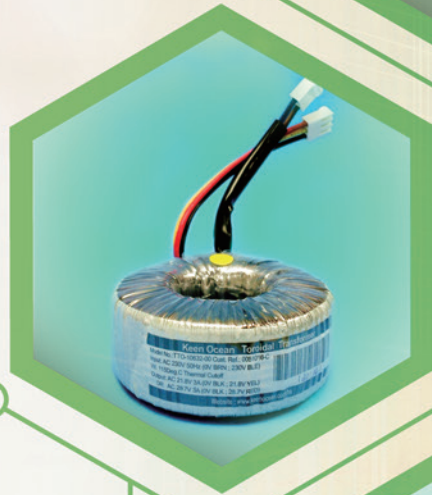
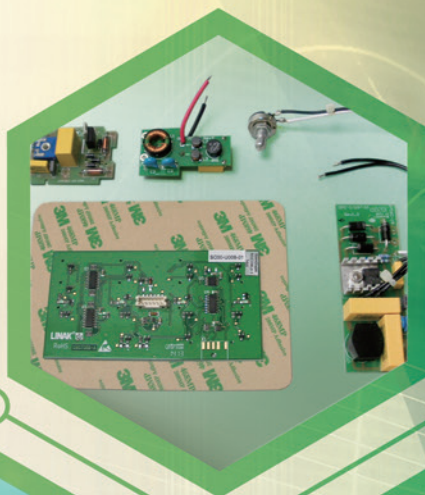


# KEEN OCEAN INTERNATIONAL HOLDING LIMITED

*(incorporated in the Cayman Islands with limited liability)*

Stock Code : 8070



INTERIM REPORT

# 2018

## **Characteristics of GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)**

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board. 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.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors (the “**Directors**”) of Keen Ocean International Holding Limited (the “**Company**” or “**Our**”) 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 (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.*

*This report will remain on the “Latest Company Announcements” page on the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the day of its posting. This report will also be published on the Company’s website at [www.keenocean.com.hk](http://www.keenocean.com.hk).*

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## CORPORATE INFORMATION

### 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  
Unit 701, 7/F.  
Citicorp Centre  
18 Whitfield Road  
Causeway Bay  
Hong Kong

### COMPLIANCE ADVISER

LY Capital Limited  
Rooms 1901-02  
China Insurance Group Building  
141 Des Voeux Road Central  
Hong Kong

### REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### PRINCIPAL PLACE OF BUSINESS IN CHINA

East of Xinggong Avenue  
and South of Keqi Road  
High-tech Development Zone  
Heyuan City  
Guangdong Province  
The PRC

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 5, 34th Floor  
Cable TV Tower  
9 Hoi Shing Road  
Tsuen Wan  
New Territories  
Hong Kong

## CORPORATE INFORMATION

### PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking  
Corporation Limited  
1 Queen's Road Central  
Hong Kong

DBS Bank (Hong Kong) Limited  
11th Floor  
The Center  
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  
Suites 3301-04, 33/F.  
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 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 54.1% of the Group's sales for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately 55.9%). The percentage sales for switching mode power supplies and electronic parts and components represented approximately 1.5% (six months ended 30 June 2017: approximately 1.3%) and 44.4% (six months ended 30 June 2017: 42.8%) respectively of the total sales for the six months ended 30 June 2018.

During the period under review, the business of the Group was again impacted by the uncertain economic environment as well as the rise in material cost, especially the price of copper and silicone steel. Copper price was remaining obstinately high during the period and increased by almost 20% as compared to the price in corresponding period of last year. Given the current political climate regarding international trade, the Group expects that uncertainty regarding copper prices will continue. The Group has not attempted to hedge against changes in prices of copper or other raw materials. Nevertheless, if the price continues to rise, the Group will consider all possible methods to alleviate or counteract the increase.

Revenue generated from sales of new products such as high power switching mode power supply, amplifier board and the digital signal processing board increased steadily but was slightly lower than the Group's expectation. The reason may be attributable to lack of following up actions after introducing the products to customers as a result of shortage of sales staff with engineering background. The Group will strengthen its sales team in the second half of the year to try to pursue the sales target of new products.

During the period under review, the Group has completed the development of two new products, namely electric healthcare product and inverter. The Group has been approached by some prospective customers who show interest to buy the products in large quantity. It is expected that these two new products will be likely to contribute sales to the Group in the second half of the year.

During the period, KOS Technology Company Limited ("**KOS**"), a subsidiary of the Group, issued new shares to an independent third party for consideration of US\$1,800. After the new issue, the independent third party will become owner of 45% shares in the enlarged share capital of KOS. The new shareholder will play an advisory role in the manufacture, promotion and distribution of electrical products under a new brand name in KOS.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

The Group's revenue increased by approximately HK\$6.9 million, or 9.3%, from approximately HK\$74.5 million for the six months ended 30 June 2017 to HK\$81.4 million for the six months ended 30 June 2018. Such increase was primarily due to the contribution from sales of enamelled copper wire, a new line of products developed and produced by the Group. Cost of sales increased by approximately HK\$11.2 million, or 18.8%, from approximately HK\$59.1 million for the six months ended 30 June 2017 to approximately HK\$70.3 million for the six months ended 30 June 2018. Such increase was mainly due to the increase in sale revenue as well as the rise in raw material costs, especially prices of copper and silicon steel. The Group recorded a rise in prices of copper and silicon steel by more than 20% and 25% respectively since the beginning of last year. Despite the increase in sales, the Group's gross profit decreased by approximately HK\$4.3 million, or 27.7%, from approximately HK\$15.4 million for the six months ended 30 June 2017 to approximately HK\$11.1 million for the six months ended 30 June 2018. Gross profit margin went down from 20.6% for the six months ended 30 June 2017 to 13.6% for the six months ended 30 June 2018. Such drop was again due to the high material costs and labour wages.

Other income increased by approximately HK\$0.1 million or 21.9% from approximately HK\$0.4 million for the six months ended 30 June 2017 to approximately HK\$0.5 million for the six months ended 30 June 2018. Such increase was mainly due to the increase in bank interest income and sales of scrap materials. Besides, the Group was awarded a grant of approximately HK\$0.03 million from the He Yuan Municipal Authority for outstanding performance achieved in the design and production of innovative products within He Yuan city.

Other gains and losses increased gain by approximately HK\$0.4 million or 491.3% from gains of approximately HK\$0.1 million for the six months ended 30 June 2017 to gains of approximately HK\$0.5 million for the six months ended 30 June 2018. Such increase in gains was mainly attributable to the appreciation of Renminbi against US dollars during the period under review as some of the sales which were originally billed in Renminbi, but were finally settled in US dollars instead.

Selling and distribution expenses increased by approximately HK\$0.3 million or 10.0%, from approximately HK\$3.2 million for the six months ended 30 June 2017 to approximately HK\$3.5 million for the six months ended 30 June 2018. Increase in sales also caused the increase in all associated selling and distribution expenses. More advertising, promotional and sample expenses have been incurred as a result of launching of new products.

Administrative expenses decreased by approximately HK\$2.2 million or 15.3% from approximately HK\$14.2 million for the six months ended 30 June 2017 to approximately HK\$12.1 million for the six months ended 30 June 2018. The decrease was mainly due to successful reduction of the Group's overhead expenditures by streamlining its administrative workflows in order to cancel out the high staff cost and welfare expenses.

## MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs increased by approximately HK\$0.2 million or 34.3% from approximately HK\$0.6 million for the six months ended 30 June 2017 to approximately HK\$0.9 million for the six months ended 30 June 2018. The increase was mainly due to the increase in bank interest arising from the increase in short term factoring service, a common type of debtor finance which the Group sells its accounts receivable to the bank at a discount for immediate cash received, as a result of increase in sales.

Income tax expenses decreased by approximately HK\$0.2 million or 100% from approximately HK\$0.2 million for the six months ended 30 June 2017 to nil for the six months ended 30 June 2018. Such decrease was mainly due to no provision of profits tax for the Group's operations as a result of losses incurred during the period under review.

As a result of the above, the Group recorded a loss of approximately HK\$4.3 million for the six months ended 30 June 2018 (six months ended 30 June 2017: loss of approximately HK\$2.4 million)

### Prospect

The recent trade war between US and China and the high copper and silicone steel prices may have impact on the Group's profitability. Nevertheless, the Group will try its best to work around these issues and hope that any impact that might have brought would be kept to a minimum.

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 challenging. The Directors have 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 advertisements will be published in magazines and more overseas trade shows and exhibitions will be scheduled 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 2018, the Group had a healthy financial position with net assets amounted to approximately HK\$56.5 million (31 December 2017: approximately HK\$61.1 million). Net current assets stood at approximately HK\$47.9 million (31 December 2017: approximately HK\$52.7 million).

As at 30 June 2018, Shareholder's fund amounted to approximately HK\$56.5 million (31 December 2017: approximately HK\$61.1 million). Current assets amounted to approximately HK\$100.3 million (31 December 2017: approximately HK\$102.1 million), mainly comprising inventories, trade and other receivables and prepayments, pledged bank deposits, bank and cash balance. Current liabilities amounted to approximately HK\$52.4 million (31 December 2017: approximately HK\$49.4 million), mainly comprising trade and other payables and accruals, bank borrowings and overdrafts, and amount due to a related company.



## MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2018, the Group's bank and cash balance amounted to approximately HK\$11.1 million (31 December 2017: approximately HK\$13.6 million). Net asset value per share was HK\$0.28 (31 December 2017: HK\$0.31).

As at 30 June 2018, the gearing ratio of the Group, which is based on the ratio of interest bearing borrowings net of bank and cash balance to total equity, was 0.3% (31 December 2017: 0.2%). Such increase was mainly due to the increase in bank borrowing during the period under review.

The Group's source of funds can further be satisfied by using a combination of cash generated from operating services, bank borrowing and net proceeds from other fund raised from the capital market from time to time.

### Capital Structure

As at 30 June 2018, 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 and Hong Kong dollars, which may 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 2018, the Group did not have any significant investment held (31 December 2017: nil).

### Contingent Liabilities

As at 30 June 2018, the Group did not have any material contingent liabilities (31 December 2017: nil).

### Capital Commitment

As at 30 June 2018, the Group did not have any significant capital commitment (31 December 2017: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Employee and Remuneration Policies

As at 30 June 2018, the Group had a total staff of approximately 530 employees (30 June 2017: approximately 554 employees), including the Directors. Total staff costs excluding Directors' remuneration for the six months ended 30 June 2018 amounted to approximately HK\$15.6 million (six months ended 30 June 2017: approximately HK\$14.1 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 period for certain banking facilities granted to the Company:

	<b>30 June 2018 HK\$'000</b>	31 December 2017 HK\$'000
Pledged bank deposits	<b>4,121</b>	7,201
Trade receivables	<b>15,269</b>	10,569
	<b>19,390</b>	17,770

### Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended 30 June 2018, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies.

### Future Plans for Material Investments and Capital Assets

As at 30 June 2018, the Group did not have any plans for material investments and capital assets.

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2018

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 2018, together with the comparative figures for the corresponding periods in 2017 as follows:

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Revenue</b>	3	<b>43,001</b>	39,879	<b>81,362</b>	74,473
Cost of sales		<b>(37,124)</b>	(31,497)	<b>(70,260)</b>	(59,122)
Gross profit		<b>5,877</b>	8,382	<b>11,102</b>	15,351
Other income		<b>377</b>	354	<b>462</b>	379
Other gains and losses		<b>431</b>	88	<b>544</b>	92
Selling and distribution expenses		<b>(1,702)</b>	(1,686)	<b>(3,495)</b>	(3,176)
Administrative expenses		<b>(6,104)</b>	(8,357)	<b>(12,049)</b>	(14,224)
Finance costs		<b>(437)</b>	(340)	<b>(849)</b>	(632)
<b>Loss before taxation</b>		<b>(1,558)</b>	(1,559)	<b>(4,285)</b>	(2,210)
Income tax expense	4	–	(190)	–	(204)
<b>Loss for the period</b>	5	<b>(1,558)</b>	(1,749)	<b>(4,285)</b>	(2,414)
<b>Other comprehensive expenses after tax:</b>					
<i>Items that may be reclassified to profit or loss:</i>					
Exchange differences on translating foreign operations		<b>(323)</b>	–	<b>(323)</b>	–
<b>Total comprehensive expenses for the period</b>		<b>(1,881)</b>	(1,749)	<b>(4,608)</b>	(2,414)

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2018

Notes	For the three months ended 30 June		For the six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Loss for the period attributable to:</b>				
Equity holders of the Company	(1,572)	(1,749)	(4,299)	(2,414)
Non-controlling interests	14	–	14	–
	<b>(1,558)</b>	<b>(1,749)</b>	<b>(4,285)</b>	<b>(2,414)</b>
<b>Total comprehensive expenses for the period attributable to:</b>				
Equity holders of the Company	(1,895)	(1,749)	(4,622)	(2,414)
Non-controlling interests	14	–	14	–
	<b>(1,881)</b>	<b>(1,749)</b>	<b>(4,608)</b>	<b>(2,414)</b>
<b>Loss per share</b>				
Basic and diluted (HK cents)	<b>(0.79)</b>	(0.87)	<b>(2.15)</b>	(1.21)

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# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	<i>Notes</i>	<b>As at 30 June 2018 HK\$'000 (Unaudited)</b>	As at 31 December 2017 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	<b>8,562</b>	8,353
<b>Current assets</b>			
Inventories		<b>42,275</b>	39,315
Trade and other receivables and prepayments	9	<b>42,870</b>	41,909
Prepaid income tax		–	76
Pledged bank deposits		<b>4,121</b>	7,201
Bank and cash balances		<b>11,076</b>	13,641
		<b>100,342</b>	102,142
<b>Current liabilities</b>			
Trade and other payables and accruals	10	<b>19,716</b>	19,283
Contract liabilities		<b>3,876</b>	1,077
Bank loans and overdrafts		<b>27,775</b>	28,448
Amount due to a related party		<b>1,039</b>	595
		<b>52,406</b>	49,403
<b>Net current assets</b>		<b>47,936</b>	52,739
<b>Net Assets</b>		<b>56,498</b>	61,092
<b>Capital and reserves</b>			
Share capital	11	<b>2,000</b>	2,000
Reserves		<b>54,470</b>	59,092
		<b>56,470</b>	61,092
Non-controlling interests		<b>28</b>	–
<b>TOTAL EQUITY</b>		<b>56,498</b>	61,092

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company					Non-controlling interests	Total equity	
	Share capital	Share Premium	Special reserve	Retained profits	Translation reserve			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2017 (audited)	2,000	24,973	3,000	37,379	(110)	67,242	–	67,242
Loss and total comprehensive expense for the period (unaudited)	–	–	–	(2,414)	–	(2,414)	–	(2,414)
At 30 June 2017 (unaudited)	<u>2,000</u>	<u>24,973</u>	<u>3,000</u>	<u>34,965</u>	<u>(110)</u>	<u>64,828</u>	<u>–</u>	<u>64,828</u>
At 1 January 2018 (audited)	2,000	24,973	3,000	30,642	477	61,092	–	61,092
Loss and total comprehensive expense for the period (unaudited)	–	–	–	(4,299)	(323)	(4,622)	14	(4,608)
Contribution by non-controlling shareholders (unaudited)	–	–	–	–	–	–	14	14
At 30 June 2018 (unaudited)	<u>2,000</u>	<u>24,973</u>	<u>3,000</u>	<u>26,343</u>	<u>154</u>	<u>56,470</u>	<u>28</u>	<u>56,498</u>

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Net cash used in operating activities</b>	<b>(2,865)</b>	(8,721)
<b>Net cash generated from/(used in) investing activities</b>	<b>1,822</b>	(482)
<b>Net cash (used in)/generated from financing activities</b>	<b>(1,522)</b>	2,983
<b>Net decrease in cash and cash equivalents</b>	<b>(2,565)</b>	(6,220)
Cash and cash equivalents at beginning of period	<b>13,641</b>	25,087
<b>Cash and cash equivalents at end of period</b>	<b>11,076</b>	18,867
<b>Analysis of cash and cash equivalents</b>		
Bank and cash balances	<b>11,076</b>	18,867

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 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 GEM of The Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the 2017 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 2017 except as stated below.

### (a) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified as financial assets at amortised cost.

#### *Financial assets at amortised cost*

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## (b) Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, contract assets and lease receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables, contract assets and lease receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

## (c) Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## **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 2018. 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 2018

## 3. REVENUE AND SEGMENT INFORMATION

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

	For the three months ended 30 June		For the six months ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Sales of transformers	24,906	22,917	44,040	41,648
Sales of switching mode power supply	750	621	1,228	986
Sales of electronic parts and products as well as enamelled copper wires	17,345	16,341	36,094	31,839
	<b>43,001</b>	39,879	<b>81,362</b>	74,473

Disaggregation of revenue from contracts with customers:

### Geographical information

The Group's operation is located in the People's Republic of China (the "PRC") (country of domicile). Information about the Group's revenue is presented based on the 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	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	As at 30 June 2018 HK\$'000 (unaudited)	As at 31 December 2017 HK\$'000 (audited)
Hong Kong	4,309	4,983	9,428	10,354	1,106	1,230
PRC	8,693	11,311	17,638	21,253	7,456	7,123
Europe	11,456	9,592	17,722	18,795	-	-
United States	6,687	8,382	20,732	14,938	-	-
Others	11,856	5,611	15,842	9,133	-	-
	<b>43,001</b>	39,879	<b>81,362</b>	74,473	<b>8,562</b>	8,353

All timing of revenue recognition is at a point in time for the six months ended 30 June 2018 and 2017.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 4. INCOME TAX EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Current tax:				
Hong Kong Profits Tax	-	-	-	14
PRC Enterprise Income Tax	-	190	-	190
	<b>-</b>	<b>190</b>	<b>-</b>	<b>204</b>

No provision for Hong Kong Profit Tax is required since the Group has no assessable profit for the relevant periods in 2018. The amount provided for the periods in 2017 was calculated at 16.5% based on the assessable profit for that period.

No provision for PRC enterprise income tax is required since the Group has no assessable profit for the relevant periods in 2018. 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% for the relevant periods in 2017.

## 5. LOSS FOR THE PERIOD

The Group's loss 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	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Directors' emoluments	<b>353</b>	339	<b>706</b>	720
Cost of inventories sold	<b>36,356</b>	29,977	<b>67,859</b>	57,866
Depreciation of plant and equipment	<b>609</b>	686	<b>1,132</b>	1,123
Minimum lease payment paid under operating leases	<b>829</b>	781	<b>1,574</b>	1,492
Research and development expenses	<b>809</b>	3,635	<b>1,547</b>	4,207
Staff Costs	<b>8,173</b>	7,397	<b>15,639</b>	14,117

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 6. LOSS PER SHARE

	For the six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Loss for the period attributable to owners of the Company (HK\$'000)	<b>(4,299)</b>	(2,414)
Number of shares: Weighted average number of ordinary shares for the purpose of basic and diluted loss per share (Note)	<b>200,000,000</b>	200,000,000

Note:

No diluted loss per share is presented for the six months ended 30 June 2018 and 2017 since there are no potential diluted ordinary shares in issue during both periods.

## 7. DIVIDENDS

No dividend was paid, declared or proposed during the interim periods ended 30 June 2018 and 30 June 2017.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment of HK\$1,339,000 (six months ended 30 June 2017: HK\$505,000) and depreciation amounting to HK\$1,132,000 was provided during the period (six months ended 30 June 2017: HK\$1,123,000).

## 9. 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 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (audited)
0 – 90 days	<b>30,759</b>	31,719
91 to 180 days	<b>2,456</b>	1,718
181 to 365 days	<b>2,253</b>	1,649
Over 1 year	<b>150</b>	1,222
	<b>35,618</b>	36,308

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 10. 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.

	<b>30 June 2018 HK\$'000 (unaudited)</b>	31 December 2017 HK\$'000 (audited)
0 – 90 days	<b>14,447</b>	14,368
91 to 180 days	<b>656</b>	169
181 to 365 days	<b>36</b>	196
Over 1 year	<b>313</b>	313
	<b>15,452</b>	15,046

## 11. SHARE CAPITAL

	<b>30 June 2018 HK\$'000 (unaudited)</b>	31 December 2017 HK\$'000 (audited)
Authorised 1,000,000,000 ordinary shares of HK\$0.01 each	<b>10,000</b>	10,000
Issued and fully paid 200,000,000 ordinary shares of HK\$0.01 each	<b>2,000</b>	2,000

## 12. CAPITAL COMMITMENT

The Group had no material capital commitment as at 30 June 2018 and 31 December 2017.

## 13. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2018 and 31 December 2017.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 14. 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	
	2018 <i>HK\$'000</i> (unaudited)	2017 <i>HK\$'000</i> (unaudited)
Rental paid to a related company		
T-Lab Electronics & Plastics (He Yuan) Co., Ltd	901	836

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

**(c) Compensation of key management personal:**

The emoluments 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	
	2018 <i>HK\$'000</i> (unaudited)	2017 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)	2017 <i>HK\$'000</i> (unaudited)
Salaries and other benefits	437	512	852	1,015
Retirement benefit contributions	18	22	35	45
	<b>455</b>	534	<b>887</b>	1,060

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

## 15. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements for the three months and six months ended 30 June 2018 were approved and authorised for issue by the Board on 6 August 2018.



## 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 2018, 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 <i>(Note (1))</i>	Approximate percentage of shares
Mr. Chung Chi Hang, Larry <i>(note 2)</i>	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%

## OTHER INFORMATION

Save as disclosed above, as at 30 June 2018, 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 2018, 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**

There were no changes in the Board and the information of the Directors since the date of the Company's 2017 annual report.

## 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.

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 2018 to 30 June 2018 and there were no outstanding share options under the Share Option Scheme as at 30 June 2018 and up to the date of this report.

## OTHER INFORMATION

### **DIRECTOR'S RIGHT TO ACQUIRE SHARES**

Save as disclosed in this report, at no time during the period from 1 January 2018 to 30 June 2018 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 2018 to 30 June 2018, 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 2018 to 30 June 2018.

### **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 2018.

### **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 2018.

## 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. 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 2018.

### 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 2018 to 30 June 2018, 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, 6 August 2018

*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.*