

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

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

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

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

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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. Tang Sze Wo

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. Tang Sze Wo

Nomination committee

Mr. Li Chung Pong, Stephen (*Chairman*)
 Mr. Tang Sze Wo
 Mr. Chung Tin Shing

Remuneration committee

Mr. Tang Sze Wo (*Chairman*)
 Mr. Wong Choi Chak
 Mr. Chung Chi Hang, Larry

Risk management committee

Mr. Chung Tin Shing (*Chairman*)
 Mr. Wong Shek Fai, Johnson
 Mr. Tang Sze Wo

AUTHORISED REPRESENTATIVES

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

COMPANY'S WEBSITE

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 The PRC

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CORPORATE INFORMATION

PRINCIPAL BANKERS

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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North Point
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STOCK CODE

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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, 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.

The Group's production facilities are located at He Yuan City, Guangdong, the People's Republic of China ("PRC"). All 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, one of the Group's flagship products, have the highest profit margin and represented approximately 49.4% of total sales for the six months ended 30 June 2016 (six months ended 30 June 2015: approximately 42.1%). The percentage sales for switching mode power supplies and electronic parts and products represented approximately 3.2% (six months ended 30 June 2015: approximately 5.1%) and 47.3% (six months ended 30 June 2015: 52.8%) respectively of the total sales for the six months ended 30 June 2016.

Business performance of the Group for the second quarter of this year continued to be impacted by the global economic slowdown. Customers were cautious and conservative in placing their orders amid the uncertain economic condition.

During the first quarter of this year, the Group has set up a new sales team to focus on promoting and selling of the Group's products online. Revenue generated from the online sales looked promising and rising steadily during the six months ended 30 June 2016.

The Group has launched its newly developed low to medium power level amplifier board and power supply board. The Group has sent sample products to interested customers for their testing. Follow up actions are being handled by the development engineers for these potential customers. The Group expects contribution to the sales revenue from these new products this year.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the three months ended 30 June		For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Sales of transformers	17,063	18,572	31,438	36,147
Sales of switching mode power supply	1,696	3,064	2,063	4,390
Sales of electronic parts and products	15,978	22,269	30,095	45,274
	34,737	43,905	63,596	85,811

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.

	For the three months ended 30 June		For the six months ended 30 June		Non-current assets	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Hong Kong	7,499	8,016	15,701	9,569	1,251	644
PRC	11,923	12,080	20,860	21,839	7,351	7,705
Europe	8,960	11,890	15,256	24,353	-	-
United States	4,511	8,316	8,115	25,720	-	-
Others	1,844	3,603	3,664	4,330	-	-
	34,737	43,905	63,596	85,811	8,602	8,349

Financial Review

The Group's revenue decreased by approximately HK\$22.2 million, or 25.9%, from approximately HK\$85.8 million for the six months ended 30 June 2015 to HK\$63.6 million for the six months ended 30 June 2016. Such decrease was primarily due to the global economic slowdown which caused existing customers very cautious and conservative in placing their orders from 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\$17.6 million, or 26.0%, from approximately HK\$67.8 million for the six months ended 30 June 2015 to approximately HK\$50.2 million for the six months ended 30 June 2016. Such decrease was mainly

MANAGEMENT DISCUSSION AND ANALYSIS

attributable to the 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 decreased by approximately HK\$4.6 million, or 25.6%, from approximately HK\$18.0 million for the six months ended 30 June 2015 to approximately HK\$13.4 million for the six months ended 30 June 2016. Despite the economic slowdown, the Group still succeeded in maintaining the same gross profit margin of 21% as corresponding period in last year. It 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\$0.5 million or 250% from approximately HK\$0.2 million for the six months ended 30 June 2015 to approximately HK\$0.7 million for the six months ended 30 June 2016. Such increase was mainly due to the compensation of approximately HK\$207,000 received from a transportation company for loss of the Group's merchandise in transit and increase in selling of scrap materials of approximately HK\$183,000.

Other gains and losses increased by approximately HK\$0.9 million or 150% from approximately losses of HK\$0.6 million for the six months ended 30 June 2015 to approximately gains of HK\$0.3 million for the six months ended 30 June 2016. Such increase in gains was mainly attributable to the gain in foreign exchange from the Group's operating activities in PRC as a result of devaluation of Renminbi.

Selling and distribution expenses increased by approximately HK\$0.2 million or 8.7%, from approximately HK\$2.3 million for the six months ended 30 June 2015 to approximately HK\$2.5 million for the six months ended 30 June 2016. Such increase 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\$1.3 million or 13.8% from approximately HK\$9.4 million for the six months ended 30 June 2015 to approximately HK\$10.7 million for the six months ended 30 June 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\$3.7 million or 53.6% from approximately HK\$6.9 million for the six months ended 30 June 2015 to approximately HK\$3.2 million for the six months ended 30 June 2016. Such decrease was due to the most of the listing expenses were paid by the Group in previous years.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs decreased by HK\$0.4 million or 40% from approximately HK\$1.0 million for the six months ended 30 June 2015 to approximately HK\$0.6 million for the six months ended 30 June 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\$0.6 million or 42.9% from approximately HK\$1.4 million for the six months ended 30 June 2015 to approximately HK\$0.8 million for the six months ended 30 June 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 six months ended 30 June 2016 as compared with the corresponding period last year.

As a result of the above, the Group recorded a loss of approximately HK\$3.5 million for the six months ended 30 June 2016 (six months ended 30 June 2015: loss of approximately HK\$ 3.5 million).

Prospect

Looking forward, the Directors' expect the markets for transformers and power supply switching mode products to remain stable despite the uncertain economic environment. 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. 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 2016, the Group had a healthy financial position with net assets amounted to approximately HK\$70.0 million (31 December 2015: approximately HK\$46.5 million). Net current assets stood at approximately HK\$61.4 million (31 December 2015: approximately HK\$38.6 million).

As at 30 June 2016, Shareholder's fund amounted to approximately HK\$70.0 million (31 December 2015: approximately HK\$46.5 million). Current assets amounted to approximately HK\$87.6 million (31 December 2015: approximately HK\$78.5 million), mainly comprising inventories, trade and other receivables and prepayments, pledged bank deposits, bank balances and cash. Current liabilities amounted to approximately HK\$26.2 million (31 December 2015: approximately HK\$40.0 million), mainly comprising trade and other payables and accruals, bank borrowings and income tax payable.

As at 30 June 2016, the Group's bank balances and cash amounted to approximately HK\$23.9 million (31 December 2015: approximately HK\$10.4 million). Net asset value per share was HK\$0.385 (31 December 2015: HK\$0.332).

As at 30 June 2016, 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 Nil (31 December 2015: 0.23). Such decrease was mainly due to the repayment of bank loans as a result of availability of unused surplus cash.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Capital Structure

As at 30 June 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 denominated in Hong Kong dollars which were secured by pledged bank deposits and trade receivables of the Group.

Foreign Exchange Exposure

The sales of the Group are mainly denominated in US dollars. However, the Group has certain foreign currency sales and purchases transactions denominated in Renminbi, Hong Kong dollars, and Euro dollars, which 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 30 June 2016, the Group did not have any significant investment held (31 December 2015: nil).

Contingent Liabilities

As at 30 June 2016, the Group did not have any material contingent liabilities (31 December 2015: nil).

Capital Commitment

As at 30 June 2016, the Group did not have any significant capital commitment (31 December 2015: nil).

Employee and Remuneration Policies

As at 30 June 2016, the Group had a total staff of approximately 538 employees (30 June 2015: 539), including the Directors. Total staff costs excluding Directors’ remuneration for the six months ended 30 June 2016 amounted to approximately HK\$12.6 million (six months ended 30 June 2015: approximately HK\$14.4 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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:

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Pledged bank deposits	7,093	9,089
Trade receivables	5,071	17,972
	12,164	27,061

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended 30 June 2016, 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 dated 17 February 2016 (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.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period ended 30 June 2016, the net proceeds from the placing have been applied as follows:–

Business strategies	(Revised) Planned use of net proceeds during the period ended 30 June 2016⁽³⁾ HK\$'million	Actual use of net proceeds during the period ended 30 June 2016 HK\$'million
Development and launch new products – high power switching mode power supply, amplifier board and digital signal processing board ⁽¹⁾	2.90	1.18
Development and launch new products – reactors	1.30	0.53
Solidify established customer relationship and widen our customer base and promote our existing products	0.74	0.23
Improve our production technology and efficiency	0.74	0.02
	5.68	1.96

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 in the same proportion to the use of proceeds 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Comparison of Business Objective with Actual Business Progress

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress up to the period ended 30 June 2016.

Business Objectives up to 30 June 2016 as set out in the Prospectus

Actual business progress up to 30 June 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).
- Started to develop the high power 1,500W and 2,000W amplifier board and the 1,500W and 2,000W power supply board.
- Fine-tuned and tested samples before sending to customers.
- Sent samples to prospective customers for testing.
- Obtained safety standards for new products.
- Advertised new products in industry magazines and web sites.
- Trained sales staff to explore and identify potential customers for new products developed.
- Recruited new development engineers in PRC to develop products of different level of power.

Development and launch new products – reactors

- Completed a product prototype.
- Exploring and identifying potential customers
- Fine-tuned and tested samples before sending to customers.
- Addition of machine and equipment for product development.

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

- Set up an online sales team to explore potential customers and promote existing products.
- Visited major customers by the senior management to introduce our products, exchange market information and foster better business relationship.
- Set up a telephone hotline to handle complaints and answer existing and potential customers' and enquiries.

Improve our production technology and efficiency

- Completed relocation of research and development team from United States to PRC.
- Completed the review of how to increase automation of production process.
- Completed the review of efficiency of manufacturing staff.
- Completed the review of the policy of paying our staff by number of pieces made and consider to increase such portion to 95% of our manufacturing staff.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2016

The board of directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Group for the three months and six months ended 30 June 2016, together with the comparative figures for the corresponding periods in 2015 as follows:

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3	34,737	43,905	63,596	85,811
Cost of sales		(27,432)	(33,921)	(50,227)	(67,802)
Gross profit		7,305	9,984	13,369	18,009
Other income		404	46	693	194
Other gains and losses		379	(585)	309	(575)
Selling and distribution expenses		(1,295)	(991)	(2,512)	(2,338)
Administrative expenses		(5,168)	(4,561)	(10,684)	(9,422)
Other expense	4	–	(3,307)	(3,168)	(6,949)
Finance costs		(336)	(645)	(642)	(1,033)
Profit (loss) before tax	5	1,289	(59)	(2,635)	(2,114)
Income tax expense	6	(803)	(982)	(817)	(1,358)
Profit (loss) and total comprehensive income (expense) for the period		486	(1,041)	(3,452)	(3,472)
Earnings (loss) per share					
– Basic (HK cents)	8	0.24	(0.74)	(1.90)	(2.48)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	<i>Notes</i>	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Non-current Assets			
Property, plant and equipment	9	8,602	8,349
Current Assets			
Inventories		29,229	25,668
Trade and other receivables and prepayments	10	27,239	33,314
Prepaid income tax		74	14
Pledged bank deposits		7,093	9,089
Bank balances and cash		23,935	10,430
		87,570	78,515
Current Liabilities			
Trade and other payables and accruals	11	13,822	18,837
Bank borrowings	12	11,831	20,777
Income tax payable		501	345
		26,154	39,959
Net Current Assets		61,416	38,556
Total Assets less Current Liabilities		70,018	46,905
Non-current liability			
Bank borrowings	12	–	408
Net Assets		70,018	46,497
Capital and Reserves			
Share capital	13	2,000	–
Reserves		68,018	46,497
Total Equity		70,018	46,497

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For six months ended 30 June 2016

	Attributable to owners of the Company					Total HK\$'000
	Share capital HK\$'000	Share Premium HK\$'000	Special reserve HK\$'000 (note a)	Retained profits HK\$'000	Translation reserve HK\$'000	
At 1 January 2015	-	-	3,000	44,136	(110)	47,026
Loss and total comprehensive expense for the period	-	-	-	(3,472)	-	(3,472)
At 30 June 2015	-	-	3,000	40,664	(110)	43,554
Loss and comprehensive expense for the period	-	-	-	2,943	-	2,943
At 1 January 2016	-	-	3,000	43,607	(110)	46,497
Issue of shares by capitalisation of share premium account (note b)	1,400	(1,400)	-	-	-	-
Issue of new shares pursuant to placement (note c)	600	32,400	-	-	-	33,000
Expenses incurred in connection with issue of shares	-	(6,027)	-	-	-	(6,027)
Loss and comprehensive expense for the period	-	-	-	(3,452)	-	(3,452)
At 30 June 2016	2,000	24,973	3,000	40,155	(110)	70,018

Notes:

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For six months ended 30 June 2016

	For the six months ended 30 June 2016 HK\$'000 (Unaudited)	For the six months ended 30 June 2015 HK\$'000 (Unaudited)
Cash used in operating activities	(4,213)	(825)
Cash from investing activities	1,743	7,534
Cash from financing activities	15,975	4,033
Net increase in cash and cash equivalents	13,505	10,742
Cash and cash equivalents at the beginning of the period	10,430	6,652
Cash and cash equivalents at the end of the period, represented by bank balances and cash	23,935	17,394

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and Chapter 18 of the GEM Listing Rules.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited annual financial statement of the Group for the year ended 31 December 2015. The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the audited annual financial statements of the Group for the year ended 31 December 2015.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost convention.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current interim period, the Group has applied for the first time, the following new standards and amendments to HKFRSs issued by HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements.

HKFRS 14	Regulatory Deferral Accounts
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 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 new standards and revised amendments to HKFRSs in the current period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or on the disclosures set out in these condensed consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES – continued

Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) – continued

In the current period, the Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ³
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 7	Disclosure Initiative ⁶
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴

¹ Effective for annual periods beginning on or after 1 January 2018

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

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective for annual periods beginning on or after 1 January 2017

Except as described below, the directors of the Company anticipate that the application of the new standards and amendments to HKFRSs will have no material impact on the results and 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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES – continued

HKFRS 15 “Revenue from Contracts with Customers” – continued

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.

The directors of the Company anticipates that the application of HKFRS 15 in the future may affect the amounts reported and related disclosures in the Group’s condensed consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 “Leases”

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-to-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-to-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will be effective for annual periods on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 “Revenue from Contracts with the Customers” at or before the date of initial application of HKFRS 16. The directors of the Company anticipate that the application of HKFRS 16 in the future may affect the amounts reported and related disclosures in the Group’s condensed consolidated financial statements. However, it is not practicable to provide a reasonable estimate of effect of HKFRS 16 until the Group performs a detailed review.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION

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

	For the three months ended 30 June		For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Sales of transformers	17,063	18,572	31,438	36,147
Sales of switching mode power supply	1,696	3,064	2,063	4,390
Sales of electronic parts and products	15,978	22,269	30,095	45,274
	34,737	43,905	63,596	85,811

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.

	For the three months ended 30 June		For the six months ended 30 June		Non-current assets	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Hong Kong	7,499	8,016	15,701	9,569	1,251	644
PRC	11,923	12,080	20,860	21,839	7,351	7,705
Europe	8,960	11,890	15,256	24,353	-	-
United States	4,511	8,316	8,115	25,720	-	-
Others	1,844	3,603	3,664	4,330	-	-
	34,737	43,905	63,596	85,811	8,602	8,349

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. OTHER EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Professional fee in relation to listing	-	3,307	3,168	6,949

5. PROFIT (LOSS) BEFORE TAX

	For the three months ended 30 June		For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Profit (loss) before tax has been arrived at after charging:				
Depreciation of plant and equipment	683	947	1,076	1,343
Cost of inventories sold	26,609	32,903	48,720	65,767
Minimum lease payment paid under operating leases	735	742	1,465	1,484
Research and development expenses	1,763	153	1,963	306
Staff costs	7,100	7,437	13,266	14,925

Note: During the six months ended 30 June 2016, the difference in the social insurance payments and housing provident fund contributions, based on the actual salaries of He Yuan Sky Wealth Electronic and Plastic Company Limited ("He Yuan Sky Wealth") and the amount of wages agreed with the relevant social insurance authorities, is HK\$0.4 million. The PRC legal advisers advised He Yuan Sky Wealth that it may be subject to a daily late charge of 0.05% in addition to the outstanding social insurance payments, and a fine ranging from 100% to 300% of the total outstanding social insurance payments in addition to such amount underpaid if the outstanding social insurance is still not paid within the time limit stipulated by the relevant social insurance authority. The PRC legal advisers also advised He Yuan Sky Wealth that it may be subject to a fixed fine ranging from RMB10,000 to RMB50,000 in addition to the outstanding housing provident fund contributions underpaid if the employer failed to rectify such non-compliance within a specified period of time. The advice sought from the Group's PRC legal advisers, considered that it is not probable for the Company to be requested to pay such outstanding amounts and the relevant fine and penalty, therefore, no provision has been made as at 30 June 2016 and 31 December 2015.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. INCOME TAX EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Current tax:				
Hong Kong Profits Tax	665	445	679	510
PRC Enterprise Income Tax	138	537	138	848
	803	982	817	1,358

7. DIVIDENDS

No interim dividends have been paid or declared by the Company for the six months ended 30 June 2016 (for the six months ended 30 June 2015: nil).

8. EARNINGS (LOSS) PER SHARE

The number of ordinary shares for the purpose of calculating basic earnings (loss) per share has been determined on the assumption that the capitalisation issue had been effective on 1 January 2015.

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

The calculation of the basic earnings (loss) per share for the six months ended 30 June 2016 is based on the loss attributable to ordinary equity owners of the Company of HK\$3,452,000 (for the six months ended 30 June 2015: loss of HK\$3,472,000) and the number of ordinary shares in issue of 182,099,000 shares (2015: 140,000,000 shares).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, additions in property, plant and equipment amounted to HK\$1,329,000 (2015: HK\$282,000) and depreciation of HK\$1,076,000 (2015: HK\$1,343,000) were made by the Group respectively.

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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 presented based on the invoice dates at the end of the reporting period.

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
0 – 90 days	22,197	26,512
91 – 180 days	1,430	2,072
181 – 365 days	260	229
	23,887	28,813

11. TRADE AND OTHER PAYABLES AND ACCRUALS

Trade payables principally comprise amounts outstanding for purchase of materials for manufacturing electronic products. The average credit period for purchase of materials is within one year.

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
0 – 90 days	8,394	12,634
91 – 180 days	1,427	208
181 – 365 days	411	300
Over one year	–	104
	10,232	13,246

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. BANK BORROWINGS

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Bank loans	2,000	2,831
Trust receipt loans	2,385	6,869
Factoring loans	5,071	8,995
Bank overdraft	2,375	2,490
	11,831	21,185
The maturity of the above loans is as follows*:		
Within one year	11,831	20,777
More than one year but within two years	–	408
	11,831	21,185
Less: amount due within one year shown under current liabilities	(11,831)	(20,777)
Amount shown under non-current liabilities	–	408

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. SHARE CAPITAL

	Number of shares	Share capital HK\$
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2016 (Audited)	38,000,000	380,000
Increase on 2 February 2016 (<i>note a</i>)	962,000,000	9,620,000
	<hr/>	<hr/>
At 30 June 2016 (Unaudited)	1,000,000,000	10,000,000
	<hr/>	<hr/>
Issued:		
At 1 January 2016 (Audited)	10,000	100
Issue 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>)	60,000,000	600,000
	<hr/>	<hr/>
At 30 June 2016 (Unaudited)	200,000,000	2,000,000
	<hr/>	<hr/>
Shown in the condensed consolidated financial statements		HK\$'000
At 30 June 2016 (Unaudited)		2,000
		<hr/>
At 31 December 2015 (Audited)		–
		<hr/>

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 prorata basis, conditional on the share premium account being credited as a result of the issue of shares by the Company pursuant to the placement.
- c) On 24 February 2016, 60,000,000 ordinary shares of HK\$0.01 each of the Company were issued at a price of HK\$0.55 by way of placement. On the same date, the Company's shares were listed on the GEM Board of the Stock Exchange. The proceeds of HK\$600,000 representing the par value of the shares of the Company, were credited to the Company's share capital.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. PLEDGE OF ASSETS

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Pledged bank deposits	7,093	9,089
Trade receivables	5,071	17,972
	12,164	27,061

15. RELATED PARTY TRANSACTIONS AND BALANCES

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

Name	Relationship Notes
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 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 period:

	30 June 2016 HK\$'000 (Unaudited)	30 June 2015 HK\$'000 (Unaudited)
Rental paid to a related company		
T-Lab Electronics & Plastics (He Yuan) Co., Ltd	883	896

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. RELATED PARTY TRANSACTIONS AND BALANCES – continued

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

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:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
– Chung Chi Hang Larry, Chung Tin Shing, Chung Chi Wah (joint guarantee)	–	16,209
– Chung Chi Hang Larry, Chung Tin Shing, (joint guarantee)	–	4,976

- (c) Compensation of key management personal:

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

	For the three months ended 30 June		For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Salaries and other benefits	547	430	977	861
Retirement benefit contributions	19	20	38	39
	566	450	1,015	900

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

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 2016, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required as otherwise to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(i) *Interests in the Company*

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

Notes:

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

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

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

OTHER INFORMATION

Save as disclosed above, as at 30 June 2016, 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 2016, 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 2015 annual report.

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.

OTHER INFORMATION

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 the Listing Date to 30 June 2016 and there were no outstanding share options under the Share Option Scheme as at 30 June 2016 and up to the date of this report.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed in this report, at no time during the period from the Listing Date to 30 June 2016 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 the listing of the Company on GEM on 24 February 2016 (the "Listing Date") to 30 June 2016, 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.

OTHER INFORMATION

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 the Listing Date to 30 June 2016.

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 2016.

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 2016.

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. Tang Sze Wo. 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 2016.

OTHER INFORMATION

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 the Listing Date to 30 June 2016, 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, 8 August 2016

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. Tang Sze Wo.