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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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2020

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 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.

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.

*This announcement, 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 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.*

FIRST QUARTERLY FINANCIAL RESULTS

The board of Directors (the “**Board**”) is pleased to announce the unaudited condensed consolidated results of the Group for the three months ended 31 March 2020, together with the comparative figures for the corresponding period in 2019 as follows:

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

For the three months ended 31 March 2020

	Notes	For the three months ended	
		2020	2019
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	24,956	42,972
Cost of sales		(21,252)	(33,917)
Gross profits		3,704	9,055
Other income	4	24	31
Other gains and losses		146	120
Selling and distribution expenses		(1,397)	(1,537)
Administrative expenses		(4,416)	(5,613)
Finance costs	5	(391)	(411)
(Loss)/Profit before tax	6	(2,330)	1,645
Income tax expenses	7	–	(200)
(Loss)/Profit for the period		(2,330)	1,445
Other comprehensive (expenses)/income after tax:			
<i>Items that may be reclassified to (Loss)/profit</i>			
Exchange differences on translating foreign operations		(14)	166
Total comprehensive (expenses)/income for the period		(2,344)	1,611
(Loss)/Profit for the period attributable to:			
Equity holders of the Company		(2,329)	1,445
Non-controlling interests		(1)	–
		(2,330)	1,445
Total comprehensive (expenses)/income for the period attributable to:			
Equity holders of the Company		(2,330)	1,445
Non-controlling interests		(1)	–
		(2,329)	1,445
(Loss)/Earning per share			
Basic (HK cents)	9	(1.17)	0.72

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2020

	Attributable to owners of the Company						Non- controlling Interest	Total equity
	Share capital	Share premium	Special reserve	Retained profits	Translation reserve	Total		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2019, as previously reported (Audited)	2,000	24,973	3,000	23,758	847	54,578	17	54,595
Effect of changes in accounting policies (HKFRSs 16 Leases)	-	-	-	(184)	-	(184)	-	(184)
At 1 January 2019, as restated	2,000	24,973	3,000	23,574	847	54,394	17	54,411
Profit and total comprehensive income for the period	-	-	-	1,445	166	1,611	-	1,611
At 31 March 2019 (Unaudited)	<u>2,000</u>	<u>24,973</u>	<u>3,000</u>	<u>25,019</u>	<u>1,013</u>	<u>56,005</u>	<u>17</u>	<u>56,022</u>
At 1 January 2020 (Audited)	2,000	24,973	3,000	21,636	479	52,088	13	52,101
Loss and total comprehensive expense for the period	-	-	-	(2,329)	(14)	(2,343)	(1)	(2,344)
At 31 March 2020 (Unaudited)	<u>2,000</u>	<u>24,973</u>	<u>3,000</u>	<u>19,307</u>	<u>465</u>	<u>49,745</u>	<u>12</u>	<u>49,757</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2020

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Unit 5, 34th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong. The Company's shares are listed on GEM of the Stock Exchange.

The Company is an investment holding company. The principal activities of the Group are the manufacture and trading of transformers, switching mode power supply, electronic parts and other components, and electric healthcare products.

As at 31 March 2020, Cyber Goodie Limited (“**Cyber Goodie**”), a company incorporated in the British Virgin Islands (the “**BVI**”), is the immediate holding company of the Company and Mr. Chung Chi Hang Larry is the ultimate controlling party of the Company.

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group for the three months ended 31 March 2019 and 31 March 2020 have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the disclosures required by the GEM Listing Rules.

The basis of preparation and principal accounting policies adopted in preparing these unaudited condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2019, except for the adoption of the new and revised HKFRSs that have become effective for its accounting period beginning on 1 January 2020.

The adoption of the new and revised HKFRSs has no significant effect on these unaudited condensed consolidated financial statements.

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

The unaudited condensed consolidated financial statements have been prepared under historical cost basis and not been reviewed by the Company's auditor. Adjustments may be identified during the course of annual audit to be performed by the Company's auditor.

3. REVENUE AND SEGMENTAL INFORMATION

The Group's operation is solely derived from the manufacture and sale of transformers, switching mode power supply, electronic parts and components, and electric healthcare products during the reporting periods. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Company) reviews the overall results and financial position of the Group as a whole prepared based on same the accounting policies. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

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

	For the three months ended	
	31 March	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Sales of transformers	14,076	21,672
Sales of switching mode power supply	277	467
Sales of electronic parts and components	10,276	15,621
Sales of electric healthcare products	327	5,212
	24,956	42,972

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		Non-current assets	
	For the three months ended		For the three months ended	
	31 March		31 March	
	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hong Kong	2,717	3,913	1,112	870
PRC	8,586	12,717	11,525	11,231
Europe	6,285	13,441	-	-
United States	1,596	5,267	-	-
Others	5,772	7,634	-	-
	24,956	42,972	12,637	12,101

4. OTHER INCOME

	For the three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Bank interest income	24	22
Others	–	9
	<u>24</u>	<u>31</u>

5. FINANCE COSTS

	For the three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Leases interests (HKFRSs Leases 16)	26	–
Interest on bank borrowings	365	411
	<u>391</u>	<u>411</u>

6. PROFIT/(LOSS) BEFORE TAX

	For the three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)

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

Auditor's remuneration	138	125
Depreciation of plant and equipment	496	587
Depreciation of right-of-use asset (HKFRSs 16 Leases)	497	–
Cost of inventories sold	18,014	23,476
Research and development expenses	525	708
Directors' emoluments		
– Salaries and other benefits	340	339
– Retired benefit contributions	12	12
	<u>352</u>	<u>351</u>
Staff salaries and other benefits	2,284	2,368
Staff retirement benefit contributions	245	226
	<u>2,529</u>	<u>2,594</u>
Total staff costs (including directors' emoluments)	<u>2,881</u>	<u>2,945</u>

7. INCOME TAX EXPENSES

	For the three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profits Tax	–	83
PRC Enterprise Income Tax	–	117
	<u>–</u>	<u>117</u>
	–	200
	<u>–</u>	<u>200</u>

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

Provision of PRC Enterprise Income tax 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 both periods.

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2020 (for the three months ended 31 March 2019: nil).

9. (LOSS)/EARNING PER SHARE

The calculation of the basic (loss)/earning per share attributable to the owners of the company is based on the following:

	For the three months ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss)/Earning:		
(Loss)/Profit for the purpose of basic (loss)/earning per share	<u>(1.17)</u>	<u>1,445</u>
	'000	'000
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss)/earning per share	<u>200,000</u>	<u>200,000</u>

No diluted (loss)/earning per share for the three months ended 31 March 2020 and for the three months ended 31 March 2019 was presented as there were no potential ordinary shares in issue.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the Group was principally engaged in the design, development, production, and sale of transformers, switching mode power supplies, electric healthcare products, as well as other electronic parts and components. Customers are mainly manufacturers and trading entities.

Most of the power supply products were manufactured and sold under the Group's branch name called "Keen Ocean" while all electronic parts and components as well as electric healthcare products were sold on an original equipment manufacturer (OEM) basis.

Among the products sold, transformers remained the Group's flagship products and represented approximately 56.40% of the Group's sales for the three months ended 31 March 2020 (for the three months ended 31 March 2019: approximately 50.43%). The percentage sales for switching mode power supplies represented approximately 1.11% of the Group's sales for the three months ended 31 March 2020 (for the three months ended 31 March 2019: approximately 1.09%). The electric healthcare product line accounted for approximately 1.31% of the Group's sales for the three months ended 31 March 2020 (for the three months ended 31 March 2019: approximately 12.13%). The percentage sales for other electronic parts and components as well as other electronic products accounted for approximately 41.18% of the Group's sales for the three months ended 31 March 2020 (for the three months ended 31 March 2019: approximately 36.35%).

Revenue generated by the Group dropped significantly during the period under review. The outbreak of COVID-19 and the corresponding measures implemented by countries across the world including suspension of business activities, led to the slowdown of purchase orders and the postponement of shipment and/or delivery schedule of the goods ordered.

The Group's manufacturing process mainly involved copper and steel. During the period under review, the material costs remained stable. On the other hand, the management of the Group strived to improve the efficiency of production in order to reduce production waste and hence the overall costs of production.

The operating margin decreased during the period under review. It was mainly attributable to the fixed overhead which did not vary as a result of the temporary suspension of the manufacturing operations as instructed by the government and the slowdown of the purchase orders. In addition, the overall costs of supply chain logistics and manufacturing process during the period under review increased due to the various restrictive regulatory measures, in particular, limiting or even suspending the services of transportation facilities in certain areas.

During the period under review, the management of the Group stayed connected with the existing customers and closely followed up the revised delivery schedule in order to maintain and solidify business relationships.

The Group also continued its advertising and marketing campaigns to promote its products. These campaigns included but not limited to placing advertisements in renowned industrial magazines such as Global Source. Due to the travel restrictions and the mandatory quarantine measures in response to COVID-19, most exhibitions and physical marketing events were cancelled. The Group explored other digitally-enabled channels to stay connected with the existing and potential customers during the period under review.

Financial Review

The Group's revenue decreased by approximately HK\$18.02 million, or 41.92%, from approximately HK\$42.97 million for the three months ended 31 March 2019 to approximately HK\$24.96 million for the three months ended 31 March 2020. Such decrease was primarily attributable to the outbreak of COVID-19 since January 2020. The Group's customers postponed shipment and/or delivery schedule of the good ordered.

Cost of sales decreased by approximately HK\$12.66 million, or 37.34%, from approximately HK\$33.92 million for the three months ended 31 March 2019 to approximately HK\$21.25 million for the three months ended 31 March 2020. Such decrease was mainly due to the decrease in turnover for the three months ended 31 March 2020, which was led by the outbreak of COVID-19 and the slowdown of purchase orders and the postponement of shipment and/or delivery schedule.

As a result, the Group's gross profits decreased by approximately HK\$5.35 million, or 59.09%, from approximately HK\$9.06 million for the three months ended 31 March 2019 to approximately HK\$3.70 million for the three months ended 31 March 2020. Gross profit margin decreased from 21.07% for the three months ended 31 March 2019 to 14.84% for the three months ended 31 March 2020. Such decrease was due to manufacturing operations being temporarily suspended in-line with the government instructions on COVID-19. The Group's costs of manufacturing process comparatively increased due to various regulatory measures introduced by the government to tackle epidemic limitation and suspension of transportation facilities in certain areas, and the implementation of mandatory quarantine measures increased the overall costs in supply chain logistics during the period under review.

Other income decreased by approximately HK\$7,000 or 22.81% from approximately HK\$31,000 for the three months ended 31 March 2019 to approximately HK\$24,000 for the three months ended 31 March 2020.

Other gains increased by approximately HK\$26,000 or 21.99% from gains of approximately HK\$120,000 for the three months ended 31 March 2019 to gains of approximately HK\$146,000 for the three months ended 31 March 2020. Such increase in gains was mainly attributable to the depreciation of Renminbi against US dollars during the period under review as some of the sales were billed in Renminbi but settled in US dollars at a pre-determined rate fixed on invoice date.

Selling and distribution expenses decreased by approximately HK\$0.14 million or 9.09%, from approximately HK\$1.54 million for the three months ended 31 March 2019 to approximately HK\$1.40 million for the three months ended 31 March 2020. Such decrease was mainly attributable to lower transportation costs amid the decline of purchase orders and the postponement of delivery during the period under review. The costs of distribution did not drop proportionately due to the increase in the shipping and handling charges amid implementation of regulatory measures by countries across the world such as travel restriction and limitation of transportation.

Administrative expenses decreased by approximately HK\$1.20 million or 21.31%, from approximately HK\$5.61 million for the three months ended 31 March 2019 to approximately HK\$4.42 million for the three months ended 31 March 2020. The decrease was in proportion to the decline of turnover during the period under review, except the fixed overhead including the salaries and utilities costs.

Finance costs decreased by approximately HK\$19,000 or 4.71%, from approximately HK\$411,000 for the three months ended 31 March 2019 to approximately HK\$391,000 for the three months ended 31 March 2020. The Group paid less bank expenses arising from the short-term factoring service during the period under review.

Income tax expenses decreased by approximately HK\$200,000 or 100% from approximately HK\$0.2 million for the three months ended 31 March 2019 to HK\$nil for the three months ended 31 March 2020. Such decrease was mainly due to no profits tax incurred for the Group's operations in Hong Kong and China as a result of losses recorded during the period.

As a result of the above, the Group recorded a loss of approximately HK\$2.17 million for the three months ended 31 March 2020 (for the three months ended 31 March 2019: profit of approximately HK\$1.44 million).

Prospect

The spread of COVID-19 has caused the economic uncertainties and disruption to production as well as supply chains. The management of the Group is determined to rise to the challenges such as the volatile demand and the regulatory measures imposed by the PRC Government since the outbreak of COVID-19. The management of the Group also sustains the Group's competitive advantages through solidifying business relationships with the existing and potential customers through various digitally-enabled channels including video conferencing so that the Group is able to maintain sales and accelerate business growth once the market demand starts to rebound.

In the short term, the Group's customers from the European and the American regions are conservative in procurement whilst the economic prospects are still indeterminate in view of the outbreak of COVID-19. In contrast, the major customers of the Group has maintained the demand on our products especially on the electric healthcare products amid a growing awareness of public health. With the support of our diversified product portfolio, the management of the Group is confident that the Group's performance will remain resilient.

The Group has built solid business relationships with corporate customers around the world. In this regard, the Group remains robust against any impact caused by the temporary epidemic.

The management of the Group closely monitors the development of the situation and accordingly evaluates the impact on the financial position and performance. Also, the management of the Group pays careful attention to any changes to regulations and instructions in compliance with industrial safety and public health policies; and deploys appropriate preventive measures to enhance protection of Group's employees by providing healthy and hygienic environment both in the office and at the sites.

OTHER INFORMATION

DIVIDENDS

The Board does not recommend any dividend for the three months ended 31 March 2020 (for the three months ended 31 March 2019: nil).

SHARE OPTION SCHEME

The Company has a share option scheme which was approved and adopted by the shareholders of the Company by way of the written resolutions passed on 2 February 2016 (the "**Share Option Scheme**"). No share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the period from 1 January 2020 to 31 March 2020 and there were no outstanding share options under the Share Option Scheme as at 31 March 2020 and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION

During the period from 1 January 2020 to 31 March 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 "**Code of Conduct**"). Having made specific enquiry of all the Directors, all of them confirmed that they had fully complied with the required standard of dealings as set out in the Code Conduct during the period from 1 January 2020 to 31 March 2020.

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 of the company dated 17 February 2016 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 three months ended 31 March 2020.

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. Cheung Yee Tak, Jonathan, Mr. Li Chung Pong, Stephen and Mr. Lam Chon Loi. Mr. Cheung Yee Tak, Jonathan is the chairman of the Audit Committee. The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2020. There is no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

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.

During the period from 1 January 2020 to 31 March 2020 and up to the date of this announcement, the Company has complied with the CG Code.

PUBLICATION OF FIRST QUARTERLY RESULTS AND FIRST QUARTERLY 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) and the Company (www.keenocan.com.hk). The unaudited first quarterly report of the Company for the three months ended 31 March 2020 containing all the information required by the GEM Listing Rules will be dispatched to the Company's shareholders and published on the above websites in due course.

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

Hong Kong, 11 May 2020

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. Cheung Yee Tak, Jonathan, Mr. Li Chung Pong, Stephen and Mr. Lam Chon Loi.

This announcement will remain on the "Latest Listed Company Information" page on the GEM website at 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.