry
Mr. Chung Tin Shing

COMPANY'S WEBSITE

<http://www.keenocean.com.hk>

AUDITOR

ZHONGHUI ANDA CPA Limited
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PRINCIPAL PLACE OF BUSINESS IN CHINA

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and South of Keqi Road
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Heyuan City
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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New Territories
Hong Kong

CORPORATE INFORMATION

PRINCIPAL BANKERS

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Corporation Limited
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Hong Kong

DBS Bank (Hong Kong) Limited
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99 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Union Registrars Limited
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Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

STOCK CODE

8070

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the Group (the Company, together with its subsidiaries) was principally engaged in the design, development, production and sale of power supply products, especially transformers, switching mode power supplies, and other electronic parts and components. The Group sells its products domestically and to overseas customers. Customers are mainly manufacturers and trading entities.

Most of the power supply products were manufactured and sold under the Group's brand name called "Keen Ocean" while all electronic parts and components were sold on an original equipment manufacturer basis. Among the products sold, transformers remained the Group's best-selling products and represented approximately 55.9% of the Group's sales for the six months ended 30 June 2017 (six months ended 30 June 2016: approximately 49.4%). The percentage sales of switching mode power supplies and electronic parts and components represented approximately 1.3% (six months ended 30 June 2016: approximately 3.2%) and 42.8% (six months ended 30 June 2016: approximately 47.3%) respectively of the total sales for the six months ended 30 June 2017.

Business performance of the Group has shown signs of improvement during the period under review despite the gloomy economic environment and the global political instability.

As a result of the management's effort, the Group has successfully won back two major customers lost in 2016. These returning customers contributed significantly to the Group's revenue during the period under review.

New products have been launched to supplement the existing product lines. Contributions from these new products to the Group's revenue increased steadily during the period under review. The Group believes that these new products have their niche markets due to their distinctive designs and features offered to customers.

During the period under review, the Group has actively launched its advertising and marketing campaigns in order to promote its new and existing products. These campaigns included but not limited to placing advertisements in renowned industrial magazines such as "Global Source" and taking part in exhibitions held in Guangzhou for promoting its new and existing products.

MANAGEMENT DISCUSSION AND ANALYSIS

An analysis of the Company's revenue from its major products is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Sales of transformers	22,917	17,063	41,648	31,438
Sales of switching mode power supply	621	1,696	986	2,063
Sales of electronic parts and components	16,341	15,978	31,839	30,095
	39,879	34,737	74,473	63,596

Geographical information

Information about the Group's revenue is presented based on the geographical location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

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	For the three months ended 30 June		For the six months ended 30 June		Non current assets	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Hong Kong	4,983	7,499	10,354	15,701	1,427	1,643
PRC	11,311	11,923	21,253	20,860	6,643	7,045
Europe	9,592	8,960	18,795	15,256	-	-
United States	8,382	4,511	14,938	8,115	-	-
Others	5,611	1,844	9,133	3,664	-	-
	39,879	34,737	74,473	63,596	8,070	8,688

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's revenue increased by approximately HK\$10.9 million, or 17.1%, from approximately HK\$63.6 million for the six months ended 30 June 2016 to approximately HK\$74.5 million for the six months ended 30 June 2017. Such increase was primarily due to the winning back of customers lost previously, and contribution from launch of newly developed products. Cost of sales increased by approximately HK\$8.9 million, or 17.7%, from approximately HK\$50.2 million for the six months ended 30 June 2016 to approximately HK\$59.1 million for the six months ended 30 June 2017. Such increase was mainly attributable to the increase in sale revenue and rise in raw material prices, especially prices of copper and steel. As a result of the increase in sales, the Group's gross profit increased by approximately HK\$2.0 million, or 14.8%, from approximately HK\$13.4 million for the six months ended 30 June 2016 to approximately HK\$15.4 million for the six months ended 30 June 2017. Gross profit margin decreased from 21.0% for the six months ended 30 June 2016 to 20.6% for the six months ended 30 June 2017. Such decrease was mainly attributable to the global increase in the prices of copper and steel, which are the major raw materials for manufacturing of the Group's products.

Other income decreased by approximately HK\$0.3 million or 45.3% from approximately HK\$0.7 million for the six months ended 30 June 2016 to approximately HK\$0.4 million for the six months ended 30 June 2017. Such decrease was mainly due to the one-off compensation of approximately HK\$207,000 received in 2016 from a transportation company for loss of the Group's merchandise in transit. No such income was received during the period under review. Besides, the Group recorded a decrease in sales of scrap materials during the period under review as compared with the corresponding period in last year.

Other gains and losses decreased by approximately HK\$0.22 million or 70.2% from losses of approximately HK\$0.31 million for the six months ended 30 June 2016 to losses of approximately HK\$0.09 million for the six months ended 30 June 2017. Such decrease in losses was mainly attributable to the gain in foreign exchange from the Group's operating activities in PRC as a result of devaluation of Renminbi.

Selling and distribution expenses increased by approximately HK\$0.7 million or 26.4%, from approximately HK\$2.5 million for the six months ended 30 June 2016 to approximately HK\$3.2 million for the six months ended 30 June 2017. Such increase was due to the increase in revenue which caused the corresponding increase in all associated selling and distribution expenses. In addition, more advertising, promotional and sample expenses have been incurred as a result of launching of new products.

Administrative expenses increased by approximately HK\$3.5 million or 33.1% from approximately HK\$10.7 million for the six months ended 30 June 2016 to approximately HK\$14.2 million for the six months ended 30 June 2017. The increase was mainly due to the increase in research and development expenditures on new products development, hiring of senior staff and more expenses incurred in order to maintain the listing status of the Company's shares on the Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

Other expenses, comprise solely the expenses in relation to the listing of the shares of the Company, decreased by approximately HK\$3.2 million or 100% from approximately HK\$3.2 million for the six months ended 30 June 2016 to nil for the six months ended 30 June 2017.

The Group incurred finance costs of approximately HK\$0.6 million for the six months ended 30 June 2017 (six months ended 30 June 2016: approximately HK\$0.6 million). The Group prefers to use internally generated fund to finance its operations in order to minimize interest costs.

Income tax expenses approximately decreased by HK0.6 million or 75% from approximately HK\$0.8 million for the six months ended 30 June 2016 to approximately HK\$0.2 million for the six months ended 30 June 2017. Such decrease was mainly due to the over provision of Hong Kong profits tax and PRC enterprise income tax for the Group's operations in Hong Kong for the corresponding period in 2016.

As a result of the above, the Group recorded a loss of approximately HK\$2.4 million for the six months ended 30 June 2017 (six months ended 30 June 2016: loss of approximately HK\$ 3.5 million).

Prospect

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Despite the gloomy economic outlook, the Directors are of the view that the long term prospect for the industries where the Group is operating are still favourable. The Group has confidence to overcome the current stagnant atmosphere and expand its business by producing more customer-oriented products.

In the short term, apart from promoting the existing products, the Group will continue to develop new products to broaden its product range, upgrade its production capability, solidify relationship with existing customers and widen customer base. More advertising campaigns will be launched in 2017. These includes but not limited to more advertisements to be published in magazines and more participations in overseas trade shows and exhibitions in order to promote both new and existing products. The Group aims to strengthen its competitiveness in the market so as to generate sustainable returns and maximize shareholders' return.

Liquidity and Financial Resources

During the period under review, the Group's source of funds was primarily from the cash generated from operating activities. The Group also utilised bank borrowings to finance its operations. As at 30 June 2017, the Group had a healthy financial position with net assets amounted to approximately HK\$64.8 million (31 December 2016: approximately HK\$67.2 million). Net current assets stood at approximately HK\$56.8 million (31 December 2016: approximately HK\$58.6 million).

As at 30 June 2017, shareholder's fund amounted to approximately HK\$64.8 million (31 December 2016: approximately HK\$67.2 million). Current assets amounted to approximately HK\$97.3 million (31 December 2016: approximately HK\$94.6 million), mainly comprising inventories, trade and other receivables and prepayments, pledged bank deposits, bank balances and cash. Current liabilities

MANAGEMENT DISCUSSION AND ANALYSIS

amounted to approximately HK\$40.1 million (31 December 2016: approximately HK\$36.0 million), mainly comprising trade and other payables and accruals, and bank borrowings and income tax payable. As at 30 June 2017, the Group's bank balances and cash amounted to approximately HK\$18.9 million (31 December 2016: approximately HK\$25.1 million). Net asset value per share was HK\$0.3 (31 December 2016: HK\$0.3).

As at 30 June 2017, the gearing ratio of the Group, which is based on the ratio of interest bearing borrowings net of cash and cash equivalents to total equity, was 0.3% (31 December 2016: 0.4%). Such decrease was mainly due to the repayment of bank loans as a result of availability of unused surplus cash.

As the shares of the Company were successfully listed on GEM on 24 February 2016 (the "Listing"), the Group's source of funds can further be satisfied by using a combination of cash generated from operating activities, bank loans and the net proceeds from the Listing and other fund raised from the capital markets from time to time.

Capital Structure

As at 30 June 2017, the share capital of the Group comprised only ordinary shares. The capital structure of the Group mainly consists of borrowings from bank and equity attributable to owners of the Group, comprising issued share capital and retained earnings respectively. Borrowings from bank were denominated in Hong Kong dollars which were secured by pledged bank deposits and trade receivables of the Group.

Foreign Exchange Exposure

The sales of the Group are mainly denominated in US dollars. However, the Group has certain foreign currency sales and purchases transactions denominated in Renminbi, Hong Kong dollars, and Euro dollars, which expose the Group to foreign currency risk. The Group currently has no foreign currency hedging policy and the management monitors the foreign exchange exposure by closely monitoring the movement of foreign currency rates. Nevertheless, the Group will consider hedging significant foreign currency exposure should the need arise.

Significant Investment Held

As at 30 June 2017, the Group did not have any significant investment held (31 December 2016: nil).

Contingent Liabilities

As at 30 June 2017, the Group did not have any material contingent liabilities (31 December 2016: nil).

Capital Commitment

As at 30 June 2017, the Group did not have any significant capital commitment (31 December 2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Employee and Remuneration Policies

As at 30 June 2017, the Group had a total staff of approximately 554 employees (30 June 2016: 538), including the Directors. Total staff costs excluding Directors' remuneration for the six months ended 30 June 2017 amounted to approximately HK\$14.1 million (six months ended 30 June 2016: approximately HK\$13.3 million). Remuneration packages including staff benefits are maintained at a competitive level and reviewed on a periodical basis. Employees' remunerations and related benefits are determined with reference to their performance, qualifications, experience, positions and the performance of the Group.

Charges on the Group's Assets

The following assets of the Company were pledged at the end of the reporting periods for certain banking facilities granted to the Company:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Pledged bank deposits	7,187	7,094
Trade receivables	14,694	12,298
	21,881	19,392

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Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended 30 June 2017, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies.

Future Plans for Material Investments and Capital Assets

Save as disclosed in the prospectus, the Group did not have other plans for material investments and capital assets.

Use of proceeds

As disclosed in the prospectus, the net estimated proceeds from the placing, after deduction of the underwriting fees and expenses paid by the Company in connection therewith, were approximately HK\$16 million. Actual net proceeds received by the Company were approximately HK\$14.8 million. Since the listing of the shares of the Company on 24 February 2016 (the "Listing Date"), the Directors have been constantly reviewing and comparing the Group's business strategies as disclosed in the prospectus with changing market conditions in order to ensure the net proceeds are applied in the most effective ways and in the best interest of the Group. As at 30 June 2017, the Group has utilized approximately HK\$8.4 million in development and launch of new products, approximately HK\$1.1 million in solidification of customer relationship, widening of customers base and promoting existing products and approximately HK\$1.0 million in improvement of production technology and efficiency. The unused net proceeds have been placed as interest bearing deposits into licensed banks in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period from the date of listing to 30 June 2017, the net proceeds from the Placing have been applied as follows:

Business strategies	(Revised) Planned use of net proceeds HK\$'million	Actual use of net proceeds HK\$'million
Development and launch new products – high power switching mode power supply, amplifier board and digital signal processing board <i>(Note (1))</i>	6.27	6.14
Development and launch new products – reactors	2.45	2.26
Solidify established customer relationship and widen our customer base and promote our existing products	1.60	1.14
Improve our production technology and efficiency	1.50	0.99
	11.82	10.53

Notes:

- (1) In 2016, the Group completed the development of (i) 100W, 250W, 1,500W and 2,000W amplifier board; (ii) 100W, 250W, 1,500W and 2,000W power supply board and (iii) the digital signal processing board (medium class). In 2017, the Group targets to develop (i) 3,000W, 5,000W and 10,000W amplifier board; (ii) 3,000W, 5,000W and 10,000W power supply board; and (iii) digital signal processing board (high class).
- (2) The business objectives as stated in the prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the prospectus. The actual use of net proceeds was applied in accordance with the actual market conditions.
- (3) After adjustment of net proceeds received from approximately HK\$16 million to approximately HK\$14.8 million. The Company intends to adjust the difference of HK\$1.2 million to each business strategies in the same proportion as the original funds applied as shown in the prospectus.
- (4) Since the listing of the shares of the Company on 24 February 2016, the Directors have been constantly reviewing and comparing the Group's business strategies as disclosed in the prospectus with changing market conditions in order to ensure the net proceeds are applied in the most effective ways and in the best interest of the Group.
- (5) As at 30 June 2017, the unused net proceeds have been placed as interest bearing deposits into licensed banks in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

Comparison of Business Objective with Actual Business Progress

The following is a comparison of the Group's business plan as set out in the prospectus with actual business progress for the period ended 30 June 2017.

Business Objectives up to 30 June 2017 as set out in the Prospectus	Actual business progress up to 30 June 2017
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Business strategy	Actual implementation plan
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Development and launch new products – high power switching mode power supply, amplifier board and digital signal processing board

- Completed development and launched of (i) 100W and 250W amplifier board, (ii) 100W and 250W power supply board and (iii) the digital signal processing board (medium class) and (iv) high power 1,500W and 2,000W amplifier board and the 1,500W and 2,000W power supply board.
- Completed fine-tuned and tested samples before sending to customers.
- Sent samples to prospective customers for testing.
- Completed pilot run and ready for mass production.
- Obtained safety standards for new products.
- Continue to place effort in securing more customers through participating in trade fairs and advertising in magazines and websites.
- Completed training of sales staff to explore and identify potential customers for new products developed.
- Obtained purchase order from customers.
- Continue to receive feedbacks from customers and market on products regularly.
- Completed improvement and enhancement of products.
- Continue the development of 3,000W, 5,000W and 10,000W amplifier board; 3,000W, 5,000W and 10,000W power supply board; and digital signal processing board (high class).
- Purchase of equipment for high power supply and amplifier board.

MANAGEMENT DISCUSSION AND ANALYSIS

Development and launch new products – reactors

- Completed pilot run of reactors and ready for mass production.
- Obtained relevant safety standard certification.
- Continue to explore and identify potential customers.
- Completed promoting and advertising the new products in trade fair and magazine.
- Secured customers' purchase orders.
- Addition of equipment for producing reactors.
- Continue to obtain feedbacks from customers and place effort in marketing new products regularly.
- Continue to improve and enhance the new products.

Solidify established customer relationship and widen our customer base and promote our existing products

- Continue to expand the online sales team to explore potential customers and promote existing products.
- Visited and continue to visit major customers and ex-customers regularly by the senior management and sales and marketing staff to introduce products of the Group, exchange market information and foster better business relationship.
- Completed training of telephone hotline staff to handle complaints and answer existing and potential customers' enquiries.

Improve our production technology and efficiency

- Addition of machines to improve production technology and efficiency
- Continue to review regularly on how to increase automation of production process and implement the improvement plan by stages.
- Continue to review regularly on the efficiency of manufacturing staff and implement the improvement plan regularly.
- Completed reviewing the policy of paying the staff of the Group by number of pieces made and completed implementing stages with a view to increasing such portion to 95% of the manufacturing staff of the Group.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2017

The board of directors of Keen Ocean International Holding Limited (the “Board”) is pleased to present the unaudited consolidated results of the Group for the three months and six months ended 30 June 2017, together with the comparative figures for the corresponding periods in 2016 as follows:

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	3	39,879	34,737	74,473	63,596
Cost of sales		(31,497)	(27,432)	(59,122)	(50,227)
Gross profit		8,382	7,305	15,351	13,369
Other income		354	404	379	693
Other gains and losses		88	379	92	309
Selling and distribution expenses		(1,686)	(1,295)	(3,176)	(2,512)
Administrative expenses		(8,357)	(5,168)	(14,224)	(10,684)
Other expense	4	-	-	-	(3,168)
Finance costs		(340)	(336)	(632)	(642)
(Loss)/profit before taxation		(1,559)	1,289	(2,210)	(2,635)
Income tax expense	5	(190)	(803)	(204)	(817)
(Loss)/profit and total comprehensive (expense)/ income for the period attributable to owners of the Company	6	(1,749)	486	(2,414)	(3,452)
(Loss)/profit per share	7				
Basic and diluted (HK cents)		(0.87)	0.24	(1.21)	(1.90)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	<i>Notes</i>	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	8,070	8,688
Current assets			
Inventories		37,045	33,064
Trade and other receivables and prepayments	10	33,423	28,403
Prepaid income tax		739	942
Pledged bank deposits		7,187	7,094
Bank balances and cash		18,867	25,087
		97,261	94,590
Current liabilities			
Trade and other payables and accruals	11	20,103	19,113
Bank borrowings		20,400	16,785
Amount due to related party		–	138
		40,503	36,036
Net current assets		56,758	58,554
Total asset less current liabilities		64,828	67,242
Net Assets		64,828	67,242
Capital and reserves			
Share capital	12	2,000	2,000
Reserves		62,828	65,242
TOTAL EQUITY		64,828	67,242

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company					Total HK\$'000
	Share capital HK\$'000	Share Premium HK\$'000	Special reserve HK\$'000 (note a)	Retained profits HK\$'000	Translation reserve HK\$'000	
At 1 January 2016 (audited)	–	–	3,000	43,607	(110)	46,497
Issue shares by capitalisation of share premium account (note b)	1,400	(1,400)	–	–	–	–
Issue of new shares pursuant to placement (note c)	600	32,400	–	–	–	33,000
Expenses incurred in connection with issue of shares	–	(6,027)	–	–	–	(6,027)
Loss and total comprehensive expense for the period	–	–	–	(3,452)	–	(3,452)
At 30 June 2016 (unaudited)	2,000	24,973	3,000	40,155	(110)	70,018
At 1 January 2017 (audited)	2,000	24,973	3,000	37,379	(110)	67,242
Loss and total comprehensive expense for the period	–	–	–	(2,414)	–	(2,414)
At 30 June 2017 (unaudited)	2,000	24,973	3,000	34,965	(110)	64,828

Notes:

- (a) The special reserve represents the difference between the nominal value of shares of Keen Ocean Industrial Limited at the date on which it was acquired by Keen Ocean Electronics Co., Ltd and the consideration was settled by way of issue of 100 ordinary shares by Keen Ocean Electronics Co., Ltd. to the Company pursuant to the group reorganisation.
- (b) Pursuant to the written resolutions passed by all shareholders of the Company dated 2 February 2016, the directors of the Company were authorised to capitalise an amount of HK\$1,400,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 139,990,000 ordinary shares of HK\$0.01 each of the Company for allotment and issue to the shareholders of the Company on the register of members of the Company on 2 February 2016 on a pro-rata basis, conditional on the share premium account being credited as a result of the issue of shares by the Company pursuant to the placement.
- (c) On 24 February 2016, 60,000,000 ordinary shares of HK\$0.01 each of the Company were issued at a price of HK\$0.55 by way of placement. On the same date, the Company's shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM"). The proceeds of HK\$600,000 representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK\$32,400,000 before issuing expenses, were credited to share premium account.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Net cash used in operating activities	(8,721)	(4,213)
Net cash (used in)/generated from investing activities	(482)	1,743
Net cash generated from financing activities	2,983	15,975
Net (decrease)/increase in cash and cash equivalents	(6,220)	13,505
Cash and cash equivalents at beginning of period	25,087	10,430
Cash and cash equivalents at end of period	18,867	23,935
Analysis of cash and cash equivalents		
Bank and cash balances	18,867	23,935

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

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

These condensed financial statements should be read in conjunction with the 2016 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2016.

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

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years.

The Group has not applied new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRS would have a material impact on its results of operations and financial position.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. REVENUE AND SEGMENT INFORMATION

An analysis of the Company's revenue from its major products is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Sales of transformers	22,917	17,063	41,648	31,438
Sales of switching mode power supply	621	1,696	986	2,063
Sales of electronic parts and components	16,341	15,978	31,839	30,095
	39,879	34,737	74,473	63,596

Geographical information

Information about the Group's revenue is presented based on the geographical location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	For the three months ended 30 June		For the six months ended 30 June		Non-current assets	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	As at 30 June 2017 HK\$'000 (unaudited)	As at 31 December 2016 HK\$'000 (audited)
Hong Kong	4,983	7,499	10,354	15,701	1,427	1,643
PRC	11,311	11,923	21,253	20,860	6,643	7,045
Europe	9,592	8,960	18,795	15,256	-	-
United States	8,382	4,511	14,938	8,115	-	-
Others	5,611	1,844	9,133	3,664	-	-
	39,879	34,737	74,473	63,596	8,070	8,688

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4. OTHER EXPENSES

	For the three months ended 30 June		For the six months ended 30 June	
	2017 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)	2017 <i>HK\$'000</i> (unaudited)	2016 <i>HK\$'000</i> (unaudited)
Professional fee in relation to listing	–	–	–	3,168

5. INCOME TAX EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Current tax				
Hong Kong Profits Tax	–	665	14	679
PRC enterprise income tax	190	138	190	138
	190	803	204	817

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Under the law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

6. (LOSS)/PROFIT FOR THE PERIOD

The Group's (loss)/profit for the period has been arrived at after charging the following:

	For the three months ended 30 June		For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Directors' remuneration	339	344	720	591
Cost of inventories included in cost of sales	29,977	26,609	57,866	48,720
Depreciation of property, plant and equipment	686	683	1,123	1,076
Minimum lease payment under operating leases	781	735	1,492	1,465
Research and development expenses	3,635	1,763	4,207	1,963
Staff Cost	7,397	7,100	14,117	13,266

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7. LOSS PER SHARE

	For the six months ended 30 June	
	2017 (unaudited)	2016 (unaudited)
(Loss) for the period attributable to owners of the Company (HKD'000)	(2,414)	(3,452)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) per share (Note)	200,000,000	182,099,000

Note:

The weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share for the six months ended 30 June 2017 and 2016 has been determined on the assumption that the capitalisation issue had been effective on 1 January 2015.

No diluted loss per share is presented for the six months ended 30 June 2017 and 2016 since there is no potential diluted ordinary shares in issue during both periods.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

8. DIVIDENDS

No dividend was paid, declared or proposed during the interim periods ended 30 June 2017 and 30 June 2016.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired property, plant and equipment of HK\$505,000 (six months ended 30 June 2016: HK\$1,329,000) and depreciation amounting to HK\$1,123,000 was provided during the period (six months ended 30 June 2016: HK\$1,076,000).

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice dates at the end of the reporting period.

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
0 to 90 days	26,883	21,730
91 to 180 days	1,572	2,057
181 to 365 days	1,879	906
Over 1 year	–	11
	30,334	24,704

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

11. TRADE AND OTHER PAYABLES AND ACCRUALS

The following is an aged analysis of trade payables based on the invoice dates at the end of the reporting period.

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
0 to 90 days	15,617	14,164
91 to 180 days	303	114
181 to 365 days	1	14
Over 1 year	20	301
	15,941	14,593

12. SHARE CAPITAL

	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (audited)
Authorised 1,000,000,000 ordinary shares of HK\$0.01 each	10,000	10,000
Issued and fully paid 200,000,000 ordinary shares of HK\$0.01 each	2,000	2,000

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13. CAPITAL COMMITMENT

The Group had no material capital commitment as at 30 June 2017 and 31 December 2016.

14. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2017 and 31 December 2016.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

15. RELATED-PARTY TRANSACTIONS

(a) Names of and the relationship with related parties are as follows:

Name of related parties	Relationship <i>Notes</i>
Chung Chi Hang, Larry	(i)
Chung Tin Shing	(i)
Chung Chi Wah	(ii)
T-Lab Electronics & Plastics (He Yuan) Co., Ltd.	(iii)

Notes:

- (i) Mr. Chung Chi Hang, Larry is the ultimate controlling shareholder and a director of the Company. Mr. Chung Tin Shing is a non-controlling shareholder of an intermediate holding company and a director of the Company.
- (ii) Mr. Chung Chi Wah is a close family member of Mr. Chung Chi Hang, Larry.
- (iii) The beneficial owner of the company is Mr. Chung Chi Hang, Larry.

(b) The Company entered into the following transactions with related parties during the reporting period:

	For the six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 <i>HK\$'000</i> (unaudited)
Rental paid to a related company		
T-Lab Electronics & Plastics (He Yuan) Co., Ltd	836	883

The lease of the factory premises from T-Lab Electronics & Plastics (He Yuan) Co., Ltd. constitutes a non-exempt continuing connected transaction under the GEM Listing Rules.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(c) Compensation of key management personal:

The remuneration of directors and other members of key management for the reporting periods was as follows:

	Three months ended 30 June		Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Salaries and other benefits	512	547	1,015	977
Retirement benefit contributions	22	19	45	38
	534	566	1,060	1,015

The remuneration of directors and key management is determined by the performance of individuals and market trends.

16. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statement for the three months and six months ended 30 June 2017 were approved and authorised for issue by the Board on 9 August 2017.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

(a) Interests and short position of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or the associated corporations

As at 30 June 2017, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required as otherwise to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(i) Interests in the Company

Name of Director	Capacity/ Nature of interest	Number of shares (Note (1))	Approximate percentage of shares
Mr. Chung Chi Hang, Larry (note 2)	Interest of a controlled corporation	126,000,000	63.0%
Mr. Chung Tin Shing	Beneficial interest	14,000,000	7.0%

Notes:

- (1) All interest stated are long positions.
- (2) These shares are held by Cyber Goodie Limited, 100% shareholding of which is owned by Mr. Chung Chi Hang, Larry. Mr. Chung Chi Hang, Larry is deemed to be interested in the shares held by Cyber Goodie Limited under the SFO.

(ii) Interests in associated corporation(s) of the Company

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of shares	Percentage of shareholding
Mr. Chung Chi Hang, Larry	Cyber Goodie Limited	Beneficial owner	10 (long position)	100%

Save as disclosed above, as at 30 June 2017, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) or (ii) which were required to be recorded in the register required to be kept by the Company under Section 352 of the SFO or (iii) which were otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules.

(b) Interests and short positions of the substantial shareholders in the shares and underlying shares

Save as disclosed above, as at 30 June 2017, the Directors and chief executive are not aware of any person, other than a Director or chief executive of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

CHANGES IN THE BOARD AND THE DIRECTOR'S INFORMATION

Changes in the Board and the information of the Directors since the date of the Company's annual report 2016 are as follow:

- (1) With effect from 30 June 2017, Mr. Tang Sze Wo has resigned as an independent non-executive Director, the chairman of the Remuneration Committee and a member of each of the Audit Committee, the Nomination Committee and the Risk Management Committee.
- (2) With effect from 30 June 2017, Mr. Lam Chon Loi has been appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of each of the Audit Committee, the Nomination Committee and the Risk Management Committee.
- (3) The fixed basic salary of Mr. Chung Chi Hang, Larry has been revised to HK\$17,100 per month with effect from 1 April 2017.
- (4) The fixed basic salary of Mr. Chung Tin Shing has been revised to HK\$40,000 per month with effect from 1 April 2017.
- (5) The fixed basic salary of Mr. Wong Shek Fai, Johnson has been revised to HK\$36,800 per month with effect from 1 April 2017.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the “**Share Option Scheme**”) on 2 February 2016 for the purpose of motivating the Eligible Participants (as defined below) to optimize their performance efficiency for the benefit of the Group and attracting and retaining or otherwise maintaining on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group. “**Eligible Participants**” refer to (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; or (ii) any directors (including executive, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; or (iii) any advisers, consultants, suppliers, customers, agents and related entities to the Company or any of its subsidiaries.

The maximum number of shares of the Company (the “**Shares**”) in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Placing, being 20,000,000 Shares. The maximum number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to any one person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time.

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An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. However, a grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the official closing price of the Shares as stated in the Stock Exchange’s daily quotation sheet on the date of grant of the relevant option; and
- (c) the average of the official closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheet for the five business days immediately preceding the date grant of the relevant option.

The Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to the termination of the Share Option Scheme and not then exercised shall continue to valid and exercisable subject to and in accordance with the Share Option Scheme.

No share options were granted, exercised, cancelled or lapsed by the Company under the Share Option Scheme during the period from 1 January 2017 to 30 June 2017 and there were no outstanding share options under the Share Option Scheme as at 30 June 2017 and up to the date of this report.

DIRECTOR'S RIGHT TO ACQUIRE SHARES

Save as disclosed in this report, at no time during the period from 1 January 2017 to 30 June 2017 was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the Directors and chief executive of the Company (including their spouses and children under 18 years of age) to hold any interest or short positions in the shares, or underlying shares, or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from 1 January 2017 to 30 June 2017, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company's shares.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company, having made specific enquiry of all Directors, is not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors during the period from 1 January 2017 to 30 June 2017.

DEED OF NON-COMPETITION

A deed of non-competition (the "**Deed of Non-competition**") dated 2 February 2016 was entered into by Cyber Goodie Limited, a limited liability company incorporated in the British Virgin Islands, and Mr. Chung Chi Hang, Larry in favour of the Company (for the Company and for the benefit of its subsidiaries) regarding non-competition undertakings. The details of the Deed of Non-competition have been disclosed in the Prospectus under the section headed "Relationship with our Controlling Shareholders" and the non-competition undertaking has become effective from the Listing Date.

COMPETITION AND CONFLICT OF INTERESTS

As far as the Directors are aware of, none of the Directors nor the controlling shareholders nor any of their respective associates (as defined in the GEM Listing Rules) had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or had any other conflict of interests with the Group during the six months ended 30 June 2017.

INTERESTS OF COMPLIANCE ADVISER

As notified by the Company's compliance adviser, LY Capital Limited ("**LY Capital**"), neither LY Capital nor any of its directors or employees or close associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules (except for the compliance adviser agreement entered into between the Company and LY Capital on 17 March 2015) as at 30 June 2017.

OTHER INFORMATION

AUDIT COMMITTEE

The Board has established an audit committee (the “**Audit Committee**”) on 2 February 2016, which operates under terms of reference approved by the Board. With effect from 30 June 2017, as Mr. Tang Sze Wo has resigned as an independent non-executive Director and a member of the Audit Committee, Mr. Lam Chon Loi has been appointed as an independent non-executive Director and a member of the Audit Committee. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Wong Choi Chak, Mr. Li Chung Pong, Stephen and Mr. Lam Chon Loi. Mr. Wong Choi Chak is the chairman of the Audit Committee. The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2017.

AUDITOR

As the Company could not reach a mutual agreement with Deloitte Touche Tohmatsu (“**Deloitte**”) on the audit fee for the year ending 31 December 2017, Deloitte resigned as auditor of the Group with effect from 21 July 2017. The Board appointed ZHONGHUIANDA CPA Limited as the new auditor of the Group on 21 July 2017 to fill the vacancy following the resignation of Deloitte. Save as disclosed above, the Company did not change its auditor in the past three years.

CORPORATE GOVERNANCE PRACTICES

The Directors consider that incorporating the core elements of good corporate governance in the management structure and internal control procedures of the Group would help to balance the interest of the shareholders, customers and employees of the Company. The Board has adopted the principles and the code provisions of the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules (the “**CG Code**”) to ensure that the Group’s business activities and decision making processes are regulated in a proper and prudent manner.

The Directors consider that during the period from 1 January 2017 to 30 June 2017, the Company has complied with the CG Code.

By order of the Board
Keen Ocean International Holding Limited
Chung Tin Shing
Executive Director

Hong Kong, 9 August 2017

As at the date of this report, the executive directors of the Company are Mr. Chung Chi Hang, Larry, Mr. Chung Tin Shing and Mr. Wong Shek Fai, Johnson; and the independent non-executive directors of the Company are Mr. Wong Choi Chak, Mr. Li Chung Pong, Stephen and Mr. Lam Chon Loi.