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## **KEEN OCEAN INTERNATIONAL HOLDING LIMITED**

### **僑洋國際控股有限公司**

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

**(Stock Code: 8070)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016**

### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

**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.**

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

## ANNUAL RESULTS

The board of directors of the Company (the “Board”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015 as follows:

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

*For the year ended 31 December 2016*

	<i>NOTES</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue	3	<b>129,486</b>	175,573
Cost of sales		<b>(103,153)</b>	(139,955)
Gross profit		<b>26,333</b>	35,618
Other income		<b>1,208</b>	552
Other gains and losses		<b>(1,151)</b>	(190)
Selling and distribution expenses		<b>(5,266)</b>	(4,666)
Administrative expenses		<b>(23,099)</b>	(19,808)
Other expenses	4	<b>(3,168)</b>	(8,179)
Finance costs		<b>(1,032)</b>	(1,644)
(Loss) profit before tax	5	<b>(6,175)</b>	1,683
Income tax expense	6	<b>(53)</b>	(2,212)
Loss and total comprehensive expense for the year		<b>(6,228)</b>	(529)
Loss per share – Basic (HK cents)	8	<b>(3.26)</b>	(0.38)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2016*

	<i>NOTES</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current Assets</b>			
Property, plant and equipment	9	<u>8,688</u>	<u>8,349</u>
<b>Current Assets</b>			
Inventories		33,064	25,668
Trade and other receivables and prepayments	10	28,403	33,314
Prepaid tax		942	14
Pledged bank deposits		7,094	9,089
Bank balances and cash		<u>25,087</u>	<u>10,430</u>
		<u>94,590</u>	<u>78,515</u>
<b>Current Liabilities</b>			
Trade and other payables and accruals	11	19,113	18,837
Bank borrowings	12	16,785	20,777
Amount due to a related party		138	–
Income tax payable		<u>–</u>	<u>345</u>
		<u>36,036</u>	<u>39,959</u>
<b>Net Current Assets</b>		<u>58,554</u>	<u>38,556</u>
<b>Total Assets less Current Liabilities</b>		<u>67,242</u>	<u>46,905</u>
<b>Non-current liability</b>			
Bank borrowings	12	<u>–</u>	<u>408</u>
<b>Net Assets</b>		<u><u>67,242</u></u>	<u><u>46,497</u></u>
<b>Capital and Reserves</b>			
Share capital	13	2,000	–
Reserves		<u>65,242</u>	<u>46,497</u>
<b>Total Equity</b>		<u><u>67,242</u></u>	<u><u>46,497</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2016*

### 1. GENERAL INFORMATION

Keen Ocean International Holding Limited (the “Company”) was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of Cayman Islands on 19 December 2014 and its shares are listed on the GEM with effect from 24 February 2016. The immediate holding company of the Company is Cyber Goodie Limited (“Cyber Goodie”), a limited liability company incorporated in the British Virgin Islands (the “BVI”) and is wholly owned by Mr. Chung Chi Hang Larry. The address of the registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company in Hong Kong is at Unit 5, 34th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

The Company acts as an investment holding company. The principal activities of the Group are the manufacture and trading of transformers, switching mode power supply, electronic parts and components.

The functional currency of the Company is United States dollars (“US\$”) and the presentation currency of the Company and its subsidiaries (collectively referred to as the “Group”) is Hong Kong dollars (“HK\$”) as the directors of the Company consider that it is easier to monitor the financial performance of the Group.

### 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In current year, the Group has applied a number of amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are mandatorily effective for in accounting period that begins on or after 1 January 2016.

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

The directors of the Company considered the application of the above amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>2</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

#### **HKFRS 9 “Financial Instruments”**

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 “Financial Instruments: Recognition and measurement”. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs. Other than that, the directors of the Company anticipate that the application of the above HKFRS will have no material impact on the results and the financial position of the Group.

### **HKFRS 15 “Revenue from contracts with Customers”**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a significant impact on the timing and amounts of revenue recognised in the respective reporting period.

### **HKFRS 16 “Leases”**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretation when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operation leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK\$9,470,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of the Company anticipate that the application of the other new standards and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

### 3. REVENUE AND SEGMENT INFORMATION

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

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Sales of transformers	<b>66,886</b>	82,618
Sales of switching mode power supply	<b>3,742</b>	8,402
Sales of electronic parts and components	<b>58,858</b>	84,553
	<u>129,486</u>	<u>175,573</u>

#### **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.

	Revenue from		Non-current assets	
	external customers			
	2016	2015	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	<b>34,488</b>	42,262	<b>1,643</b>	644
PRC	<b>41,139</b>	50,451	<b>7,045</b>	7,705
Europe	<b>28,548</b>	51,073	–	–
United States	<b>19,989</b>	21,967	–	–
Others	<b>5,322</b>	9,820	–	–
	<b>129,486</b>	175,573	<b>8,688</b>	8,349

#### 4. OTHER EXPENSES

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Professional fee in relation to listing	<b>3,168</b>	8,179
	<b>3,168</b>	8,179

#### 5. (LOSS) PROFIT BEFORE TAX

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit before tax has been arrived at after charging:		
Auditor's remuneration	<b>750</b>	800
Depreciation of plant and equipment	<b>2,695</b>	3,234
Cost of inventories sold	<b>103,513</b>	138,411
Minimum lease payment paid under operating leases	<b>2,890</b>	3,065
Research and development expenses	<b>802</b>	634
Directors' emoluments		
– Fees	<b>132</b>	–
– Salaries and other benefits	<b>1,297</b>	1,190
– Retirement benefit contributions	<b>51</b>	47
	<b>1,480</b>	1,237
Staff salaries and other benefits	<b>31,964</b>	32,768
Staff retirement benefit contributions	<b>3,223</b>	3,740
	<b>35,187</b>	36,508
Total staff costs (including directors' emoluments)	<b>36,667</b>	37,745



## 6. INCOME TAX EXPENSE

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	<b>53</b>	1,430
PRC Enterprise Income Tax	–	782
	<u>53</u>	<u>2,212</u>

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

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%.

## 7. DIVIDEND

During the year, no dividend was paid or proposed for ordinary shareholders of the Company, nor has any dividend been proposed since the end of the reporting period.

## 8. LOSS PER SHARE

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss:		
Loss for the year attributable to owners of the Company for the purpose of calculating basic loss per share	<b>(6,228)</b>	(529)
	<i>'000</i>	<i>'000</i>
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	<b>191,148</b>	140,000

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the years ended 31 December 2016 and 2015 has been determined on the assumption that the capitalisation issue had been effective on 1 January 2015.

No diluted loss per share for the current and prior year was presented as there were no potential ordinary shares in issue.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2016, additions in property, plant and equipment amounted to HK\$3,055,000 (2015: HK\$2,252,000) and depreciation of HK\$2,695,000 (2015: HK\$3,234,000) were made by the Group respectively.

**10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS**

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	<b>26,859</b>	30,376
Less: allowance for doubtful debts	<b>(2,155)</b>	(1,563)
	<b>24,704</b>	28,813
Deposits	<b>1,344</b>	209
Prepayments and deferred listing expenses	<b>922</b>	3,628
Other tax recoverable	<b>981</b>	49
Other receivables	<b>452</b>	615
	<b>28,403</b>	33,314

The Group allows an average credit period of 15 to 90 days to its trade customers. 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.

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0–90 days	<b>21,730</b>	26,512
91–180 days	<b>2,057</b>	2,072
181–365 days	<b>906</b>	229
Over 1 year	<b>11</b>	–
	<b>24,704</b>	28,813

**11. TRADE AND OTHER PAYABLES AND ACCRUALS**

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables	<b>14,593</b>	13,246
Accrued expenses	<b>3,742</b>	5,225
Customer deposits	<b>727</b>	309
Other tax payables	<b>51</b>	57
	<b>19,113</b>	18,837

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0–90 days	<b>14,164</b>	12,634
91–180 days	<b>114</b>	208
181–365 days	<b>14</b>	300
Over one year	<b>301</b>	104
	<u><b>14,593</b></u>	<u>13,246</u>

## 12. BANK BORROWINGS

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Bank loans	<b>2,095</b>	2,831
Trust receipt loans	<b>6,487</b>	6,869
Factoring loans	<b>5,403</b>	8,995
Bank overdraft	<b>2,800</b>	2,490
	<u><b>16,785</b></u>	<u>21,185</u>
Bank borrowings which are secured by:		
Assets held by the Group	<b>16,690</b>	20,354
Unsecured bank borrowings	<b>95</b>	831
	<u><b>16,785</b></u>	<u>21,185</u>
The maturity of the above loans is as follows*:		
Within one year	<b>16,785</b>	20,777
More than one year but within two years	<b>–</b>	408
	<u><b>16,785</b></u>	<u>21,185</u>
Less: amount due within one year shown under current liabilities	<u><b>(16,785)</b></u>	<u>(20,777)</u>
Amount shown under non-current liabilities	<u><b>–</b></u>	<u>408</u>

\* The amounts due are based on scheduled repayment date set out in the loan agreements.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings as at 31 December 2016 and 2015, respectively, are as follows:

	<b>2016</b>	2015
Effective interest rates (per annum):		
Variable-rate borrowings	<u><u>3.17%–4.82%</u></u>	<u><u>3.25%–6.75%</u></u>

### 13. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital HK\$</b>
<i>Ordinary shares of HK\$0.01 each</i>		
<i>Authorised:</i>		
At 1 January 2015, 31 December 2015 and 1 January 2016	38,000,000	380,000
Increase on 2 February 2016 ( <i>note a</i> )	<u>962,000,000</u>	<u>9,620,000</u>
At 31 December 2016	<u><u>1,000,000,000</u></u>	<u><u>10,000,000</u></u>
<i>Issued:</i>		
At 1 January 2015, 31 December 2015 and 1 January 2016	10,000	100
Issues of shares by capitalisation of share premium account ( <i>note b</i> )	139,990,000	1,399,900
Issue of new shares pursuant to placement ( <i>note c</i> )	<u>60,000,000</u>	<u>600,000</u>
At 31 December 2016	<u><u>200,000,000</u></u>	<u><u>2,000,000</u></u>
		<i>HK\$'000</i>
Shown in the consolidated financial statements		
At 31 December 2016		<u><u>2,000</u></u>
At 31 December 2015 ( <i>note d</i> )		<u><u>–</u></u>

*Notes:*

- (a) On 2 February 2016, the authorised share capital of the Company increased from HK\$380,000 to HK\$10,000,000 by the creation of additional 962,000,000 new shares of HK\$0.01 each. These new shares rank pari passu in all respects of the existing shares.

- (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 prorate basis, conditional on the share premium account being credited as a result of the issue of shares by the Company pursuant to the placement as mentioned in note (c) below.
- (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 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.
- (d) The share capital was less than HK\$1,000.

#### 14. PLEDGE OF ASSETS

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Pledged bank deposits	<b>7,094</b>	9,089
Trade receivables	<b>12,298</b>	17,972
	<b>19,392</b>	27,061

#### 15. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) **The Group had the following balance with a related company at the end of the reporting period:**

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Amount due to a related company:</b>		
T-Lab Electronics & Plastics (He Yuan) Co., Ltd.*	<b>138</b>	–

\* The beneficial owner of the related company is Mr. Chung Chi Hang Larry.

- (b) **The Company entered into the following transaction with a related party during the year:**

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Rental paid to a related party</b>		
T-Lab Electronics & Plastics (He Yuan) Co., Ltd	<u><u>1,877</u></u>	<u><u>1,877</u></u>

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.

Guarantees provided by related parties in respect of banking facilities granted to the Company:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
– Chung Chi Hang Larry, Chung Tin Shing, Chung Chi Wah (joint guarantee)	–	16,209
– Chung Chi Hang Larry, Chung Tin Shing, (joint guarantee)	<u><u>–</u></u>	<u><u>4,976</u></u>

At 31 December 2016, such banking facilities are guaranteed by the Company.

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

The remuneration of directors and other members of key management during the year was as follows:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Salaries and other benefits	<u>1,942</u>	1,859
Retirement benefit contributions	<u>77</u>	78
	<u><u>2,019</u></u>	<u><u>1,937</u></u>

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

During the year, the Group was principally engaged in the design, development, production and sale of power supply products, in particular, 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, in particular Toroidal transformers, remained the Group's best-selling products and represented approximately 51.7% of the Group's sales for the year ended 31 December 2016 (year ended 31 December 2015: approximately 47.1%). The percentage sales for switching mode power supplies and electronic parts and components represented approximately 2.9% (year ended 31 December 2015: approximately 4.8%) and 45.5% (year ended 31 December 2015: 48.2%) respectively of the total sales for the year ended December 2016.

Business performance of the Group during the year continued to be impacted by the global economic slowdown. Customers were cautious and conservative in placing their orders amid the gloomy economic environment.

New sale team focusing on promoting and selling of the Group's existing and new products on trade fair and online has been set up in the first quarter during the year and new products, namely the 100W and 200W amplifier board, the 100W and 250W power supply board and the digital processing board (medium class) and second half year new products have been launched in the second quarter and the fourth quarter during the year. Revenue generated from these two new forces were rather steady although not significant at their startup stage.

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

	<b>2016</b>	2015
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Sales of transformers	<b>66,886</b>	82,618
Sales of switching mode power supply	<b>3,742</b>	8,402
Sales of electronic parts and components	<b>58,858</b>	84,553
	<b>129,486</b>	175,573

## Geographical information

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.

	Revenue from external customers		Non-current assets	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Hong Kong	<b>34,488</b>	42,262	<b>1,643</b>	644
PRC	<b>41,139</b>	50,451	<b>7,045</b>	7,705
Europe	<b>28,548</b>	51,073	–	–
United States	<b>19,989</b>	21,967	–	–
Others	<b>5,322</b>	9,820	–	–
	<b><u>129,486</u></b>	<b><u>175,573</u></b>	<b><u>8,688</u></b>	<b><u>8,349</u></b>

## Information about major customers

Revenues from customers during the year contributing over 10% of the total revenue of the Group are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A <sup>1</sup>	<b>16,977</b>	20,599
Customer B <sup>2</sup>	<b>15,245</b>	23,898
Customer C <sup>2</sup>	<b>26,682</b>	27,234

<sup>1</sup> Revenue from sales of transformers

<sup>2</sup> Revenue from sales of electronic parts and components



## Financial Review

The Group's revenue decreased by approximately HK\$46.1 million, or 26.3%, from approximately HK\$175.6 million for the year ended 31 December 2015 to HK\$129.5 million for the year ended 31 December 2016. Such decrease was primarily due to the global economic slowdown which caused existing customers very cautious and conservative in placing their orders to the Group. Customers tended to defer their orders and purchased lesser amount each time due to their business slowdown amid the uncertain economic environment. Cost of sales decreased by approximately HK\$36.8 million, or 26.3%, from approximately HK\$140.0 million for the year ended 31 December 2015 to approximately HK\$103.1 million for the year ended 31 December 2016. Such decrease was mainly attributable to the decrease in sale revenue and benefit from the devaluation of Renminbi, the lawful currency of PRC, which caused saving in the Group's production cost. In addition, the global fall in price of copper, which is one of the major raw materials for production of the Group's transformers and power supply switching modes, also contributed to the reduction in cost of sales. As a result of decrease in sales, the Group's gross profit decrease by approximately HK\$9.3 million, or 26.1%, from approximately HK\$35.6 million for the year ended 31 December 2015 to approximately HK\$26.3 million for the year ended 31 December 2016. Despite the fall in sales revenue, gross profit margin remained steady at 20.3% during the year. Such effort was mainly due to the reduction in production cost, especially saving in the cost of raw materials as a result of fall in copper price and the Group's strategy to stand firm in its selling prices despite the economic slowdown as well as the devaluation of Renminbi.

Other income increased by approximately HK\$0.6 million or 118.8% from approximately HK\$0.6 million for the year ended 31 December 2015 to approximately HK\$1.2 million for the year ended 31 December 2016. Such increase was mainly due to the compensation of approximately HK\$0.3 million received from a transportation company for loss of the Group's merchandise in transit and the incentive of HK\$0.2 million received from He Yuan municipal authority for recognised achievement in development and production of the Group's new products in the city of He Yuan.

Other gains and losses increased approximately HK\$1.0 million or 505.8% from losses of approximately HK\$0.2 million for the year ended 31 December 2015 to loss of approximately HK\$1.2 million for the year ended 31 December 2016. Such increase in loss was mainly attributable to the loss in foreign exchange from the Group's operating activities in PRC as a result of devaluation of Renminbi.

Despite the decrease in sale revenue, selling and distribution expenses increased by approximately HK\$0.6 million or 12.9%, from approximately HK\$4.7 million for the year ended 31 December 2015 to approximately HK\$5.3 million for the year ended 31 December 2016. It was mainly due to the increase in advertising expenses on promoting new products, increase in sample expenses for newly developed products and increase in transportation and packaging charges on goods delivery.

Administrative expenses increased by approximately HK\$3.3 million or 16.7% from approximately HK\$19.8 million for the year ended 31 December 2015 to approximately HK\$23.1 million for the year ended 31 December 2016. The increase was mainly due to the increase in research and development expenses on new products development and the increase in payment of professional fees and hiring of senior staff after listing of the Company's shares on the Stock Exchange.

Other expenses decreased by approximately HK\$5.0 million or 61.3% from approximately HK\$8.2 million for the year ended 31 December 2015 to approximately HK\$3.2 million for the year ended 31 December 2016. Such decrease was due to a greater portion of the Company's listing expenses were paid in 2015 leaving the remaining small unsettled balance paid during the year.

Finance costs decreased by HK\$0.6 million or 37.2% from approximately HK\$1.6 million for the year ended 31 December 2015 to approximately HK\$1.0 million for the year ended 31 December 2016. Such decrease was mainly due to the decrease in bank borrowings and factoring services as a result of decrease in sale revenue and healthy liquidity position.

Income tax expenses decreased by HK\$2.2 million or 97.6% from approximately HK\$2.2 million for the year ended 31 December 2015 to approximately HK\$0.1 million for the year ended 31 December 2016. Such decrease was mainly due to decrease in provision of Hong Kong profits tax and PRC Enterprise Income Tax as a result of decrease in assessable profits for the year ended 31 December 2016 as compared with the corresponding period last year.

As a result of the above, the Group recorded a loss of approximately HK\$6.3 million for the year ended 31 December 2016 (year ended 31 December 2015: loss of approximately HK\$ 0.5 million).

Details of the Group's bank borrowings and pledge of assets are set out in note 12 and note 14 to the consolidated financial statements.

## **Prospect**

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 challenging. The Group has confident to overcome the current stagnant atmosphere and expand its business by producing more customer-oriented products.

In the short term, the Directors expect the markets for transformers and power supply switching mode products remain uncertain due to global economic slowdown. Apart from promoting the existing products, the Group will continue to explore new customer on trade fair and develop new products to broaden its product range, upgrade its production capability, solidify relationship with existing customers and widen customer base. By doing so, the Group aims to strengthen its competitiveness in the market, generate sustainable returns and maximize shareholders' wealth.

## **Liquidity and Financial Resources**

During the year, 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 31 December 2016, the Group managed to maintain a healthy financial position with net assets amounted to approximately HK\$67.2 million (31 December 2015: approximately HK\$46.5 million). Net current assets stood at approximately HK\$58.6 million (31 December 2015: approximately HK\$38.6 million).

As at 31 December 2016, Shareholder's fund amounted to approximately HK\$67.2 million (31 December 2015: approximately HK\$46.5 million). Current assets amounted to approximately HK\$94.6 million (31 December 2015: approximately HK\$78.5 million), comprising inventories, trade and other receivables, prepayments, prepaid tax, pledged bank deposits, bank balances and cash. Current liabilities amounted to approximately HK\$36.0 million (31 December 2015: approximately HK\$40.0 million), comprising trade and other payables and accruals and bank borrowings.

As at 31 December 2016, the Group's bank balances and cash amounted to approximately HK\$25.1 million (31 December 2015: approximately HK\$10.4 million). Net asset value per share was HK\$0.4 (31 December 2015: HK\$0.3).

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 0.4% as at 31 December 2016 (31 December 2015: 0.2%). Such decrease was mainly due to the repayment of bank loans as a result of availability of unused surplus cash.

As the Company was successfully listed on GEM on 24 February 2016 (the "Listing Date") (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 31 December 2016, 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 mainly denominated in Hong Kong dollars and US 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 and Renminbi, lawful currency of PRC. However, the Group has certain foreign currency sales and purchases transactions denominated in Renminbi, US dollars, and Euro dollars which exposes 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 31 December 2016, the Group did not have any significant investment held (31 December 2015: nil).

## Contingent Liabilities

As at 31 December 2016, the Group did not have any material contingent liabilities (31 December 2015: nil).

## Capital Commitment

As at 31 December 2016, the Group did not have any significant capital commitment (31 December 2015: nil).

## Employee and Remuneration Policies

As at 31 December 2016, the Group had a total staff (including the Directors) of approximately 500 employees (31 December 2015: 501). Total staff costs excluding Directors' remuneration for the year ended 31 December 2016 amounted to approximately HK\$32.2 million (year ended 31 December 2015: approximately HK\$36.5 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 end of the reporting period for certain banking facilities granted to the Company:

	<b>31 December 2016 HK\$'000</b>	31 December 2015 HK\$'000
Pledged bank deposits	7,094	9,089
Trade receivables	12,298	17,972
	<u>19,392</u>	<u>27,061</u>

## Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the year, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies save for those reorganisation activities done for the purpose of listing of the Company as set out in the section headed “Reorganisation” of the prospectus of the Company (the “Prospectus”).

## 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 due to payment of additional HK\$1.2 million to various professional parties involved in the listing exercise. During the period between the Listing Date and 31 December 2016 (the “Period”), the Group has utilized approximately HK\$6.34 million to expand its business.

During the Period, the net proceeds from the placing have been applied as follows:–

<b>Business strategies</b>	<b>(Revised) Planned use of net proceeds during the year ended 31 December 2016<sup>(3)</sup> HK\$'million</b>	<b>Actual use of net proceeds during the year ended 31 December 2016 HK\$'million</b>
Development and launch new products – high power switching mode power supply, amplifier board and digital signal processing board ( <i>note (1)</i> )	4.52	4.21
Development and launch new products – reactors	1.85	1.18
Solidify established customer relationship and widen our customer base and promote our existing products	1.30	0.67
Improve the production technology and efficiency	1.30	0.28
	<hr/>	<hr/>
	8.97	6.34
	<hr/> <hr/>	<hr/> <hr/>

*Notes:*

1. In 2016, the Group targets to develop (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).
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 to each business strategies in the same proportion as the original funds applied as shown in the Prospectus.
4. Since the listing 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 31 December 2016, the unused net proceeds have been placed as interest bearing deposits into licensed banks in Hong Kong.

## 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 31 December 2016.

### Business Objectives up to 31 December 2016 as set out in the Prospectus

### Actual business progress up to 31 December 2016

#### Business strategy

#### Actual implementation plan

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.

- |  |   |
|--|---|
| Development and launch new products – reactors   | <ul style="list-style-type: none"> <li>– Completed pilot run of reactors and ready for mass production.</li> <li>– Continue to explore and identify potential customers.</li> <li>– Completed promoting and advertising the new products in trade fair and magazine.</li> <li>– Secured customers’ purchase orders.</li> <li>– Addition of equipment for producing reactors.</li> <li>– Continue to obtain feedbacks from customers and place effort in marketing new products regularly.</li> </ul>  |
| Solidify established customer relationship and widen the customer base and promote the existing products | <ul style="list-style-type: none"> <li>– Continue to expand the online sales team to explore potential customers and promote existing products.</li> <li>– Visited and continue to visit major customers and ex-customers by the senior management regularly to introduce the products of the Company, exchange market information and foster better business relationship.</li> <li>– Completed training of telephone hotline and online support staff to handle complaints and answer existing and potential customers’ enquiries.</li> </ul> |
| Improve our production technology and efficiency   | <ul style="list-style-type: none"> <li>– Reviewed and continue to review regularly on how to increase automation of production process and implement the improvement plan by stages.</li> <li>– Reviewed and continue to review regularly on the efficiency of manufacturing staff and implement the improvement plan regularly.</li> <li>– Reviewed the policy of paying our staff by number of pieces made and implement by stages with a view to increasing such portion to 95% of the manufacturing staff of the Company.</li> </ul>        |



## **OTHER INFORMATION**

### **FINAL DIVIDEND**

The Board does not recommend the payment of final dividend for the year ended 31 December 2016 (year ended 31 December 2015: nil).

### **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 (the “CG Code”) contained in Appendix 15 of the GEM Listing Rules to ensure that the Group’s business activities and decision making processes are regulated in a proper and prudent manner.

During the Period, the Company has complied with the CG Code as set out in Appendix 15 of the GEM Listing Rules.

### **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.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the Period, 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.

### **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 primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review the policies of the Group and to perform other duties and responsibilities as assigned 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. Tang Sze Wo. Mr. Wong Choi Chak is the chairman of the Audit Committee. The Audit Committee has reviewed the audited consolidated annual results of the Group for the year ended 31 December 2016.

**PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

This announcement is published on the websites of the Stock Exchange ([www.hkgem.com](http://www.hkgem.com)) and the Company ([www.keenocan.com.hk](http://www.keenocan.com.hk)). The annual report of the Company for the year ended 31 December 2016 containing all the information required by the GEM Listing Rules will be dispatched to the Company's shareholders and posted on the above websites in due course.

By order of the Board  
**Keen Ocean International Holding Limited**  
**Chung Chi Hang, Larry**  
*Chairman*

Hong Kong, 13 March 2017

*As at the date of this announcement, the executive Directors are Mr. Chung Chi Hang, Larry, Mr. Chung Tin Shing and Mr. Wong Shek Fai, Johnson; and the independent non-executive Directors are Mr. Wong Choi Chak, Mr. Li Chung Pong, Stephen and Mr. Tang Sze Wo.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.*

*This announcement 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 announcement will also be published on the Company's website at [www.keenocan.com.hk](http://www.keenocan.com.hk).*