

# KEEN OCEAN INTERNATIONAL HOLDING LIMITED

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

Stock Code : 8070



A N N U A L R E P O R T

# 2016

## **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.*

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

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## **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**

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

## **AUDITOR**

Deloitte Touche Tohmatsu  
35/F., One Pacific Place  
88 Queensway  
Hong Kong

## **COMPLIANCE ADVISER**

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

## **REGISTERED OFFICE**

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

## **PRINCIPAL PLACE OF BUSINESS IN CHINA**

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

## **PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

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

# CORPORATE INFORMATION

## **PRINCIPAL BANKERS**

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

DBS Bank (Hong Kong) Limited  
11th Floor  
The Center  
99 Queen's Road Central  
Hong Kong

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS**

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

## **HONG KONG BRANCH SHARE REGISTRAR**

Union Registrars Limited  
Suites 3301-04, 33/F.  
Two Chinachem Exchange Square  
338 King's Road  
North Point  
Hong Kong

## **STOCK CODE**

8070

# FINANCIAL HIGHLIGHTS

## RESULTS

|                            | For the year ended 31 December |              |                |
|----------------------------|--------------------------------|--------------|----------------|
|                            | 2014                           | 2015         | 2016           |
|                            | HK\$'000                       | HK\$'000     | HK\$'000       |
| Revenue                    | 181,973                        | 175,573      | <b>129,486</b> |
| Profit before taxation     | 6,204                          | 1,683        | <b>(6,175)</b> |
| Income tax expense         | (1,178)                        | (2,212)      | <b>(53)</b>    |
| Profit (loss) for the year | <b>5,026</b>                   | <b>(529)</b> | <b>(6,228)</b> |

## ASSETS AND LIABILITIES

|                   | At 31 December |               |                |
|-------------------|----------------|---------------|----------------|
|                   | 2014           | 2015          | 2016           |
|                   | HK\$'000       | HK\$'000      | HK\$'000       |
| Total assets      | 97,832         | 86,864        | <b>103,278</b> |
| Total liabilities | 50,806         | 40,367        | <b>36,036</b>  |
|                   | <b>47,026</b>  | <b>46,497</b> | <b>67,242</b>  |

# CHAIRMAN'S STATEMENT

Dear Shareholders

On behalf of the Board of the Company, I present to the shareholders the annual report of the Group for the year ended 31 December 2016.

In 2017, the Group will continue to expand its sales in transformers, printed circuit board assembly, ferrite transformers, switching mode power supply, amplifier board, and reactors products. In order to further expand its existing and new amplifier board products, the Group has already recruited a team of online and trade fair sales, and has received a very good feedback from its potential customers. Moreover, the Group will also continue its research and development effort in existing and new products. A team of engineers and salespersons has been set up focusing on china and overseas market.

On behalf of the Board, I would like to thank the management team and all of our staff for their hard work in the past year. I wish to take this opportunity to extend my sincere gratitude to all our shareholders, customers and business partners for their continuing support.

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**Chung Chi Hang, Larry**

*Chairman*

Hong Kong, 13 March 2017

# 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>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   |
|  | <b>129,486</b>  | 175,573  |

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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<br>external customers |                  | Non-current assets |                  |
|---------------|------------------------------------|------------------|--------------------|------------------|
|               | 2016<br>HK\$'000                   | 2015<br>HK\$'000 | 2016<br>HK\$'000   | 2015<br>HK\$'000 |
| 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            |

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### INFORMATION ABOUT MAJOR CUSTOMERS

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

|                         | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|-------------------------|------------------|------------------|
| 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

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

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).

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Details of the Group's bank borrowings and pledge of assets are set out in note 20 and note 26 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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\$35.2 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<br/>2016<br/>HK\$'000</b> | 31 December<br>2015<br>HK\$'000 |
|-----------------------|--|---------------------------------|
| Pledged bank deposits | <b>7,094</b>                             | 9,089                           |
| Trade receivables     | <b>12,298</b>                            | 17,972                          |
|                       | <b>19,392</b>                            | 27,061                          |

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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)<br/>Planned use of net<br/>proceeds during the<br/>year ended 31<br/>December 2016<sup>(3)</sup><br/>HK\$'million</b> | <b>Actual use of net<br/>proceeds during<br/>the year ended 31<br/>December 2016<br/>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  |
|   | 8.97   | 6.34  |

### 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## COMPARISON OF BUSINESS OBJECTIVE WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress for the period ended 31 December 2016.

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

#### Business strategy

Development and launch new products  
– high power switching mode power supply, amplifier board and digital signal processing board

### Actual business progress up to 31 December 2016

#### Actual implementation plan

- 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### **Business strategy**

Development and launch new products – reactors

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

## **Actual business progress up to 31 December 2016**

### **Actual implementation plan**

- Completed pilot run of reactors and ready for mass production.
- Continue to explore and identify potential customers.
- Completed promoting and advertising the new products in trade fair and magazine.
- Secured customers' purchase orders.
- Addition of equipment for producing reactors.
- Continue to obtain feedbacks from customers and place effort in marketing new products regularly.
- Continue to expand the online sales team to explore potential customers and promote existing products.
- 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.
- Completed training of telephone hotline and online support staff to handle complaints and answer existing and potential customers' enquiries.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### **Business strategy**

Improve our production technology and efficiency

## **Actual business progress up to 31 December 2016**

### **Actual implementation plan**

- Reviewed and continue to review regularly on how to increase automation of production process and implement the improvement plan by stages.
- Reviewed and continue to review regularly on the efficiency of manufacturing staff and implement the improvement plan regularly.
- 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.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Chung Chi Hang, Larry (鍾志恆)**, aged 45, is the chairman and an executive Director of the Company. Mr. Chung is primarily responsible for the overall business strategy and development of the Group and monitor the Group's financial position. He is the founder of the Group in May 2000. Being the founder and his long-time commitment to the Group, Mr. Chung is the spearhead of our Group's development and growth. He formulated the overall development plan and strategy of the Company, includes the transformation of the production model of the Company from processing arrangement to its own production, expansion of the business of the Company to domestic sales and diversification of the product ranges of the Company. Before founding the Group, Mr. Chung worked in his family construction business from March 1998 to August 2001 and was principally responsible for monitoring the work progress, calculating construction workers' wages and overseeing financial operation.

**Mr. Chung Tin Shing (鍾天成)**, aged 46, is the chief executive officer and an executive Director of the Company. Mr. Chung is primarily responsible for overseeing the overall operation and marketing and sales of the Group. He graduated from the Chinese University of Hong Kong with a bachelor degree in business administration (finance) in 1994. Mr. Chung formally joined the Group in June 2001. Before joining the Group, Mr. Chung was responsible for the marketing operation management in Mae Holdings Limited.

**Mr. Wong Shek Fai, Johnson (黃石輝)**, aged 44, is an executive Director and compliance officer of the Company. Mr. Wong is primarily responsible for overseeing the production and engineering of the Group. Mr. Wong obtained the bachelor of electrical engineering from Carleton University in Canada in 1995. Mr. Wong joined the Group in January 2006. Before joining the Group, Mr. Wong worked as manager for the engineering department of Mei Ah Electrical & Industry (HK) Ltd. from May 1995 to January 2006 responsible for the project development and providing technical support to sale and marketing team.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Wong Choi Chak (黃在澤)**, aged 52, is an independent non-executive Director of the Company. Mr. Wong has worked for various listed companies for over 20 years primarily responsible for financial projection, finance control and accounting matters. Mr. Wong is currently the joint company secretary of China Minsheng Financial Holding Corporation Limited (formerly known as China Seven Star Holdings Limited), a company listed on the Stock Exchange (stock code: 245). Mr. Wong was the financial controller and company secretary of De Team Company Limited, a company listed on the Stock Exchange (stock code: 65) from October 2003 to January 2015. Mr. Wong holds a bachelor's degree in Accounting from the University of Lincoln, England. Mr. Wong is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Li Chung Pong, Stephen (李仲邦)**, aged 50, is an independent non-executive Director of the Company. Mr. Li graduated from Schulich School of Business, York University majoring in finance and management science in June 1989. He obtained a master degree of business administration from Schulich School of Business, York University in June 1992, of science in financial engineering from City University of Hong Kong in May 2000, of science in electronic commerce management and of science in information systems management from Hong Kong University of Science & Technology in January 2003 and November 2005 respectively. He has been a candidate for PhD degree in finance in Shanghai University of Finance & Economics since September 2007.

Mr. Li was conferred by Global Association of Risk Professionals as a certified financial risk manager in 2001. He has also been a member of Hong Kong Securities and Investment Institute since 2001, and a full member of Treasury Markets Association since 2006.

Mr. Li was a financial analyst in the head office of The Body Shop Canada Limited from December 1989 to May 1991. He worked as a management trainee, assistant vice president and corporate advisor in the treasury of Bank of America NT & SA from August 1992 to September 1997. He then acted as the vice president and corporate desk head in the treasury marketing unit for Hong Kong, the vice president in the structured product group for Hong Kong, and the vice president in the regional financial market treasury for Citibank N.A., Hong Kong Branch from October 1997 to June 2004. He was the director and regional head of business sales for global markets of Standard Chartered Bank from July 2004 to December 2007. He acted as the head of treasury for Greater China and head of marketplaces for North Asia of Thomson Reuters from January 2008 to December 2013. He acted as the chief representative for Beijing of Reuters Transaction Services Ltd. from April 2011 to December 2013. He has been the director of Sky Source Enterprises Limited since April 2014.

**Mr. Tang Sze Wo (鄧仕和)**, aged 55, is an independent non-executive Director of the Company. Mr. Tang graduated with a Bachelor of Science (Honours) Construction Project Management from the University of Central Lancashire in the United Kingdom in 2005 and a master degree in Construction and Management from Griffith University of Australia in 2002. Mr. Tang is a registered professional engineer (civil) and currently is the corporate member of the Hong Kong Institution of Engineers. He was a member of the Registered Contractors' Disciplinary Board Panel from 2008 to 2011. From 1984 to 1994, he was employed by Sheung Yip Construction Limited mainly responsible for supervision and training. From 1994 to 1996, he was employed as a general foreman by Hong Kong and Macau International (Holding) Limited mainly responsible for the management and supervision of various building development projects in Hong Kong and the PRC. Since January 1997, Mr. Tang was appointed as the managing director of Sheung Moon Construction Limited mainly responsible for project management and overall management of this company.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Mr. Yu Siu Ming (余兆明)**, aged 53, is the financial controller of the Group. Mr. Yu obtained a bachelor's degree in Business Administration from the Queen's University of Brighton in 2007 and a MBA of Financial Management from the Queen's University of Brighton in 2009. From 1984 to 1987, Mr. Yu worked with G. F. Mark Five Knitting Factory Limited initially as an account clerk and promoted as an assistant accountant. From 1987 to 1988, he worked as an accountant with China Rising Development Limited. From 1988 to 1991, he worked as an accountant with Bagutta Garment Limited. From 1991 to 2007, he worked as an accountant and controller with Ospinter Limited. From 2007 to 2008, Mr. Yu worked as an accountant with Flexcon Limited.

**Mr. Yin Fan (尹凡)**, aged 38, is the financial manager of He Yuan Sky Wealth Electronic and Plastic Company Limited (河源天裕電子塑膠有限公司), an indirect wholly-owned subsidiary of the Company. Mr. Yin graduated from Hunan Institute of Technology (湖南工學院), formerly known as Hunan Construction Material Advanced Technical School (湖南建材高等專科學校), majoring in corporate management in 2002. From 2004 to 2005, he worked as the account and tax manager with 力升樹燈(河源)有限公司. From 2005 to 2008, he worked as the financial vice-manager, administration manager and assistant to vice-general manager with 中山澳碧製衣有限公司. From 2008 to 2011, he worked as the accounting manager with T-Lab Electronic and Plastic (He Yuan) Co., Ltd. (天工電子塑膠(河源)有限公司), a limited liability company established in the PRC on 12 January 2005, which is ultimately owned by Mr. Chung Chi Hang, Larry as to 90% and Mr. Chung Tin Shing as to 10%.

## 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 the date of Listing, i.e. Wednesday, 24 February 2016 (the “**Listing Date**”) and up to 31 December 2016 (the “**Period**”), the Company has complied with the CG Code.

## 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.

## BOARD OF DIRECTORS

Up to the date of this annual report, the Board comprises six directors, including three executive Directors and three independent non-executive Directors. Details of their composition by category are as follows:

### Executive directors

Mr. Chung Chi Hang, Larry (*Chairman*)  
Mr. Chung Tin Shing (*Chief Executive Officer*)  
Mr. Wong Shek Fai, Johnson (*Compliance Adviser*)

### Independent non-executive directors

Mr. Wong Choi Chak  
Mr. Li Chung Pong, Stephen  
Mr. Tang Sze Wo

The biographical details of all Directors are set out on pages 18 to 20 of this annual report. To the best knowledge of the Company, there are no financial, business, family or other material or relevant relationships among members of the Board.

The Company is governed by the Board which has the responsibility for leadership and monitoring of the Company. The Directors are collectively responsible for promoting the success of the Group by directing and supervising the Group’s affairs.

# CORPORATE GOVERNANCE REPORT

The Board sets strategies and directions for the Group's activities with a view to developing its business and enhancing shareholders' value. The Board has delegated the daily operation and day-to-day management of the Group as well as the implementation of the Board's policies and strategies to the executive Directors and management of the Group.

## Board meetings and board practices

The Company became listed on 24 February 2016. The Board will conduct at least four regular meetings a year. At least a 14-day notice will be given to all Directors before convening the Board meeting. All related information will be submitted to the Directors at least three days in advance. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's articles of association (the "**Articles**"). All minutes of the Board meetings were recorded in sufficient detail the matters considered by the Board and the decisions reached.

During the Period, four board meetings were held. Details of the attendance of Directors are as follows:

| <b>Directors</b>                           | <b>Attendance/<br/>Number of<br/>meeting(s) held</b> |
|--|--|
| <b>Executive Directors</b>                 |  |
| Mr. Chung Chi Hang, Larry                  | 3/4  |
| Mr. Chung Tin Shing                        | 3/4  |
| Mr. Wong Shek Fai Johnson                  | 3/4  |
| <b>Independent Non-Executive Directors</b> |  |
| Mr. Wong Choi Chak                         | 4/4  |
| Mr. Li Chung Pong, Stephen                 | 3/4  |
| Mr. Tang Sze Wo                            | 4/4  |

During the Board meetings, the senior management of the Company provided each Director with timely information regarding the business activities and developments of the Company and met with independent non-executive Directors to seek their views on the business development and operational matters of the Company. The senior management of the Company also provided a confirmation to the Board on the effectiveness of the Company's risk management and internal control systems.

## **Appointment and re-election of directors**

The current Articles provide that at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation and that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Under the code provision A.4.1 of the CG Code, the non-executive Directors should be appointed for a specific term. Each of the executive Directors and independent non-executive Directors has entered into a services contract or an appointment letter with the Company respectively. The services contract of each of the executive Directors is for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other. The appointment letter of each of the independent non-executive Directors is for a term of three years commencing from his appointment date, which may be terminated by not less than one month's notice in writing served by either party on the other. The aforesaid services contracts or appointment letters are subject to termination provisions therein and the retirement and re-election provisions in the Articles.

## **Continuing professional development**

According to the code provision A.6.5 of the CG Code, all Directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant.

During the Period, each of the Directors, namely Mr. Chung Chi Hang, Larry, Mr. Chung Tin Shing, Mr. Wong Shek Fai, Johnson, Mr. Wong Choi Chak, Mr. Li Chung Pong, Stephen and Mr. Tang Sze Wo, received from the Company from time to time the updates on laws, rules and regulations which might be relevant to their roles, duties and functions as director of a listed company.

All Directors, namely Mr. Chung Chi Hang, Larry, Mr. Chung Tin Shing, Mr. Wong Shek Fai, Johnson, Mr. Wong Choi Chak, Mr. Li Chung Pong, Stephen and Mr. Tang Sze Wo, have been updated with the latest developments regarding the GEM Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefing and professional development to Directors will be arranged whenever necessary.

## **Independent non-executive directors**

The Company has three independent non-executive Directors to comply with Rule 5.05 of the GEM Listing Rules. Furthermore, among the three independent non-executive Directors, Mr. Wong Choi Chak has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 5.05(2) of the GEM Listing Rules.

# CORPORATE GOVERNANCE REPORT

In accordance to Rule 5.09 of the GEM Listing Rules, the Company has received from each of its independent non-executive Directors the written confirmation of his independence. The Company, based on such confirmations, considers Mr. Wong Choi Chak, Mr. Li Chung Pong, Stephen and Mr. Tang Sze Wo to be independent.

## Chairman and chief executive

In accordance to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Currently, Mr. Chung Chi Hang, Larry, the Chairman, is responsible for managing the Group's business development and devising the business strategies. Mr. Chung Tin Shing, the chief executive officer, is responsible for overseeing the overall operation and marketing and sales of the Group.

## BOARD COMMITTEES

To assist the board in its work, the Board is assisted by four board committees, namely the audit committee, the remuneration committee, the nomination committee and the risk management committee, which are sufficiently resourced to fulfil their roles and their terms of reference have been approved by the Board and are available for review on the Company's website ([www.keenocean.com.hk](http://www.keenocean.com.hk)) and the GEM's website ([www.hkgem.com](http://www.hkgem.com)).

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### 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 the Company's corporate governance functions 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, who has the appropriate accounting and financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules, is the chairman of the Audit Committee.

According to the current terms of reference, meetings of the Audit Committee shall be held at least twice a year.

Four Audit Committee meetings were held during the Period. The Audit Committee has reviewed the internal audit report submitted by the independent internal control adviser. The Audit Committee has also reviewed the adequacy of resources, qualification and experience of staff of the Groups accounting and financial reporting function and their training programmes and budget, and has reviewed the first quarterly results for the three-month period ended 31 March 2016, the interim results for the six-month period ended 30 June 2016 and the third quarterly results for the nine-month ended 30 September 2016. The Audit Committee has reviewed the audited annual results of the Group for the year ended 31 December 2016, and considered that the Company had complied with all applicable accounting standards and requirements and had made adequate disclosure and has reviewed the remuneration of the auditor for the year ended 31 December 2016 and has recommended the Board to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company for the year ended 31 December 2017, subject to approval by the shareholders at the forthcoming annual general meeting expected to be held on 7 June 2017. The Audit Committee has also reviewed the Company's financial controls, internal control and risk management systems, and recommended the Board on risk management and internal control matters. The Audit Committee has also reviewed and monitored corporate governance functions as stipulated in code provision D.3.1 of the CG Code delegated by the Board. The attendance record of each member of the Audit Committee meeting is set out as follows:

| <b>Members</b>                         | <b>Attendance/<br/>Number of<br/>meeting(s) held</b> |
|--|--|
| Mr. Wong Choi Chak ( <i>Chairman</i> ) | 4/4  |
| Mr. Li Chung Pong, Stephen             | 3/4  |
| Mr. Tang Sze Wo                        | 4/4  |

In the opinion of the Audit Committee, as the Company has appointed the independent internal control adviser to review the Group's risk management and internal control systems, the internal audit function of the Company remain in effective.

### Corporate governance function

The Board has delegated the functions of corporate governance to the Audit Committee with terms of reference as set out in code provision D.3.1 of the CG Code. The aforesaid duties include:

- (a) to develop and review the Company's policies and practice on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of directors and senior management of the Company;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

# CORPORATE GOVERNANCE REPORT

- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and
- (e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report of the Company.

## Remuneration committee

The Board has established a remuneration committee (the "**Remuneration Committee**") on 2 February 2016, which operates under terms of reference approved by the Board. The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Directors regarding our policy and structure for the remuneration of all of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of our Directors and senior management; (iii) reviewing and approving the management's remuneration proposals with reference to our Board's corporate goals and objectives; and (iv) considering and approving the grant of share options to eligible participants pursuant to the share option scheme of the Company.

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The Remuneration Committee currently comprises three members, namely Mr. Tang Sze Wo, Mr. Wong Choi Chak and Mr. Chung Chi Hang, Larry. Mr. Tang Sze Wo is the chairman of the Remuneration Committee.

One Remuneration Committee meeting was held during the Period. The Remuneration Committee has reviewed the Company's remuneration policies, the remuneration packages of all executive Directors and senior management of the Company. In the opinion of the Remuneration Committee, the remuneration payable to all executive Directors and the senior management is in accordance with the terms of the services contracts and such remuneration is fair and reasonable. Details of the attendance of the members of the Remuneration Committee meeting are as follows:

| <b>Members</b>                      | <b>Attendance/<br/>Number of<br/>meeting(s) held</b> |
|-------------------------------------|--|
| Mr. Tang Sze Wo ( <i>Chairman</i> ) | 1/1  |
| Mr. Wong Choi Chak                  | 1/1  |
| Mr. Chung Chi Hang, Larry           | 1/1  |

# CORPORATE GOVERNANCE REPORT

## Remuneration of Senior management

The remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

| Remuneration bands   | Number of Individuals |      |
|----------------------|-----------------------|------|
|                      | 2016                  | 2015 |
| Nil to HK\$1,000,000 | 3                     | 3    |

Further particulars regarding directors' remuneration and the five highest paid employees are set out in note 12 to the consolidated financial statements.

## Remuneration policy

The remuneration policy of the Group for the Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the performance of the Group and the individual performance of the Directors and senior management members.

## Nomination committee

The Board has established a nomination committee (the "**Nomination Committee**") on 2 February 2016, which operates under terms of reference approved by the Board. The primary function of the Nomination Committee is to make recommendations to the Board on the appointment of members of the Board.

The Nomination Committee currently comprises three members, namely Mr. Li Chung Pong, Stephen, Mr. Tang Sze Wo and Mr. Chung Tin Shing. Mr. Li Chung Pong, Stephen is the chairman of the Nomination Committee.

One Nomination Committee meeting was held during the Period. The Nomination Committee has reviewed the structure, size and composition of the Board and board diversity policy as well as discussing matters regarding the retirement and re-election of Directors. Details of the attendance of the members of the Nomination Committee meeting are as follows:

| Members  | Attendance/<br>Number of<br>meeting(s) held |
|--|---|
| Mr. Li Chung Pong, Stephen ( <i>Chairman</i> ) | 1/1   |
| Mr. Tang Sze Wo                                | 1/1   |
| Mr. Chung Tin Shing                            | 0/1   |

# CORPORATE GOVERNANCE REPORT

## Procedure for nomination of directors

1. When there is a vacancy in the Board, the Nomination Committee evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive Director).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Nomination Committee to evaluate whether he/she meets the criteria adopted by the Nomination Committee for nomination of directors. One or more members of the Nomination Committee will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Nomination Committee meeting to discuss and vote on which candidate to nominate to the Board.
7. Make recommendation to the Board on the candidate(s) for directorship.
8. Convene a Board meeting to discuss and vote on which candidate to appoint to the Board.

## Criteria for nomination of directors

1. *Common criteria for all Directors*
  - (a) Character and integrity.
  - (b) The willingness to assume board fiduciary responsibility.
  - (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs.
  - (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company.
  - (e) Significant business or public experience relevant and beneficial to the Board and the Company.
  - (f) Breadth of knowledge about issues affecting the Company.
  - (g) Ability to objectively analyse complex business problems and exercise sound business judgement.

# CORPORATE GOVERNANCE REPORT

- (h) Ability and willingness to contribute special competencies to Board activities.
- (i) Fit with the Company's culture.

## 2. *Criteria applicable to non-executive Directors/independent non-executive Directors*

- (a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings.
- (b) Accomplishments of the candidate in his/her field.
- (c) Outstanding professional and personal reputation.
- (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules.

### **Risk management committee**

The Board has established a risk management committee (the "**Risk Management Committee**") on 2 February 2016 to review the general goals and fundamental policies of the risk and compliance management, internal control and risk management and internal audit functions of the Group and made recommendations to the Board on the same.

The Risk Management Committee currently comprises three members, namely Mr. Chung Tin Shing, Mr. Wong Shek Fai, Johnson and Mr. Tang Sze Wo. Mr. Chung Tin Shing is the chairman of the Risk Management Committee.

Two Risk Management Committee meetings were held during the Period. The Risk Management Committee has reviewed the risk management policy and the Company's internal control and risk management systems, and recommended to the Board on risk management and internal control matters. The Company has also reviewed the adequacy of resources, qualification and experience of staff of the Group's internal audit function. In the opinion of the Risk Management Committee, as the Company has appointed the independent internal control adviser to review the Group's risk management and internal control systems, the internal audit function of the Company remains in effective. Details of the attendance of the members of the Risk Management Committee meeting are as follows:

| <b>Members</b>                          | <b>Attendance/<br/>Number of<br/>meeting(s) held</b> |
|---|--|
| Mr. Chung Tin Shing ( <i>Chairman</i> ) | 2/2  |
| Mr. Wong Shek Fai, Johnson              | 2/2  |
| Mr. Tang Sze Wo                         | 2/2  |

# CORPORATE GOVERNANCE REPORT

## ACCOUNTABILITY AND AUDIT

### Directors' and auditor's responsibilities for the consolidated financial statements

All Directors acknowledge their responsibility to prepare the Group's consolidated financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2016, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements of the Group on a going concern basis.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The statement of auditor about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report.

The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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### Auditor's remuneration

During the year ended 31 December 2016, the remuneration paid or payable to the Company's auditor, Deloitte Touche Tohmatsu, in respect of their audit and non-audit services was as follows:

|  | <i>HK\$'000</i> |
|--|-----------------|
| Audit service  | 750             |
| Non-audit services (Report on Continuing Connected Transactions) | 8               |
| Total  | 758             |

### BOARD DIVERSITY POLICY

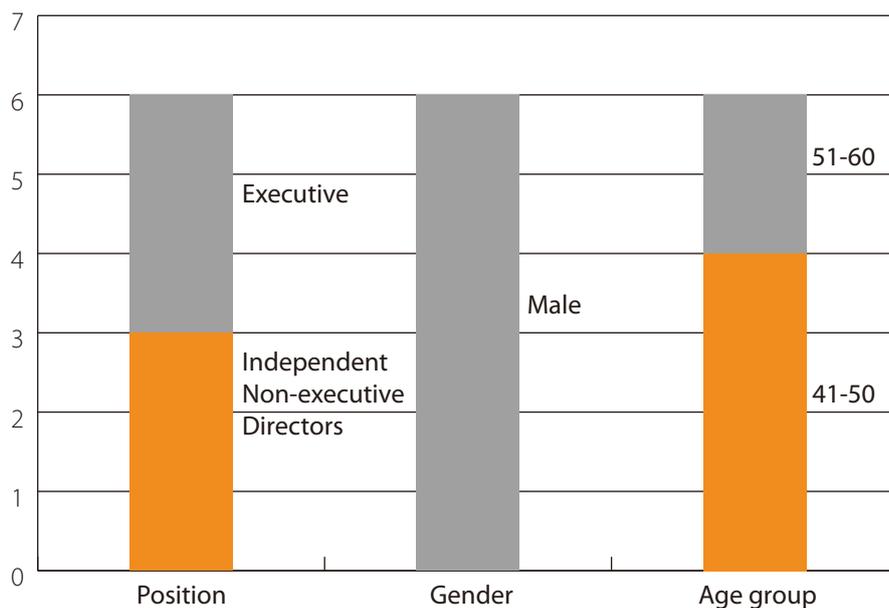
In accordance with the latest amendment and requirements of Corporate Governance Code and Corporate Governance Report in Appendix 15 of the GEM Listing Rules by the Stock Exchange, the Company has adopted a board diversity policy. The policy is summarized as below:

The Board Diversity Policy (the "**Policy**") of the Company specifies that in designing the composition the Board, Board diversity shall be considered from a number of aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. All Board members' appointment will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board. Selection of candidates for the Board will be based on a range of diversity perspectives, including but not limited to gender, age, culture, ethnicity and educational background, professional experience, knowledge and skills.

# CORPORATE GOVERNANCE REPORT

The Nomination Committee of the Board will disclose the composition of the Board in Corporate Governance Report every year and supervise the implementation of this Policy. The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this annual report, the diversity of the Board is illustrated as below. Further details on the biographies and experience of the Directors are set out on page 18 to page 20 of this annual report.



The Nomination Committee has reviewed the members, structure and composition of the Board, and is of the opinion that the rational structure of the Board and the experiences and skills of the Directors in various aspects and fields may enable the Company to maintain high standard operation.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

### Overview

The Group considers maintaining an appropriate and effective risk management and internal control systems are essential to drive the achievement of business objectives and goals, sustainability and continuous growth of the Group.

The Group's business operation encompasses a multiple range of risks. In order to effectively manage risks, risk management and controls are regarded as an integral part of day-to-day business activities and the responsibilities of all manpower.

### Risk management and internal control framework

The Group's risk management and internal control framework is designed with reference to the five components outlined in Internal Control and Risk Management – A Basic Framework issued by the Hong Kong Institute of Certified Public Accountants: control environment, risk assessment, control activities, information and communication, and monitoring. Main characteristics of the risk management and internal control framework are described as follows:

#### *Risk and Control Governance Structure, Approach and Culture*

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The Board set the tone at the top to demonstrate their commitment to good corporate governance and a high standard of professionalism, integrity and ethical values through formulation of staff development plans and code of conducts set out in staff handbook. The Company aims at bringing down the culture to employees and instilling their behavior to act professionally and ethically.

In order to effectively implement risk management and internal control systems throughout the Group, the Company strives to build up risk awareness and control responsibility of every employee. A decentralised model with a centralised monitoring system over risk management process is adopted. As such, the Board believes every employee takes part of it and understands thoroughly on its ways of thinking and acting. Under proper oversight and monitoring of the Board, the Group is able to take advantage of division of labour and delegation of authorities through effective communication and sharing of strategies and decision-making across the Group.

# CORPORATE GOVERNANCE REPORT

Accountability, roles and responsibilities of the Risk and Control Governance Structure are defined in diverse layers in the following table:

| <b>Role</b>                   | <b>Accountability</b>                | <b>Responsibilities</b>   |
|-------------------------------|--------------------------------------|---|
| Board Oversight               | The Board                            | <ul style="list-style-type: none"> <li>Responsible to oversee the effectiveness of risk management and internal control systems.</li> <li>Formally approve risk management policy and procedures.</li> <li>Determine and evaluate the risk management approach and risk appetite.</li> <li>Monitor significant risk exposure.</li> <li>Establish objectives and set the tone at the top for effective risk management and internal controls.</li> <li>Consider risks at business planning.</li> </ul> |
|                               | Audit Committee                      | <ul style="list-style-type: none"> <li>Support the Board to review the design, implementation and monitoring of risk management and internal control framework.</li> <li>Provide an independent view on the effectiveness of risk management and internal control systems on an annual basis.</li> </ul>  |
| Independent Assessment        | Independent Internal Control Adviser | <ul style="list-style-type: none"> <li>Assist the Board to carry out independent assessment on the effectiveness of risk management and internal control systems.</li> </ul>  |
| Risk Monitoring and Assurance | Risk Management Committee            | <ul style="list-style-type: none"> <li>Assist the Audit Committee to review the effectiveness of risk management and internal control systems including the annual review of self assessment result from senior management and department heads.</li> <li>Assist the Board to monitor significant risk exposure and supervise the conduct of risk management and internal control process.</li> <li>Review the policies in relation to risk and compliance management.</li> </ul>                     |

# CORPORATE GOVERNANCE REPORT

| <b>Role</b>                      | <b>Accountability</b>  | <b>Responsibilities</b>   |
|----------------------------------|--|---|
| Risk Reporting and Communication | Senior management (Chief Executive Officer and Financial Controller) | <ul style="list-style-type: none"> <li>• Facilitate the risk escalation and communication.</li> <li>• Monitor status and provide guidance on the risk management and control activities, including risk identification and mitigation controls performance.</li> <li>• Identify significant risk at corporate level and recommend remediation plan and detailed control procedures to Risk Management Committee.</li> <li>• Maintain and update of risk register, and assess material risk identified.</li> </ul> |
| Risk and Control Ownership       | Department heads and employees                                       | <ul style="list-style-type: none"> <li>• Responsible for carrying out day-to-day risk management and control activities according to policies and guidelines established.</li> <li>• Conduct self-assessment on the effectiveness of day-to-day risk management and control activities.</li> <li>• Report on material risk identified at operational level and recommend action plan and detailed control procedures to senior management for discussion.</li> </ul>  |

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## *Risk Management and Internal Control Review Process*

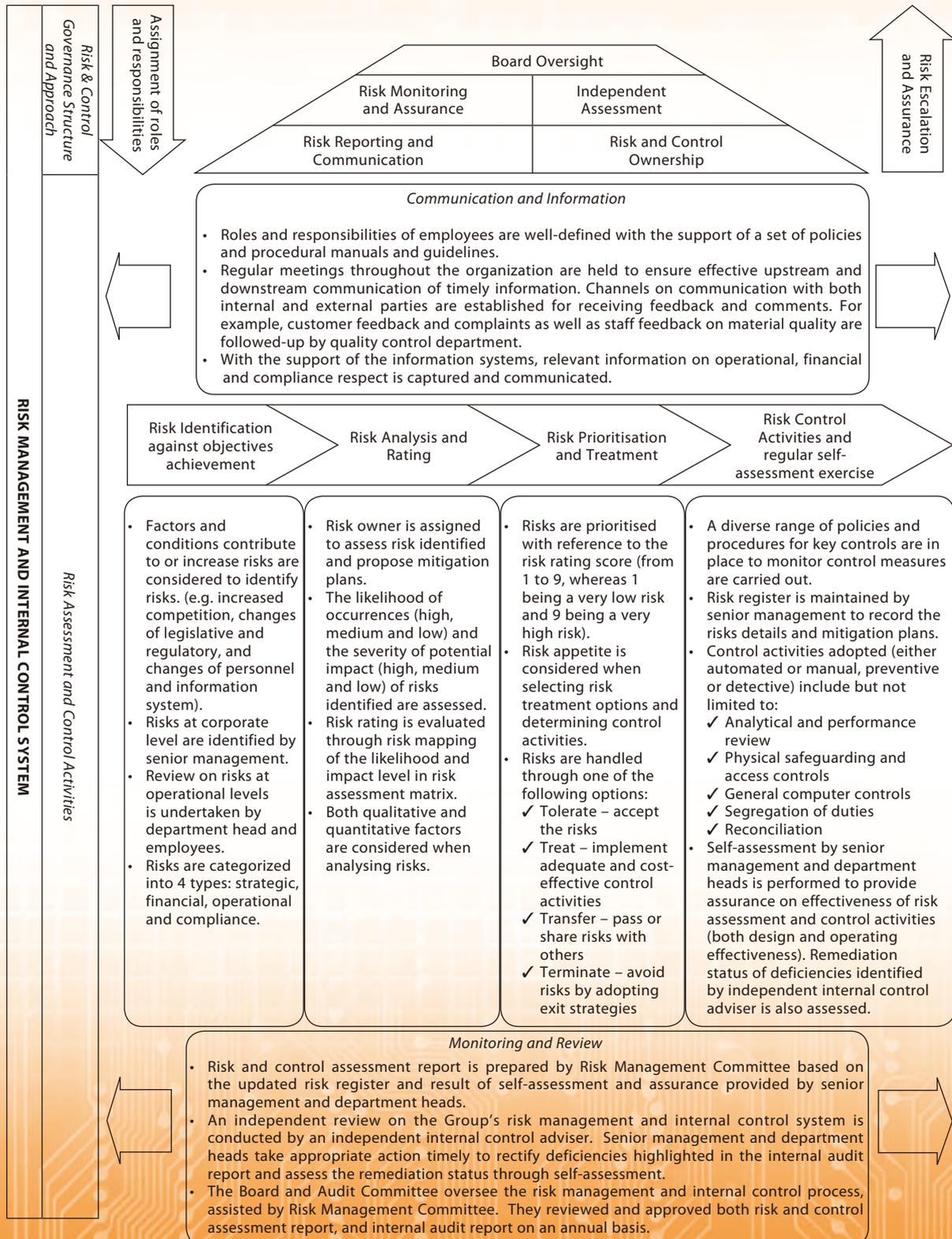
Risk management process is integrated with the internal control system, so that the Group's ability to handle risks that hinder the achievement of strategic, financial, operational and compliance goals is strengthened and the allocation of resources on control measures against specific or high risks areas is more adequate. Key elements of the integrated risk management and internal control process comprise of:

- the identification, analysis, rating and prioritisation of risks;
- the development of action plans and detailed control procedures;
- the self-assessment of design and operating effectiveness of such control procedures;
- the establishment and update of a risk register to document and track the identified risks and controls;
- the engagement of independent internal control adviser to perform independent assessment; and
- the overall review procedures of the effectiveness of risk management and internal control review mechanism.

# CORPORATE GOVERNANCE REPORT

The detailed process is illustrated in Exhibit 1 as shown below.

Exhibit 1



# CORPORATE GOVERNANCE REPORT

## Management of significant risks

The Group's significant risks currently being managed include:

| Risk Description   | Changes in 2016  | Key Risk Mitigation   |
|--|--|---|
| <b>Strategic Risk</b>  |  |   |
| <p><u>Uncertain economic conditions</u><br/>Sales of the Group cover several geographical locations including Hong Kong, the PRC, Europe and United States. Change of global economic conditions brings direct impact to the Group's business and profitability.</p> <p>In the year of 2016, customers were cautious and conservative in placing orders due to global economic slowdown and uncertain economic environment. This led to the drop of the Group's revenue.</p> | <br>Global economic slowdown  | <ul style="list-style-type: none"> <li>Maintain the competitiveness by continuously exploring and developing of new products, and improving production capability and efficiency through upgrade of technology and machinery.</li> <li>Set up of online product selling, promotion and customer service channel.</li> <li>Strengthen the marketing and advertising campaign of new products through trade fairs, exhibitions and visiting customers.</li> </ul>   |
| <p><u>Inadequate pricing strategy</u><br/>Operating result of the Group is highly sensitive to any unfavourable changes in selling price and material cost.</p> <p>In the current year, gross profit margin remained approximately 20% despite the global economic slowdown.</p>   | <br>Same pricing strategy is applied to maintain gross profit margin | <ul style="list-style-type: none"> <li>Determine product price on a "cost-plus" basis consistently to pass on effects on any change of material cost to customers, so that gross profit margin is maintained.</li> <li>Keep update of the recent changes of material costs to negotiate and bargain for lower purchase prices.</li> <li>Lower production cost by improving production capability and efficiency through upgrade of technology and machinery.</li> </ul>   |
| <b>Operational Risk</b>  |  |   |
| <p><u>Heavy reliance on a few major customers</u><br/>Top five customers contribute to around 55% of the Group's revenue. Loss of these major customers may result in significant adverse impact on the Group's operating results and financial condition.</p>   | <br>No loss of major customer                                       | <ul style="list-style-type: none"> <li>Incentive program is in place to encourage sales personnel to expand customer base.</li> <li>Agreements in relation to confidentiality, non-competition and non-solicitation are signed with key employees to prevent loss of customers.</li> <li>Designated personnel are allowed to get access to customer information and contract customers. Senior employees, including executive director, with a strong sense of loyalty, are assigned to follow up orders with valued customers.</li> <li>Set up of online sales platform and launch of new products are implemented to broaden customer base.</li> <li>Active participation in trade fairs and exhibitions to explore new customers.</li> </ul> |

# CORPORATE GOVERNANCE REPORT

| Risk Description  | Changes in 2016   | Key Risk Mitigation   |
|---|---|---|
| <p><b><i>Failure to maintain product quality and safety</i></b><br/>                     The Group's products are subject to the adherence to internal quality control policies and guidelines, and the product safety and environmental requirements and standards of export countries.</p> <p>Any failure in meeting the quality and safety standard may result in the production of defective products and sales returns, which may impair the Group's reputation.</p> | <br>No material issue on product quality         | <ul style="list-style-type: none"> <li>• Ongoing training on quality control and production facilities operating is provided to employees, with relevant procedural and operational guidelines formulated.</li> <li>• Equip with a strong team of research and development, and engineering to undertake certain tests in relation to product quality, safety and environment requirements.</li> <li>• Product quality is monitored throughout the supplier sourcing and product manufacturing process, including but not limited to supplier assessment and selection, regular supplier performance review, incoming quality control, production quality control and outgoing quality control.</li> <li>• Regular repair and maintenance is carried out for production facilities.</li> <li>• Regular review on the need to apply new technology and acquire new machinery.</li> </ul> |
| <b>Financial Risk</b>   |   |   |
| <p><b><i>Poor liquidity and credit controls</i></b><br/>                     The Group's business primarily funded by cash generated from operating activities, whereas receipt from sales proceeds are the main source of cash generated from operating activities. Poor liquidity and credit controls may adversely affect the financial condition of the Group.</p>  | <br>Liquidity position is maintained as stable | <ul style="list-style-type: none"> <li>• Factoring loan facilities are entered into with banks in Hong Kong to mitigate risk of debt collection.</li> <li>• Cash flow position is regularly monitored by Financial Controller.</li> <li>• Monitoring of accounts receivables aging on a weekly basis to identify long-aged debts and to restrict delivery of goods when credit limit is exceeded.</li> </ul>  |

# CORPORATE GOVERNANCE REPORT

| Risk Description  | Changes in 2016   | Key Risk Mitigation   |
|---|---|---|
| <p><u>Expose to foreign currency risk</u><br/>The Group has operations in both Hong Kong and the PRC with relevant operation costs mainly paid in Renminbi. On the other hand, export sales and overseas purchases are mainly denominated in U.S. dollars, while local PRC sales and purchases are denominated in Renminbi. Accordingly, the Group is subject to risks associated with foreign exchange rate fluctuations particularly the U.S. dollars against the Renminbi.</p> | <br>Currency volatility is a market norm | <ul style="list-style-type: none"> <li>No hedging arrangement is currently in place.</li> <li>The Group closely monitors the movement of foreign currency rates for the need of hedging significant foreign currency exposure.</li> </ul>   |
| <b>Compliance Risk</b>  |   |   |
| <p><u>Failure to comply with the GEM Listing Rules</u><br/>Adherence to the GEM Listing Rules is required. upon the Listing on 24 February 2016 Any failure to comply with relevant rules may subject to disciplinary actions and sanctions.</p>  | New   | <ul style="list-style-type: none"> <li>The Board and Board Committees have been established to oversee the Group's corporate governance matters and compliance with the relevant GEM Listing Rules.</li> <li>Compliance adviser is appointed to advise the Company on compliance matters.</li> <li>A set of entity-level policies and procedures in relation to the relevant GEM Listing rules is formulated to support the compliance monitoring.</li> <li>In current year, an independent internal control adviser is engaged to assist the Board to review the compliance against change of the GEM Listing Rules, including Appendix 15 and Appendix 20.</li> </ul> |
| <p><u>Failure to make social insurance fund contribution and housing provident fund</u><br/>The Social Insurance Law of the PRC and the Regulations on Management of the Housing Provident Fund were not fully complied in prior years. Penalties may be imposed by the relevant government authorities in case of non-compliance.</p>  | <br>No fine or penalty is imposed.     | <ul style="list-style-type: none"> <li>An internal policy has been established that summaries of social insurance contribution and housing provident fund are reviewed by senior management on a monthly basis.</li> <li>Consultation with the PRC lawyer is carried out on the compliance issue when necessary.</li> <li>Assessment on the need of making provision is made on a semi-annual basis by senior management after considering the opinions of the PRC lawyer which are reviewed by external auditor.</li> </ul>  |

*Remark:*



Risk level increased



Risk level remained unchanged



Risk level decreased

## **Inside information control**

The Company has established procedures and internal controls for the handling and dissemination of inside information which are summarized as follows:

- Inside information is required to be disclosed in an equal and timely manner to ensure compliance with disclosure obligations under the Securities and Futures Ordinance and the GEM Listing Rules;
- An internal inside information disclosure policy, with close regard to the “Guidelines on Disclosure of Inside Information” issued by the Securities and Futures Commission, has been established to govern the handling and dissemination of inside information through carrying out appropriate internal identification, analysis, review and reporting process; and
- Unauthorised use of confidential or inside information is prohibited as stated in the code of conduct set out in staff handbook.

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## **Assessment on effectiveness of risk management and internal control systems**

The Board acknowledges its responsibility for the effectiveness of risk management and internal control systems of the Group. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Board has conducted an annual review on the continuous effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls for the year ended 31 December 2016. The Board is of the opinion that the Group’s risk assessment and internal control systems are adequate and effective after its annual review on the followings aspects:

- the conclusion of the risk and control assessment report, which is prepared based on the updated risk register and the results of the management’s self-assessment exercise;
- the significant issues and areas of risks reported in the internal audit report prepared by independent internal control adviser;
- the changes in the nature and extent of significant risks since the previous review, and the Group’s ability to respond to changes in its business and the external environment;
- the scope and quality of management’s ongoing monitoring of risks and of the internal control systems, the work of department heads and senior management;
- the extent and frequency of communication of monitoring results, which enables the Board, Audit Committee and Risk Management Committee to assess control of the Group and the effectiveness of risk management;

# CORPORATE GOVERNANCE REPORT

- the significant control findings or weaknesses that have been identified during the year, and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition;
- the effectiveness of the Company's processes for financial reporting and GEM Listing Rule compliance; and
- the adequacy of resources, employee qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions.

The Board has reviewed the need for an internal audit function in the current year and considered appointment of the independent internal control adviser is a more adequate and cost-effective way based on the following rationale:

- An independent internal control adviser was engaged to carry out the independent review of the adequacy and effectiveness of the Group's risk management and internal control systems, which are the main role and responsibility of an internal audit function;
- There is only one plant located in the PRC and one head office located in Hong Kong. The Group's business process is relatively simple and straight-forward. In the view of the Board, formation of an internal audit function may not be cost-effective.

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## GENERAL MEETING

During the Period, the Company held an annual general meeting on 6 June 2016 ("2016 AGM") and below is the attendance of each Director:

| <b>Attendance/No. of Meeting</b>           | <b>2016 AGM</b> |
|--|-----------------|
| <b>Executive Directors</b>                 |                 |
| Mr. Chung Chi Hang, Larry                  | 1/1             |
| Mr. Chung Tin Shing                        | 1/1             |
| Mr. Wong Shek Fai, Johnson                 | 1/1             |
| <b>Independent Non-Executive Directors</b> |                 |
| Mr. Wong Choi Chak                         | 1/1             |
| Mr. Li Chung Pong, Stephen                 | 1/1             |
| Mr. Tang Sze Wo                            | 1/1             |

The 2016 AGM provided an ideal chance for communication between the Board and the shareholders of the Company. The chairmen of the Board and the Audit Committee and the external auditors were all present at the 2016 AGM to answer shareholders' inquiries.

## INVESTORS AND SHAREHOLDERS RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include (i) the publication of quarterly, interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the websites of GEM and the Company; (iv) the Company's website offering communication channel between the Company and its shareholders and investors; and (v) the Company's share registrars in Hong Kong serving the shareholders in respect of all share registration matters.

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear, detailed, timely manner and on a regular basis information of the Group to shareholders through the publication of quarterly, interim and annual reports and/or dispatching circulars, notices, and other announcements.

The Company strives to take into consideration its shareholders' views and inputs, and address shareholders' concerns. Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice shall be given. The chairman of the Board as well as chairmen of the Audit Committee, the Nomination Committee and the Remuneration Committee, or in their absence, the Directors are available to answer shareholders' questions on the Group's businesses at the meeting. To comply with code provision E.1.2 of the CG Code, the management will ensure the external auditor to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

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### *Right to Convene Extraordinary General Meeting*

All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders. According to Article 58 of the Articles, one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings can call for an extraordinary general meeting. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

### *Procedures for proposing a person for election as a director*

If a shareholder wishes to propose a person (the "**Candidate**") for election as a director of the Company at a general meeting, he/she shall deposit a written notice (the "**Written Notice**") to the office of the branch share registrar of the Company in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong or the principal place of business of the Company in Hong Kong at Unit 5, 34th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

# CORPORATE GOVERNANCE REPORT

The Written Notice (i) must include the personal information of the Candidate as required by Rule 17.50(2) of the GEM Listing Rules; and (ii) must be signed by the shareholder concerned and signed by the Candidate indicating his/her willingness to be elected as a Director.

The period for lodgment of the Written Notice shall commence on the day after the dispatch of the notice of general meeting and end no later than 7 days prior to the date of such general meeting.

## *Right to Put Enquiries to the Board*

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong for the attention of the company secretary.

## *Right to Put Forward Proposals at General Meetings*

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised). However, shareholders who wish to propose resolutions may follow article 58 of the Articles for requisitioning an extraordinary general meeting and including a resolution at such meeting. The requirements and procedures of article 58 are set out above.

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In order to promote effective communication, the Company also maintains website ([www.keenocan.com.hk](http://www.keenocan.com.hk)) which includes the latest information relating to the Group and its businesses.

Share registration matters shall be handled for the shareholders by the Company's Hong Kong branch share registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

## **COMPANY SECRETARY**

The Company engages Ms. Chau Hing Ling, the director of Corporate Services of Vistra Corporate Services (HK) Limited, which is an external service provider, as its company secretary. Her primary contact at the Company is Mr. Yu Siu Ming, the financial controller of the Company.

During the year ended 31 December 2016, Ms. Chau has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge.

## **SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS**

There were no significant changes in the constitutional documents of the Company for the Period.

The directors of the Company (the “**Directors**”) submit herewith their report together with the audited consolidated financial statements of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2016.

## Corporate reorganisation and placing

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Island (the “**Companies Law**”) on 19 December 2014. Pursuant to a reorganisation to rationalise the group structure in preparation for the listing of the issued ordinary shares of HK\$0.01 each in the capital of the Company on the GEM, the Company became the holding company of the Group. Details of the Reorganisation are set out in the Prospectus. The Company’s shares (the “**Shares**”) were listed on GEM (the “**Listing**”) on 24 February 2016.

## Principal places of business

The Company is a limited liability company incorporated in the Cayman Islands and its principal place of business is Unit 5, 34th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

## Principal activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries of the Company are set out in note 30 to the consolidated financial statements.

## Business Review

A fair review of the Group’s business during the year is provided in the Management Discussion and Analysis section on pages 7 to 17 of this annual report. Description of principal risks and uncertainties that the Group may be facing can be found in the Risk Management and Internal Control Systems section on pages 32 to 40. Also, the financial risk management objectives and policies of the Group can be found in Note 25b to the consolidated financial statements. The Group does not have any significant events since the end of reporting period and as at the date of this Annual Report. A summary of the results and of the assets and liabilities of the Group’s Financial Highlights on page 5 of this annual report. In addition, discussions on the Group’s environmental policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are all contained in the Environmental, Social and Governance Report section on pages 64 to 69. The probable future business development of the Company is discussed in the paragraph headed “Prospect” in the Management Discussion and Analysis section from pages 7 to 17 of this annual report.

# REPORT OF THE DIRECTORS

## Results

The results of the Group for the financial year ended 31 December 2016 and the state of affairs of the Group as at that day are set out in the consolidated financial statements on pages 76 to 118.

## Dividend

The board of Directors (the “**Board**”) does not recommend the payment of a final dividend for the year ended 31 December 2016.

## Annual general meeting

The forthcoming annual general meeting (the “**Annual General Meeting**”) of the Company is scheduled to be held on 7 June 2017. A notice convening the Annual General Meeting will be issued and dispatched to shareholders of the Company (the “**Shareholders**”) in due course.

The register of members of the Company will be closed from 5 June 2017 to 7 June 2017 (both dates inclusive) during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong for registration not later than 4:00 p.m. on 2 June 2017.

## Deed of non-competition

A deed of non-competition (the “**Deed of Non-competition**”) dated 2 February 2016 was entered into by Cyber Goodie Limited, a limited liability company incorporated in the British Virgin Islands, and Mr. Chung Chi Hang, Larry in favour of the Company (for the Company and for the benefit of its subsidiaries) regarding non-competition undertakings. Pursuant to the Deed of Non-competition, each controlling Shareholder of the Company has undertaken to the Company (for itself and for the benefit of its subsidiaries) that with effect from the Listing Date and for so long as the Shares remain listed on the Stock Exchange and (i) the controlling Shareholders, individually or collectively (whether or not with their respective close associates), are directly or indirectly interested in not less than 30% of the Shares in issue; or (ii) the relevant controlling Shareholder remains as the executive Director, each of the controlling Shareholders shall, and shall procure that its/his respective associates shall:

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activities of the Group or any business activities which the Group may undertake in the future;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of the Group including, but not limited to, solicitation of customers, suppliers and staff of the Group;

- (c) keep the Board informed of any matter of potential conflicts of interests between the relevant controlling Shareholder (including its/his associates) and the Group, in particular, a transaction between any of the relevant controlling Shareholder (including its/his associates) and the Group; and
- (d) provide as soon as practicable upon the Company's request a written confirmation in respect of compliance by it with the terms of the Deed of Non-competition and their respective consent to the inclusion of such confirmation in the Company's annual report and all such information as may be reasonably requested by the Company for its review.

In addition, each of the controlling Shareholders hereby irrevocably and unconditionally, undertakes that if any new business opportunity relating to any products and/or services of the Group (the "**Business Opportunity**") is made available to it/him or its/his associates (other than members of the Group), it or he will direct or procure the relevant associate to direct such Business Opportunity to the Group with such required information to enable the Group to evaluate the merits of the Business Opportunity.

The relevant controlling Shareholder shall provide or procure its/his associates to provide all such reasonable assistance to enable the Group to secure the Business Opportunity. If he or it (or his/its associates) plans to participate or engage in any new activities or new business which may, directly or indirectly, compete with the existing business activities of the Group, he or it shall give the Company a first right of refusal to participate or engage in the Business Opportunity and will not participate or engage in these activities unless with the prior written consent of the Company. None of the controlling Shareholder and their respective associates (other than members of the Group) will pursue the Business Opportunity until the Group decides not to pursue the Business Opportunity because of commercial reasons. Any decision of the Company will have to be approved by the independent non-executive Directors taking into consideration the prevailing business and financial resources of the Group, the financial resources required for the Business Opportunity and, where necessary, any expert opinion on the commercial viability of the Business Opportunity.

Each of the controlling Shareholders further irrevocably and unconditionally, undertakes that it or he will (i) provide to the Group all information necessary for the enforcement of the undertakings contained in the deed of non-competition; and (ii) confirm to the Company on an annual basis as to whether it or he has complied with such undertakings.

The independent non-executive Directors are responsible for reviewing, at least on an annual basis, compliance and enforcement of the terms of the Deed of Non-competition. During the Period, each controlling Shareholder of the Company has made annual confirmation of compliance of the Deed of Non-competition, and the independent non-executive Directors have also reviewed the implementation of the Deed of Non-competition, and confirmed that the controlling Shareholders have fully abided by the Deed of Non-competition without any breach of the Deed of Non-competition.

# REPORT OF THE DIRECTORS

## **Major customers and suppliers**

During the year ended 31 December 2016, the Group's five largest customers accounted for approximately 55% of the revenue. The Group's five largest suppliers accounted for approximately 31% of the total purchases for the year ended 31 December 2016. In addition, the Group's largest customer accounted for approximately 21% of the revenue and the Group's largest supplier accounted for approximately 21% of the total purchases for the year ended 31 December 2016.

As far as the Company is aware, as at the date of this annual report, none of the Directors, their close associates nor any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the Group's customers and suppliers as disclosed above.

## **Reserves**

Details of movements in the reserves of the Group and of the Company during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity and statement of changes in equity respectively in this annual report.

## **Distributable reserves**

46 As at 31 December 2016, there was no reserve available for distribution to the Shareholders.

## **Property and equipment**

Details of movements in the property and equipment of the Group are set out in note 15 to the consolidated financial statements in this annual report.

## **Share capital**

Details of movements in the share capital of the Company during the year ended 31 December 2016 are set out in note 22 to the consolidated financial statements in this annual report.

## Directors

Up to the date of this annual report, the Directors were:

### *Executive directors*

Mr. Chung Chi Hang  
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

Further details of the Directors are set forth in the section headed “Biographical Details of Directors and Senior Management” of this annual report.

Mr. Chung Tin Shing and Mr. Wong Choi Chak will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting in accordance with Article 84(1) of the Articles.

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## Directors' service contracts

None of the Directors (including those proposed for re-election at the Annual General Meeting) has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## Share option scheme

The following is a summary of the principal terms of the share option scheme adopted under the written resolutions of the shareholders of the Company passed on 2 February 2016 (“**Share Option Scheme**”) and the terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

### (a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

# REPORT OF THE DIRECTORS

## (b) *Who may join*

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (e) below to the following (the “**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any directors (including executive, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers, agents and related entities to the Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

## (c) *Maximum number of Shares*

The maximum number of 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, excluding for this purpose Shares which would have been issuable pursuant to the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the GEM Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The circular issued by the Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time.

No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with paragraph (q) below whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

*(d) Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of Options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 23.03(4) and 23.06 of the GEM Listing Rules and/or such other requirements as prescribed under the GEM Listing Rules from time to time; and
- (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the GEM Listing Rules from time to time with such Eligible Participant and his associates (as defined in the GEM Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine.

# REPORT OF THE DIRECTORS

## (e) *Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

## (f) *Granting options to connected persons*

Any grant of options to a director, chief executive or substantial shareholder (as defined in the GEM Listing Rules) of the Company or any of their respective associates (as defined in the GEM Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the GEM Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the GEM Listing Rules of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the GEM Listing Rules, based on the official closing price of the Shares at the date of each grant, such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the GEM Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the GEM Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by the Company to the Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before the Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;
- (iii) the information required under Rule 23.02(2)(c) and (d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules; and
- (iv) the information required under Rule 2.28 of the GEM Listing Rules.

*(g) Restrictions on the times of grant of Options*

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the GEM Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date to first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's annual results half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the GEM Listing Rules) and ending on the date of actual publication of the results announcement.

*(h) Rights are personal to grantee*

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do.

# REPORT OF THE DIRECTORS

(i) *Time of exercise of Option and duration of the Share Option Scheme*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption. There is no minimum period for which an option must be held before it can be exercised.

(j) *Performance target*

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.

(k) *Rights on ceasing employment or death*

If the grantee of an option ceases to be an employee of the Company or any of its subsidiaries (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (l) below, the option to the extent not already exercised on the date of cessation shall lapse automatically on the date of cessation; or (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(l) *Rights on dismissal*

If the grantee of an Option ceases to be an employee of the Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of the Group (if so determined by the Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group, or has been convicted of any criminal offence involving his integrity or honesty, his Option will lapse and not be exercisable after the date of termination of his employment.

(m) *Rights on takeover*

If a general offer is made to all the Shareholders (or all such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(n) *Rights on winding-up*

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

(o) *Rights on compromise or arrangement between the Company and its members or creditors*

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(p) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully paid Shares in issue on the date of issue.

# REPORT OF THE DIRECTORS

## *(q) Effect of alterations to capital*

In the event of any alteration in the capital structure of the Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of the Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 23.03(13) of the GEM Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and any future guidance and interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of the Company for which any grantee of an Option is entitled to subscribe pursuant to the Options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

## *(r) Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (k), (l), (m), (n) or (o);
- (iii) the date on which the scheme of arrangement of the Company referred to in paragraph (o) becomes effective;
- (iv) subject to paragraph (n), the date of commencement of the winding-up of the Company;

- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of the Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty, or has become insolvent, bankrupt or has made arrangements or compositions with his or her creditors generally, or in relation to an employee of the Group (if so determined by the Board) or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h) above or the options are cancelled in accordance with paragraph (t) below.

(s) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

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- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 23.03 of the GEM Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted, shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 23 of the GEM Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by shareholders in general meeting.

(t) *Cancellation of Options*

Subject to paragraph (h) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing.

# REPORT OF THE DIRECTORS

(u) *Termination of the Share Option Scheme*

The Company may by resolution in general meeting or the Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) *Administration of the Board*

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(w) *Condition of the Share Option Scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Division of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional (including, if relevant, as result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise;
- (iii) the approval of the rules of the Share Option Scheme by the Shareholders in general meeting; and
- (iv) the commencement of dealings in the Shares on the Stock Exchange.

(x) *Disclosure in annual and interim reports*

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the GEM Listing Rules in force from time to time.

(y) *Present status of 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 31 December 2016 and there were no outstanding share options under the Share Option Scheme as at 31 December 2016 and up to the date of this annual report.

## 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 31 December 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 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/<br>Nature of interest         | Number of<br>Shares<br><i>(note 1)</i> | Approximate<br>percentage of<br>Shares |
|--|---|--|--|
| Mr. Chung Chi Hang, Larry<br><i>(note 2)</i> | Interest of a controlled<br>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.

# REPORT OF THE DIRECTORS

## (ii) *Interests in associated corporation(s) of the company*

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

Save as disclosed above, as at 31 December 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.

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

Save as disclosed above, as at 31 December 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.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES**

Save as disclosed in this annual report, at no time since the Listing Date 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).

## **SUFFICIENCY OF PUBLIC FLOAT**

From the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained the public float as required by the GEM Listing Rules up to the date of this annual report.

## **REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS**

Details of the emoluments of the Directors and five individuals with the highest emoluments are set out in note 12 to the consolidated financial statements in this annual report. No Director has waived or has agreed to waive any emolument during the year ended 31 December 2016.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Save as otherwise disclosed, no contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2016.

## **MANAGEMENT CONTRACTS**

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2016.

## **CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Save as otherwise disclosed, no contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which the controlling shareholders' of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2016.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at 31 December 2016, none of the Directors or their respective associates 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.

## **BANK LOANS AND OTHER BORROWINGS**

Particulars of bank loans and other borrowings of the Group as at 31 December 2016 are set out in note 20 to the consolidated financial statements in this annual report.

## **RETIREMENT BENEFITS PLANS**

Particulars of retirement benefits plans of the Group as at 31 December 2016 are set out in note 3 to the consolidated financial statements in this annual report.

## **CONFIRMATION OF INDEPENDENCE**

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors were independent during the period from their respective appointments and up to the date of this annual report.

## **CONNECTED TRANSACTIONS**

The related party transactions and balance of the Company are set out in note 28 to the consolidated financial statements in this annual report. Apart from the continuing connected transactions disclosed below, all the other related party transactions did not fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 20 of the GEM Listing Rules which are required to comply with any of the relevant reporting, announcement or independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

# REPORT OF THE DIRECTORS

The independent non-executive Directors of the Company have reviewed and confirmed that the continuing connected transactions set out below have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the terms of the agreements governing the relevant transactions, and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Details of the Group's continuing connected transactions are as follows:

## *Leasing*

On 25 March 2015, 河源天裕電子塑膠有限公司 (He Yuan Sky Wealth Electronic and Plastic Company Limited) ("**He Yuan Sky Wealth**") and 天工電子塑膠(河源)有限公司 (T-Lab Electronic and Plastic (He Yuan) Co. Ltd.) ("**He Yuan T-Lab**") entered into a tenancy agreement (the "**Tenancy Agreement**") whereby He Yuan Sky Wealth leases from He Yuan T-Lab the properties located at the east of Xinggong Avenue and south of Keqi Road, High-tech Development Zone, Heyuan City, Guangdong Province, the PRC (the "**Properties**") for a term of three years commencing from the Listing Date at a monthly rental of RMB124,000 (excluding any utilities and management fees). The Properties are used by He Yuan Sky Wealth for production, warehouse and dormitory uses, with an option to renew every three years.

He Yuan T-Lab is a company established in the PRC on 12 January 2005 and is wholly-owned by Yield Speed Limited which is ultimately owned as to 90% by Cyber Goodie Limited and as to 10% by Mr. Chung Tin Shing. At present, other than holding and leasing the Properties, He Yuan T-Lab does not engage in any operating activities. Cyber Goodie Limited is wholly-owned by Mr. Chung Chi Hang, Larry, the controlling shareholder of the Company. Mr. Chung Tin Shing is one of the shareholders and executive Directors of He Yuan T-Lab. As such, He Yuan T-Lab is the connected person of the Company under Rule 20.7 of the GEM Listing Rules.

During each of the three years ending 31 December 2017, the rental payment payable by the Group under the Tenancy Agreement shall not exceed the annual cap of RMB1,488,000.

## *Guarantees*

During the year ended 31 December 2016, each of Mr. Chung Chi Hang Larry, Mr. Chung Tin Shing and Mr. Chung Chi Wah has deregistrated provided joint guarantees in respect of certain bank facilities granted to the Group.

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 and a director of the Company. Mr. Chung Chi Wah is close family member of Chung Chi Hang Larry.

As the personal guarantees are provided by connected persons for the benefit of the Group on normal commercial terms or better where no security over the assets of the Group is granted in respect of the personal guarantees, the above transaction will constitute a continuing connected transaction for the Company which is fully exempt from the shareholders' approval, annual review and all disclosure requirements pursuant to Rule 20.88 of the GEM Listing Rules.

Save as aforesaid, the Directors have confirmed that the Group does not have other connected transactions and continuing connected transactions as defined under the GEM Listing Rules and have therefore complied with the disclosure requirement in accordance with Chapter 20 of the GEM Listing Rules.

In accordance with the requirement of Rule 20.54 of the GEM Listing Rules, the Board has engaged the auditors to perform certain procedures on the above continuing connected transactions. The auditors have reviewed the above transactions in accordance with Hong Kong standards on Assurance Engagement 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions Under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, and confirmed that the continuing connected transactions:

- (1) have received the approval of the Board;
- (2) are, in all material respects, in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
- (3) have been entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- (4) have not exceeded the cap.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

## **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 Shares.

# REPORT OF THE DIRECTORS

## DONATIONS

During the year ended 31 December 2016, the Group did not make any donations.

## DIRECTORS' INDEMNITIES

Pursuant to the Articles, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which such Director shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his duty in his office. None of the Directors shall be answerable for the acts, receipts, neglects or defaults of the other or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of his office, or in relation thereto; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director.

Each Member agrees to waive any claim or right of action he might have, whether individually or by or in the right of the Company, against any Director on account of any action taken by such Director, or the failure of such Director to take any action in the performance of his duties with or for the Company; provided that such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director.

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

## 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 in 17 March 2015) as at the date of this annual report.

## **CORPORATE GOVERNANCE**

The Company maintains a high standard of corporate governance practices. Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 21 to 42 of this annual report.

## **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group is set out in the three years financial summary on page 5 of this annual report.

## **EVENTS AFTER THE REPORTING PERIOD**

The Directors are not aware of any significant events since the end of the reporting period and as the date of this Annual Report.

## **AUDITOR**

The financial statements for the year ended 31 December 2016 have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

From the incorporation of the Company and up to the date of this annual report, there has been no change in the Company's auditor.

## **CHANGES IN THE DIRECTORS' INFORMATION**

The changes in the information of Directors since the date of the Company's 2016 interim report are set out below:

The position of Mr. Wong Choi Chak held in China Minsheng Financial Holding Corporation Limited, a company listed on the Stock Exchange (stock code: 245), has been changed to joint company secretary with effect from 11 January 2017.

By order of the Board  
**Chung Chi Hang, Larry**  
*Chairman*

Hong Kong, 13 March 2017

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Overview

Keen Ocean International Holding Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) are committed to the long-term sustainability of its business. The Group persistently strives to manage and enhance its corporate environmental, social and governance (“ESG”) performance as part of its daily business operations and to support the communities in which it operates.

Having considered the views and interests of internal and external stakeholders, the Group is pleased to present its first ESG Report (the “Report”) which has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “ESG Guide”) as set out in Appendix 20 to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”). The Report mainly highlights the Group’s key policies and measures implemented by Hong Kong head office and plant operation in China for the financial year ended 31 December 2016. For information regarding the corporate governance section, please refer to the Corporate Governance Report.

## Environmental protection

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Protecting the environment is as important as expanding the business. Environmental protection is educated as a shared value embedded in daily operations. An internal environmental protection management policy has been established to govern the policies and principles regarding emission and waste management, monitoring and mitigation, use of resources and the minimisation of impact of business activities on the environment. An environmental management team comprising representatives from core business units has been formed to supervise the compliance with these policies and principles and to promote environmental awareness.

### Emission

During the manufacturing process and daily operation, certain emission and wastes are generated. To effectively manage emissions, the following policies have been adopted:

- Regular emission monitoring: Regular examination on air and water emissions and noise is carried out by Environmental Monitoring Station of He Yuan to ensure the emissions are up-to-standard.
- Treatment at source: Use of facilities and processes which generates less or no emissions is widely promoted.
- Emission and wastes mitigation: Emission mitigation equipment and waste reduction means are introduced and reinforced through the regular assessment of needs and investigation of adequate facilities and measures.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Continuous education: Messages on environmental protection is not only disseminated to staff internally through orientation programs and trainings, but also delivered externally to business partners, such as the introduction of green purchasing standard to suppliers.

Full compliance with local environmental laws and regulations including the Environmental Protection Law of the PRC and the Law of the PRC on the Prevention and Control of Atmospheric Pollution is assured through the strict implementation of these policies and measures.

## *Use of Resources*

Electricity and water are the main natural resources used in manufacturing plants, office and staff quarter. Efficient use of resources and raise of efficiency is achieved through four aspects briefly described as below:

- High staff involvement: Involvement of all manpower is essential for the success on effective and adequate use of natural resources. Policies in relation to energy saving and water conservation is stated in the staff handbook in order to arouse the concerns of all staff. Instructions on operation of production equipment, use of air-conditioners, lights and water are clearly defined. Labels are posted at appropriate locations to remind energy and water saving.
- Product design reform: Advance application of new technology, production process, materials and equipment for the invention of energy-efficient products.
- Production process redesign: Production schedules are thoroughly planned and production steps are streamlined to minimize the energy consumed and frequency of use of machine.
- Use of equipment: Energy-efficiency is one of the selection criteria on acquisition and use of equipment.

## *The Environmental and Natural Resources*

Natural resources are consumed and certain emissions and wastes are generated during daily operation and manufacturing process. This results in the aggravation of global warming, stratospheric ozone depletion and resource depletion. In order to minimise these impact on the environment and natural resources, green policies supported with the basic principles of “reduce”, “recover”, “reuse” and “recycle” is adopted.

In general, energy and water saving, and fewer resources consumption are encouraged through a number of ways with guidelines established. For example, emails are used to substitute circulation of paper documents and documents are suggested to file in an electronic format. In addition, hazardous wastes such as epoxy, active charcoal and used mineral oil are separately placed against non-hazardous wastes. These hazardous wastes, as well as other waste including copper wire and iron sheet are recovered by qualified subcontractors for further processing and recycling. Materials such as plastics and epoxy from disqualified products are reused for production.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Social commitment

As a responsible employer, a safe and work-life balance working environment is provided to its employees. Simultaneously, as a trustworthy business partner, sustainable supply chain and safe products are guaranteed by maintaining a high standard of business integrity in managing business activities and operations.

### *Employment and labour practices*

Every effort is made to meet requirements under the PRC Labour Law and other relevant applicable laws and regulations. Staff handbook and a set of policies and procedures related to employment and labour practices are established to govern every act of employment and labour practices as shown below:

- Recruitment and promotion: Equal employment and promotion policy is adopted. Employees are recruited, promoted and assigned based on abilities, experiences, qualifications and skills. Diversity is encouraged and all employees are treated fairly, regardless of their social identities such as race, nationality, gender, religious belief, age and marital status. Labour contract is formally signed with relevant terms and conditions stated.
- Work-life balance: Work-life balance is strongly emphasised to enhance sense of belongings of employees, as well as work efficiency and productivity. Standard working hours mechanism is adopted and regular entertainment and sports activities are organised. Holidays and statutory paid leaves are provided in compliance with the requirements of the PRC.
- Remuneration, compensation and benefits: A comprehensive remuneration and welfare package is offered to employee with salary adjustment benchmarked against individual performance. Apart from the remuneration, overtime payments and related benefits made in accordance with the local minimum wage, other welfares including social insurance and housing provident funds, compensation on work injury, occupational disease and fatality, and retirement benefits are offered based on the local laws and regulations.
- Dismissal: Employees are treated as the most valuable assets for running a successful business. Dismissal of employees is not recommended unless it is the last resort when warnings are not sufficient to deter an employee to offend or seriously breach the relevant policies.

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### *Health and Safety*

Heavy emphasis is placed on minimizing occupational health and safety risks in the workplace, and therefore providing a safe working environment for employees is crucial. For the purpose of effective prevention of occupational hazard, the following policies and measures are established:

- Set up of a comprehensive occupational health and safety management mechanism: A series of policies and procedures manuals comprising of occupational health management policy, warning sign and protective device management policy and a comprehensive set of operational procedures are established. Detailed guidelines on supervision and

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

administration of occupational health surveillance, safe operating of equipment and adequate application of warning sign and protective device are stipulated in these policies and procedures. Experienced and qualified production safety management employee is assigned to monitor the overall safety management.

- Adoption of protection devise: Adequate protection devise such as protective mask, ear plug and anti-static clothing in line with the local and industry standard is provided to employees engaged in operations with exposure to occupational hazard. Proper instruction is provided to guide the use and wearing.
- Regular health check: Employees engaged in operations with exposure to occupational hazard are arranged to undergo annual occupational health examinations with the expenses charged to the Group.
- Safe working environment: A number of measures have been implemented to protect employees in the premise. For example, warning sign are posted in dangerous areas and emergency exits are clear at all times. Safety management employee conducts monthly safety inspection throughout the premise to identify improvement areas. Fire drill is organized regularly.
- Continuous education: Training in relation to fire and work safety, and occupational health is provided to staff internally.

Along with the enforcement of these well-established policies, guidelines and controls, all applicable health and safety laws and regulations comprising of the PRC Labour Law and the Law of the PRC on the Work Safety are adhered to.

## *Development and Training*

Regular trainings are scheduled to strengthen competence and develop potential of employees. Ongoing internal training programmes covering the aspects of production skills, equipment operation, communication and negotiation skills, fire safety and environmental protection knowledge are organised. Quiz in verbal or written form is held to test the knowledge of employees. Feedbacks are obtained from both lecturer and attendees to evaluate the training result, which would be used as a reference for future improvement on course details.

Employees are also encouraged to focus on work-life balance by participating entertainment and sports activities organized internally and externally by the community.

## *Labour Standards*

As explicitly defined in the staff handbook and the employment management policy, employment of candidates under the age of 16 and forced labour is prohibited. Through the stringent internal review and monitoring procedure designed to verify the personal information during recruitment process, such situations are believed to be effectively avoided and the PRC Labour Law is complied with. Labour contract is formally signed with relevant terms and conditions stated to protect the interests of employees.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Supply Chain management*

The operations of suppliers impose direct impact on the sustainability performance of the Group. A systematic supplier management mechanism has been set up to monitor and review the overall performance of suppliers. During the supplier selection process, apart from factors such as the quality of products, production capacity and past performance, governance, social and environmental responsibility is also taken into consideration during assessment. Suppliers are requested to follow the code of conducts established based on the Group's internal policies and standards. For example, Commitment of Hazardous Substances Restriction governed the compliance of green purchasing standard, Integrity and Impartiality Conduct Notification specified the compliance of code of ethics and anti-fraud policy, and Supplier Quality Assurance Agreement stated the commitment on product quality, are required to sign by the suppliers. In addition, regular evaluation on the suppliers' performance is carried out to ensure ongoing quality monitoring.

## *Product Responsibility*

Delivery of quality products to customers is the core competitiveness of the Group. Accordingly, the Group has implemented certain measures to maintain product quality, safeguard product image and protect customer interests in different aspects:

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- **Quality assurance:** Sales of products cover several geographical locations including Hong Kong, PRC, Europe, United States, Korea, Japan, Australia and Europe. Products are not merely inspected under the internally established quality assurance procedural manuals, but also required to obtain the relevant product safety and environmental certifications of export countries. Quality control measures on finished goods, involving the process of product design and development, material purchasing, production and packaging, are implemented and jointly monitored by engineering department and quality control and assurance department. Labelling of certification, warning and usage instruction attached on products are governed by internal guidelines and inspected by quality control and assurance department. In the event of customer complaints and feedback, quality control employees are well-trained to handle pursuant to the internal customer feedback management procedural manual. Timely response on remediation and rectification is provided to demonstrate the strong respect on customer opinions.
- **Promotion:** Products are promoted through various channels like product exhibition, company website and online sales platform. Factual information on products is delivered to potential customers while exaggeration and overstatement is not allowed.
- **Customer privacy:** The Group is committed to protect customer information and safeguard their privacy. Guidelines has been set up to control the collection, assess, updating, security and retention of customer data and assets. In addition, sufficient IT related control measures are implemented to prevent unauthorized access and virus attack in the ERP system containing customer information.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Protection of intellectual property rights: The Group has obtained patents for certain aspects of proprietary technology product designs and technical know-how, and registered certain trademarks, while some of the registrations are still in the process. The Group pays close attention on any news and updated information on intellectual property rights registered by peers in the same industry as a safeguard against infringement of intellectual property rights.

During the year, the Group has strictly complied with applicable local and national rules and regulations on quality control and safety, advertising, customer privacy and intellectual property rights. No product recall cases is reported so far.

## *Anti-corruption*

Building up a high business integrity and ethics is one of the Group's highest priorities. Thus, full adherence on local rules and regulations and internal policies is widely promoted and achieved throughout the Group.

Staff handbook clearly sets out the provisions of anti-corruption, conflicts of interests, gift policy, data confidentiality and misappropriation of assets. These policies are communicated with employees through training session to further emphasis and remind on the importance of conduct and behavior of employees. Declaration is signed by all employees regarding the understanding, acceptance and compliance of the relevant provisions.

In addition, whistleblowing and complaint policy is established to govern the whistleblowing procedures on suspected malpractice, misconduct and irregularities discovered. All whistleblower are assured of protection and confidential identity. All reported cases are seriously handled by management following the relevant procedures.

During the year, the Group has strictly complied with applicable local and national laws and regulations on quality control and safety, advertising, customer privacy and intellectual property rights.

## *Community Investment*

To create values for the community, efforts and resources have been devoted to community engagement through close collaboration with local government. In the current year, rewards were received from He Yuan municipal authority for recognised achievements in development and production of new products in the City of He Yuan as the contribution on development and prosperity of community.

# INDEPENDENT AUDITOR'S REPORT

## Deloitte. 德勤

### TO THE MEMBERS OF KEEN OCEAN INTERNATIONAL HOLDING LIMITED

僑洋國際控股有限公司

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

#### Opinion

We have audited the consolidated financial statements of Keen Ocean International Holding Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 76 to 118, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT

## Key audit matter

### ***Impairment for trade receivables***

We identified the impairment for trade receivables as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, and the estimation associated when determining the impairment for trade receivables.

The trade receivables of the Group comprised a number of customers with individual material balance which resulted in significant outstanding trade receivable balances (before allowance for doubtful debts) amounting to HK\$26,859,000 as at 31 December 2016, including HK\$7,635,000 that has been past due but not impaired, as disclosed in note 17 in the consolidated financial statements. Some of the customers are in severe financial difficulties, which exposed the Group to additional risk of doubtful debts.

In determining the allowance for trade receivables, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables.

Based on the management's estimation of the impairment for trade receivables as disclosed in note 4 to the consolidated financial statements, the balance of allowance for doubtful debts was HK\$2,155,000 as at 31 December 2016.

## How our audit addressed the key audit matter

Our procedures in relation to the impairment for trade receivables included:

- Obtaining an understanding of how the allowance for doubtful debts is estimated by the management;
- Discussing with the management and obtaining list of trade receivables without/with little settlement during the year or subsequent to the end of the reporting period identified by the management and their assessment on the recoverability of trade receivables;
- Assessing the reasonableness of allowance for trade receivables with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables;
- Testing the aging analysis and subsequent settlement of the trade receivables, on a sample basis, to the source documents; and
- Evaluating the historical accuracy of the allowance estimation by management by comparing historical allowance made to the actual settlement and actual loss incurred and tracing, on a sample basis, to the source documents.

# INDEPENDENT AUDITOR'S REPORT

## Key audit matter

### ***Allowances for inventories***

We identified the allowances for inventories as a key audit matter due to the significance of the balance to the consolidated financial statement as a whole, as well as with the management judgment required in estimating the allowance for inventories.

Management assessed the recoverability of the amount based on an estimation of the net realisable value of the inventories which involves the analyses of the status of the subsequent sales and the current market price of the inventories. If the actual net realisable values of the inventories are less than expected as a result of change in market condition, material allowances for inventories may result.

The inventories of the Group comprised of raw materials, work-in-progress and finished goods amounting to HK\$33,064,000 as at 31 December 2016 as disclosed in note 16 to the consolidated financial statements.

## How our audit addressed the key audit matter

Our procedures in relation to the allowances for inventories included:

- Obtaining an understanding of how allowance for inventories is estimated by the management;
- Assessing the reasonableness and sufficiency of allowance for inventories with reference to the subsequent usage and movement of raw materials and work-in-progress, historical sales records, current market conditions, product life cycle, aging analysis and subsequent selling prices of the finished goods; and challenging management for long aged inventories without any provision;
- Testing the aging analysis of inventory, on a sample basis, to the source documents;
- Tracing a selection of finished goods with subsequent selling prices to the source documents to test the net realisable values; and
- Evaluating the allowance estimated by management by comparing historical allowance made to the actual loss incurred.

# INDEPENDENT AUDITOR'S REPORT

## **Other Information**

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements – continued**

As part of an audit in accordance with HKSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

# INDEPENDENT AUDITOR'S REPORT

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements – continued**

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lam Chi Hong.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

13 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

|   | NOTES | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|---|-------|------------------|------------------|
| Revenue   | 5     | <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                                      | 6     | <b>1,208</b>     | 552              |
| Other gains and losses                            | 7     | <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                                    | 8     | <b>(3,168)</b>   | (8,179)          |
| Finance costs                                     | 9     | <b>(1,032)</b>   | (1,644)          |
| (Loss) profit before tax                          | 10    | <b>(6,175)</b>   | 1,683            |
| Income tax expense                                | 11    | <b>(53)</b>      | (2,212)          |
| Loss and total comprehensive expense for the year |       | <b>(6,228)</b>   | (529)            |
| Loss per share – Basic (HK cents)                 | 14    | <b>(3.26)</b>    | (0.38)           |

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# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

|  | NOTES | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>Non-current Assets</b>                    |       |                  |                  |
| Property, plant and equipment                | 15    | 8,688            | 8,349            |
| <b>Current Assets</b>                        |       |                  |                  |
| Inventories                                  | 16    | 33,064           | 25,668           |
| Trade and other receivables and prepayments  | 17    | 28,403           | 33,314           |
| Prepaid tax                                  |       | 942              | 14               |
| Pledged bank deposits                        | 18    | 7,094            | 9,089            |
| Bank balances and cash                       | 18    | 25,087           | 10,430           |
|  |       | <b>94,590</b>    | <b>78,515</b>    |
| <b>Current Liabilities</b>                   |       |                  |                  |
| Trade and other payables and accruals        | 19    | 19,113           | 18,837           |
| Bank borrowings                              | 20    | 16,785           | 20,777           |
| Amount due to a related party                | 21    | 138              | –                |
| Income tax payable                           |       | –                | 345              |
|  |       | <b>36,036</b>    | <b>39,959</b>    |
| <b>Net Current Assets</b>                    |       | <b>58,554</b>    | <b>38,556</b>    |
| <b>Total Assets less Current Liabilities</b> |       | <b>67,242</b>    | <b>46,905</b>    |
| <b>Non-current liability</b>                 |       |                  |                  |
| Bank borrowings                              | 20    | –                | 408              |
| <b>Net Assets</b>                            |       | <b>67,242</b>    | <b>46,497</b>    |
| <b>Capital and Reserves</b>                  |       |                  |                  |
| Share capital                                | 22    | 2,000            | –                |
| Reserves                                     |       | 65,242           | 46,497           |
| <b>Total Equity</b>                          |       | <b>67,242</b>    | <b>46,497</b>    |

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The consolidated financial statements on pages 76 to 118 were approved and authorised for issue by the Board of Directors on 13 March 2017 and are signed on its behalf by:

**CHUNG CHI HANG**  
DIRECTOR

**CHUNG TIN SHING**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

|   | Attributable to owners of the Company |                              |  |                                 |                                    | Total<br>HK\$'000 |
|---|---------------------------------------|------------------------------|--|---------------------------------|------------------------------------|-------------------|
|   | Share<br>capital<br>HK\$'000          | Share<br>Premium<br>HK\$'000 | Special<br>reserve<br>HK\$'000<br>(note a) | Retained<br>profits<br>HK\$'000 | Translation<br>reserve<br>HK\$'000 |                   |
| At 1 January 2015   | -                                     | -                            | 3,000                                      | 44,136                          | (110)                              | 47,026            |
| Loss and total comprehensive<br>expense for the year                | -                                     | -                            | -  | (529)                           | -                                  | (529)             |
| At 31 December 2015   | -                                     | -                            | 3,000                                      | 43,607                          | (110)                              | 46,497            |
| Issue shares by capitalisation of share<br>premium account (note b) | 1,400                                 | (1,400)                      | -  | -                               | -                                  | -                 |
| Issue of new shares pursuant to<br>placement (note c)               | 600                                   | 32,400                       | -  | -                               | -                                  | 33,000            |
| Expenses incurred in connection with<br>issue of shares             | -                                     | (6,027)                      | -  | -                               | -                                  | (6,027)           |
| Loss and total comprehensive<br>expense for the year                | -                                     | -                            | -  | (6,228)                         | -                                  | (6,228)           |
| At 31 December 2016   | 2,000                                 | 24,973                       | 3,000                                      | 37,379                          | (110)                              | 67,242            |

Notes:

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

|   | NOTE | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|---|------|------------------|------------------|
| <b>OPERATING ACTIVITIES</b>   |      |                  |                  |
| (Loss) profit before tax  |      | (6,175)          | 1,683            |
| Adjustments for:  |      |                  |                  |
| Depreciation  |      | 2,695            | 3,234            |
| Interest income   |      | (110)            | (71)             |
| Finance costs   |      | 1,032            | 1,644            |
| Gain on disposal of property, plant and equipment                   |      | (27)             | –                |
| Impairment loss on trade receivables                                |      | 592              | –                |
| Operating cash flows before movements in working capital            |      | (1,993)          | 6,490            |
| (Increase) decrease in inventories                                  |      | (7,396)          | 12,785           |
| Decrease (increase) in trade and other receivables and prepayments  |      | 4,319            | (3,892)          |
| Increase (decrease) in trade and other payables and accruals        |      | 276              | (9,510)          |
| Increase in amount due to a related company                         |      | 138              | –                |
| Cash (used in) generated from operations                            |      | (4,656)          | 5,873            |
| Income tax paid   |      | (1,326)          | (2,307)          |
| <b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>                 |      | <b>(5,982)</b>   | <b>3,566</b>     |
| <b>INVESTING ACTIVITIES</b>   |      |                  |                  |
| Interest received   |      | 110              | 71               |
| Acquisition of property, plant and equipment                        |      | (3,055)          | (2,252)          |
| Proceeds on disposal of property, plant and equipment               |      | 48               | –                |
| Repayment from related parties                                      |      | –                | 2,913            |
| Withdrawal of pledged bank deposits                                 |      | 5,049            | 2,022            |
| Placement of pledged bank deposits                                  |      | (3,054)          | (62)             |
| Withdrawal of time deposits with original maturity of over 3 months |      | 10,000           | –                |
| Placement of time deposits with original maturity of over 3 months  |      | (20,047)         | –                |
| <b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>                 |      | <b>(10,949)</b>  | <b>2,692</b>     |
| <b>FINANCING ACTIVITIES</b>   |      |                  |                  |
| Issue of new shares pursuant to placement                           |      | 33,000           | –                |
| Listing expense paid  |      | (6,027)          | –                |
| New bank borrowings raised  |      | 163,642          | 232,838          |
| Repayment of bank borrowings  |      | (168,042)        | (233,674)        |
| Interest paid   |      | (1,032)          | (1,644)          |
| <b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>                 |      | <b>21,541</b>    | <b>(2,480)</b>   |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                    |      | <b>4,610</b>     | <b>3,778</b>     |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>       |      | <b>10,430</b>    | <b>6,652</b>     |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR,</b>            |      |                  |                  |
| represented by bank balances and cash                               | 23   | <b>15,040</b>    | <b>10,430</b>    |

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# NOTES TO THE CONSOLIDATED 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 and the principal place of business of the Company are disclosed in the corporate information section in the annual report.

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. Details of the principal activities of its subsidiaries are set out in note 30.

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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

### HKFRS 9 “Financial Instruments” – continued

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 cost. 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.

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

### 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

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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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

### HKFRS 16 “Leases” – continued

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 as disclosed in note 27. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Basic of consolidation

The consolidated financial statements incorporates the financial statements of the Group entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power over the investee to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the accounting policies of the Group.

All intragroup assets and liabilities, equity, income, expense and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for goods sold provided in the normal course of business, net of discounts and sales related taxes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Revenue recognition – continued

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sales of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives, using straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Company as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are charged as an expense when employees have rendered service entitling them to the contributions.

### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from '(loss) profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Taxation – continued

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

### Impairment on tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### **Financial assets**

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instrument.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

#### **Financial assets – continued**

##### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables are assessed individually for impairment. Objective evidence of impairment for receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 15 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

#### ***Financial liabilities and equity instruments***

Debt and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

#### *Equity Instrument*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### *Financial liabilities at amortised cost*

Financial liabilities (including trade and other payables, amount due to a related party and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

#### ***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

#### *Derecognition – continued*

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when and only when the obligation specified in the relevant contract is discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of trade receivables is HK\$26,859,000 (2015: HK\$30,376,000), net of allowance for doubtful debts of HK\$2,155,000 (2015: HK\$1,563,000).

### Estimated allowance for inventories

Included in the consolidated statement of financial position at 31 December 2016 is inventories with a carrying amount of HK\$33,064,000 (2015: HK\$25,668,000). No allowance for inventories has been made in the current year. Management assessed the recoverability of the amount based on an estimation of the net realisable value of the inventories which involves, inter-alia, the analyses of the status of the subsequent sales and the current market price of the inventories. If the actual net realisable values of the inventories are less than expected as a result of change in market condition, material allowance for inventories may result.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 5. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold by the Group to outside customers, less discount. The Group's operation is solely derived from the manufacture and sale of transformers, switching mode power supply, electronic parts and components during the year. 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 accounting policies set out in note 3. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

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

|  | <b>2016</b><br><i>HK\$'000</i> | 2015<br><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                 |

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### 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.

|               | <b>Revenue from</b>            |                         | <b>Non-current assets</b>      |                         |
|---------------|--------------------------------|-------------------------|--------------------------------|-------------------------|
|               | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> | <b>2016</b><br><i>HK\$'000</i> | 2015<br><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                   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 5. REVENUE AND SEGMENT INFORMATION – continued

### Information about major customers

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

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

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

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

## 6. OTHER INCOME

|                                       | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| Bank interest income                  | 110              | 71               |
| Compensation received from a supplier | 313              | 53               |
| Sales of scrap materials              | 481              | 428              |
| Government grants                     | 221              | –                |
| Others                                | 83               | –                |
|                                       | <b>1,208</b>     | <b>552</b>       |

## 7. OTHER GAINS AND LOSSES

|   | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|---|------------------|------------------|
| Foreign exchange loss, net                        | (586)            | (190)            |
| Gain on disposal of property, plant and equipment | 27               | –                |
| Impairment loss on trade receivables              | (592)            | –                |
|   | <b>(1,151)</b>   | <b>(190)</b>     |

## 8. OTHER EXPENSES

|  | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|--|------------------|------------------|
| Professional fee in relation to listing of the Company's shares on the GEM | (3,168)          | 8,179            |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 9. FINANCE COSTS

The amounts represent the interest on bank borrowings during the year.

## 10. (LOSS) PROFIT BEFORE TAX

|  | 2016<br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| (Loss) profit before tax has been arrived at after charging: |                         |                         |
| Auditor's remuneration                                       | 750                     | 800                     |
| Depreciation of plant and equipment                          | 2,695                   | 3,234                   |
| Cost of inventories sold                                     | 102,308                 | 138,411                 |
| Minimum lease payment paid under operating leases            | 2,890                   | 3,065                   |
| Research and development expenses                            | 802                     | 634                     |
| Directors' emoluments  |                         |                         |
| – Fees   | 132                     | –                       |
| – Salaries and other benefits                                | 1,297                   | 1,190                   |
| – Retirement benefit contributions                           | 51                      | 47                      |
|  | <b>1,480</b>            | 1,237                   |
| Staff salaries and other benefits                            | 31,964                  | 32,768                  |
| Staff retirement benefit contributions                       | 3,223                   | 3,740                   |
|  | <b>35,187</b>           | 36,508                  |
| Total staff costs (including directors' emoluments)          | <b>36,667</b>           | 37,745                  |

## 11. INCOME TAX EXPENSE

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

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%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 11. INCOME TAX EXPENSE – continued

The income tax expense for the year can be reconciled to the (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

|  | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|--|------------------|------------------|
| (Loss) profit before tax                             | (6,175)          | 1,683            |
| Tax at Hong Kong Profits Tax rate of 16.5%           | (1,019)          | 278              |
| Tax effect of expense not deductible for tax purpose | 770              | 1,647            |
| Tax effect of temporary difference not recognised    | (51)             | 27               |
| Tax effect of tax loss not recognised                | 353              | –                |
| Effect of different tax rate of a PRC subsidiary     | –                | 266              |
| Others   | –                | (6)              |
| Income tax expense for the year                      | <b>53</b>        | <b>2,212</b>     |

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiary because the amount is insignificant.

At 31 December 2016, the Group has unused tax losses of HK\$2,139,000 (2015: nil). No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses will expire in 2021.

At 31 December 2016, the Group has deductible temporary differences of HK\$1,715,000 (2015: HK\$2,023,000). The temporary differences represented the accrued staff costs which are tax-deductible when the actual payment is made. No deferred tax asset has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### (a) Directors' and chief executive's emoluments

|                                    | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|------------------------------------|------------------|------------------|
| <b>Directors' emoluments</b>       |                  |                  |
| Directors' fees                    | 132              | –                |
| Other emoluments for directors     |                  |                  |
| – salaries and other allowances    | 1,297            | 1,190            |
| – retirement benefit contributions | 51               | 47               |
|                                    | <b>1,480</b>     | <b>1,237</b>     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – continued

### (a) Directors' and chief executive's emoluments – continued

|  | Fees<br>HK\$'000 | Salaries<br>and<br>other<br>allowances<br>HK\$'000 | Retirement<br>benefit<br>scheme<br>contributions<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------|--|--|-------------------|
| <b>For the year ended<br/>31 December 2016</b> |                  |  |  |                   |
| Executive directors:                           |                  |  |  |                   |
| Mr. Chung Chi Hang<br>Larry                    | –                | 499  | 18   | 517               |
| Mr. Chung Tin Shing                            | –                | 325  | 15   | 340               |
| Mr. Wong Shek Fai                              | –                | 473  | 18   | 491               |
| Independent non-<br>executive directors:       |                  |  |  |                   |
| Mr. Wong Choi Chak                             | 44               | –  | –  | 44                |
| Mr. Li Chung Pong,<br>Stephen                  | 44               | –  | –  | 44                |
| Mr. Tang Sze Wo                                | 44               | –  | –  | 44                |
|  | <b>132</b>       | <b>1,297</b>                                       | <b>51</b>  | <b>1,480</b>      |

|  | Fees<br>HK\$'000 | Salaries<br>and<br>other<br>allowances<br>HK\$'000 | Retirement<br>benefit<br>scheme<br>contributions<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------|--|--|-------------------|
| <b>For the year ended<br/>31 December 2015</b>       |                  |  |  |                   |
| Executive directors:                                 |                  |  |  |                   |
| Mr. Chung Chi Hang<br>Larry                          | –                | 325  | 15   | 340               |
| Mr. Chung Tin Shing                                  | –                | 499  | 18   | 517               |
| Mr. Wong Shek Fai<br>(appointed on 17<br>March 2015) | –                | 366  | 14   | 380               |
|  | –                | 1,190  | 47   | 1,237             |

Notes:

- (1) The directors' emoluments of the executive directors shown above were for their services in connection with the management of the affairs of the Company and the Group.
- (2) Mr. Chung Tin Shing is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.
- (3) No emoluments were paid by the Group to the directors and chief executive as an inducement to join or upon joining the Group or as compensation for loss of office in both years.
- (4) There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.
- (5) Mr. Wong Choi Chak, Mr. Li Chung Pong, Stephen and Mr. Tang Sze Wo were appointed as Independent Non- executive Directors of the Company on 2 February 2016. Their emoluments shown above were for their services as directors of the Company or its subsidiaries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – continued

### (b) Employees' emoluments

The five highest paid individuals included the three directors (2015: three) for the year ended 31 December 2016, details of whose remuneration is disclosed above. The emoluments of the remaining two (2015: two) highest paid individuals were as follows:

|   | <b>2016</b><br><b>HK\$'000</b> | 2015<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Salaries and other allowances           | <b>879</b>                     | 750                     |
| Retirement benefit scheme contributions | <b>33</b>                      | 33                      |
|   | <b>912</b>                     | 783                     |

Their emoluments individually were all below HK\$1,000,000.

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## 13. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

## 14. LOSS PER SHARE

|   | <b>2016</b><br><b>HK\$'000</b> | 2015<br><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)                   |
|   | <b>'000</b>                    | <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, details of which are set out in note 22, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 15. PROPERTY, PLANT AND EQUIPMENT

|                            | Leasehold<br>improvements<br><i>HK\$'000</i> | Plant and<br>machinery<br><i>HK\$'000</i> | Furniture,<br>fixtures<br>and office<br>equipment<br><i>HK\$'000</i> | Motor<br>vehicles<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|----------------------------|--|---|--|--------------------------------------|--------------------------|
| <b>COST</b>                |  |   |  |                                      |                          |
| At 1 January 2015          | 3,818  | 9,457                                     | 1,975  | 1,188                                | 16,438                   |
| Additions                  | –  | 1,145                                     | 52   | 1,055                                | 2,252                    |
| At 1 January 2016          | 3,818  | 10,602                                    | 2,027  | 2,243                                | 18,690                   |
| Additions                  | 64   | 830                                       | 848  | 1,313                                | 3,055                    |
| Disposals                  | –  | (1)                                       | –  | (606)                                | (607)                    |
| At 31 December 2016        | 3,882  | 11,431                                    | 2,875  | 2,950                                | 21,138                   |
| <b>DEPRECIATION</b>        |  |   |  |                                      |                          |
| At 1 January 2015          | 1,975  | 3,489                                     | 911  | 732                                  | 7,107                    |
| Provided for the year      | 893  | 1,727                                     | 330  | 284                                  | 3,234                    |
| At 1 January 2016          | 2,868  | 5,216                                     | 1,241  | 1,016                                | 10,341                   |
| Provided for the year      | 616  | 1,195                                     | 352  | 532                                  | 2,695                    |
| Eliminated on<br>disposals | –  | (1)                                       | –  | (585)                                | (586)                    |
| At 31 December 2016        | 3,484  | 6,410                                     | 1,593  | 963                                  | 12,450                   |
| <b>CARRYING VALUES</b>     |  |   |  |                                      |                          |
| At 31 December 2016        | 398  | 5,021                                     | 1,282  | 1,987                                | 8,688                    |
| At 31 December 2015        | 950  | 5,386                                     | 786  | 1,227                                | 8,349                    |

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The above items of property, plant and equipment are depreciated on a straight-line basis over the following estimated useful lives:

|  |   |
|--|---|
| Leasehold improvements                   | Over the shorter of term of the lease, or 5 years |
| Plant and machinery                      | 5 to 10 years                                     |
| Furniture, fixtures and office equipment | 3 to 5 years                                      |
| Motor vehicles                           | 5 years   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 16. INVENTORIES

|                  | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|------------------|------------------|------------------|
| Raw materials    | 10,640           | 10,640           |
| Work in progress | 18,321           | 11,855           |
| Finished goods   | 4,103            | 3,173            |
|                  | <b>33,064</b>    | <b>25,668</b>    |

## 17. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

During the year, the Group discounted certain trade receivables to a bank for cash proceeds. If the trade receivables are not paid at maturity, the bank has the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 20). The carrying amount of the trade receivables at 31 December 2016 that have been transferred but have not been derecognised amounted to HK\$12,298,000 (31 December 2015: HK\$17,972,000) and the carrying amount of the associated liability is HK\$5,403,000 (31 December 2015: HK\$8,995,000).

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 17. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS – continued

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

Before accepting any new customer, the Company assesses the potential customer's credit quality and defines credit limits by customer. The trade receivables that are neither past due nor impaired have no default payment history.

Included in the trade receivable balance are debtors with aggregate amount of HK\$7,635,000 as at 31 December 2016 (31 December 2015: HK\$12,235,000) which is past due as at the reporting date for which the Company has not provided for impairment loss because the status of subsequent settlement of the debtors is satisfactory. The Company does not hold any collateral over these balances.

### Aging of trade receivables which are past due but not impaired

|              | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|--------------|------------------|------------------|
| 0–90 days    | 4,661            | 9,934            |
| 91–180 days  | 2,057            | 2,072            |
| 181–365 days | 906              | 229              |
| Over 1 year  | 11               | –                |
|              | <b>7,635</b>     | <b>12,235</b>    |

|  | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|--|------------------|------------------|
| Movement in the allowance for doubtful debts |                  |                  |
| At the beginning of the year                 | 1,563            | 1,563            |
| Allowance for doubtful debts                 | 592              | –                |
| At the end of the year                       | <b>2,155</b>     | <b>1,563</b>     |

Allowances for doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. Included in the allowance for doubtful debts are individually impaired trade debtors with an aggregate balance of HK\$2,155,000 as at 31 December 2016 (31 December 2015: HK\$1,563,000) which have been in severe financial difficulties.

Included in trade and other receivables are the following amounts denominated in currencies other than functional currencies of the respective group entities which they relate:

|                       | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|-----------------------|------------------|------------------|
| HK\$                  | 556              | 1,092            |
| RMB                   | 7,581            | 3,544            |
| British Pound ("GBP") | –                | 625              |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 18. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Company. At 31 December 2016, bank balances of the Company carry interest at market rates from 0.01% to 0.35% (2015: 0.01% to 0.35%) per annum. Included in the bank balances and cash at 31 December 2016 are time deposit amounting to HK\$10,047,000 (2015: nil) with maturity over three months, carries fixed interest rate at 0.89% (2015: nil) per annum. At 31 December 2016, the pledged bank deposits carry prevailing market interest rate from 0.2% to 1.2% (2015: 0.3% to 1.3%) per annum.

As at the end of the reporting period, the Company have the following pledged bank deposits and bank balances and cash denominated in currencies other than functional currencies of the respective group entities which they relate:

|                      | <b>2016</b><br><b>HK\$'000</b> | 2015<br><i>HK\$'000</i> |
|----------------------|--------------------------------|-------------------------|
| HK\$                 | <b>20,226</b>                  | 10,659                  |
| RMB                  | <b>1,497</b>                   | 5,207                   |
| GBP                  | <b>52</b>                      | 90                      |
| Euro Dollars ("EUR") | <b>16</b>                      | 18                      |

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## 19. TRADE AND OTHER PAYABLES AND ACCRUALS

|                    | <b>2016</b><br><b>HK\$'000</b> | 2015<br><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><br><b>HK\$'000</b> | 2015<br><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                     |
|               | <b>14,593</b>                  | 13,246                  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 19. TRADE AND OTHER PAYABLES AND ACCRUALS – continued

Included in trade and other payables are the following amounts denominated in currencies other than the functional currencies of the respective group entities which they relate:

|      | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|------|------------------|------------------|
| HK\$ | 3,942            | 3,766            |
| RMB  | 9,604            | 12,470           |
| EUR  | 5                | –                |

## 20. BANK BORROWINGS

|  | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|--|------------------|------------------|
| Bank loans   | 2,095            | 2,831            |
| Trust receipt loans  | 6,487            | 6,869            |
| Factoring loans ( <i>note 17</i> )                               | 5,403            | 8,995            |
| Bank overdraft   | 2,800            | 2,490            |
|  | <b>16,785</b>    | 21,185           |
| Bank borrowings which are secured by:                            |                  |                  |
| Assets held by the Group ( <i>note 26</i> )                      | 16,690           | 20,354           |
| Unsecured bank borrowings  | 95               | 831              |
|  | <b>16,785</b>    | 21,185           |
| The maturity of the above loans is as follows*:                  |                  |                  |
| Within one year  | 16,785           | 20,777           |
| More than one year but within two years                          | –                | 408              |
|  | <b>16,785</b>    | 21,185           |
| Less: amount due within one year shown under current liabilities | <b>(16,785)</b>  | (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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 20. BANK BORROWINGS – continued

Included in bank borrowings are the following amounts denominated in a currency other than the functional currency of the corresponding group entity which it relates:

|      | <b>2016</b><br><b>HK\$'000</b> | 2015<br><i>HK\$'000</i> |
|------|--------------------------------|-------------------------|
| HK\$ | <b>9,209</b>                   | 8,716                   |
| GBP  | <b>–</b>                       | 332                     |

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              | <b>3.17%–4.82%</b> | 3.25%–6.75% |

Details of the pledge of assets of the Company and guarantees provided by the related parties are set out in notes 26 and 28, respectively.

## 21. AMOUNT DUE TO A RELATED COMPANY

The amount is trade in nature, unsecured, interest-free and repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 22. SHARE CAPITAL

|  | Number<br>of shares  | Share<br>capital<br>HK\$ |
|--|----------------------|--------------------------|
| <i>Ordinary shares of HK\$0.01 each</i>  |                      |                          |
| <i>Authorised:</i>   |                      |                          |
| At 1 January 2015, 31 December 2015<br>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>1,000,000,000</u> | <u>10,000,000</u>        |
| <i>Issued:</i>   |                      |                          |
| At 1 January 2015, 31 December 2015<br>and 1 January 2016                        | 10,000               | 100                      |
| Issues of shares by capitalisation of<br>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>200,000,000</u>   | <u>2,000,000</u>         |
|  |                      | <i>HK\$'000</i>          |
| Shown in the consolidated financial statements                                   |                      |                          |
| At 31 December 2016  |                      | <u>2,000</u>             |
| At 31 December 2015 ( <i>note d</i> )  |                      | <u>–</u>                 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 22. SHARE CAPITAL – continued

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.

## 23. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks except certain time deposits. Cash and cash equivalents at the end of the year as shown in the consolidated statement of cash flows can be reconciled to the related item in the consolidated statement of financial position as follows:

|   | <b>2016</b><br><b>HK\$'000</b> | 2015<br>HK\$'000 |
|---|--------------------------------|------------------|
| Bank balances and cash                                      | <b>25,087</b>                  | 10,430           |
| Less: time deposits with original maturity of over 3 months | <b>(10,047)</b>                | –                |
|   | <b>15,040</b>                  | 10,430           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 24. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which include bank borrowing and amount due to a related party, disclosed in notes 20 and 21, and equity of the Group, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As a part of this review, the directors of the Company consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors of the Company, the Company will balance its overall capital structure through new share issues, the issue of new debt or the redemption of existing debt.

## 25. FINANCIAL INSTRUMENTS

### 25a. Categories of financial instruments

|   | 2016<br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| <b>Financial assets</b>                                     |                         |                         |
| Loans and receivables (including cash and cash equivalents) | <b>57,337</b>           | 48,947                  |
| <b>Financial liabilities</b>                                |                         |                         |
| Amortised cost  | <b>31,516</b>           | 34,431                  |

### 25b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits and bank balances and cash, trade and other payables, amount due to a related party and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest risk and commodity price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 25. FINANCIAL INSTRUMENTS – continued

### 25b. Financial risk management objectives and policies – continued

#### Market risk

#### Currency risk

The sales of the Group are mainly denominated in US\$. However, the Group has certain foreign currency sales and purchases transactions denominated in Renminbi, Hong Kong dollars, Euro dollars and British Pound, which exposes the Group to foreign currency risk. The Group currently have no foreign currency hedging policy and management monitors the foreign exchange exposure by closely monitoring the movement of foreign currency rates.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of each of the reporting period are as follows:

|      | Assets           |                  | Liabilities      |                  |
|------|------------------|------------------|------------------|------------------|
|      | 2016<br>HK\$'000 | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
| RMB  | 9,077            | 8,751            | 9,742            | 12,470           |
| HK\$ | 27,876           | 11,751           | 13,151           | 12,482           |
| GBP  | 52               | 715              | –                | 332              |
| EUR  | 16               | 18               | 5                | –                |

#### Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in US\$ against the relevant foreign currencies. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit or decrease in loss when US\$ strengthen 5% against the relevant currency. For a 5% weakening of US\$ against the relevant currency, there would be an equal and opposite impact on the profit or loss and the balances below would be negative.

In the opinion of the management of the Group, the sensitivity analysis of currency risk exposure of HK\$ is not presented as it is pegged with US\$, the average change in foreign exchange rate will not have significant impact on the profit or loss for the year.

|        | RMB              |                  | GBP              |                  | EUR              |                  |
|--------|------------------|------------------|------------------|------------------|------------------|------------------|
|        | 2016<br>HK\$'000 | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
| Impact | (11)             | 128              | (2)              | (16)             | (1)              | (1)              |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 25. FINANCIAL INSTRUMENTS – continued

### 25b. Financial risk management objectives and policies – continued

#### Market risk – continued

##### **Interest rate risk**

The Group's fair value interest rate risk related to time deposit which carries interest at fixed interest rate. The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to the pledged bank deposits, bank balances and bank borrowings. The directors of the Company consider that the changes in interest rates of bank balances have no significant impact to the Group due to the low interest rates and short-term maturities and therefore no sensitivity analysis is presented for bank balances.

##### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for pledged bank deposits and bank borrowings at the end of the reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2016 would increase/decrease by approximately HK\$40,000 (2015: post-tax loss would increase/decrease by HK\$51,000).

##### **Credit risk**

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counter parties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances and pledged bank deposits is limited because the counterparties are reputable banks in Hong Kong and PRC.

The concentration of credit risk on bank balances and pledged bank deposits is not significant because the funds are deposited in more than five banks with high credit ratings and the individual balances in each bank are not significant to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 25. FINANCIAL INSTRUMENTS – continued

### 25b. Financial risk management objectives and policies – continued

#### Credit risk – continued

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

Apart from Customer A and Customer C, the key customers of the Group (see note 5), concentration of credit risk to any other counterparty did not exceed 5% of the total current assets of the Group at the end of each reporting period. The Customer A and Customer C are reputable manufacturers in the industry and has good repayment history and the concentration of credit risk is not considered as significant to the Group.

#### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as significant source of liquidity. The Group has available unutilised trade finance bank facilities of approximately HK\$36,736,000 at 31 December 2016 (31 December 2015: HK\$27,290,000) and bank overdraft facilities of HK\$3,199,000 at 31 December 2016 (31 December 2015: HK\$4,010,000) respectively. Details of bank borrowings are set out in note 20.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 25. FINANCIAL INSTRUMENTS – continued

### 25b. Financial risk management objectives and policies – continued

#### Liquidity risk – continued

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

#### Liquidity risk

|   | Weighted<br>average<br>effective<br>interest rate<br>% | On<br>demand or<br>less than<br>3 months<br>HK\$'000 | 3 months<br>to 1 year<br>HK\$'000    | Over 1 year<br>HK\$'000    | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>December<br>2016<br>HK\$'000 |
|---|--|--|--------------------------------------|----------------------------|---|---|
| <b>At 31 December 2016</b>                  |  |  |                                      |                            |   |   |
| <b>Non-derivative financial liabilities</b> |  |  |                                      |                            |   |   |
| Trade and other payables                    | -  | 14,593   | -                                    | -                          | 14,593  | 14,593  |
| Amount due to a related party               | -  | 138  | -                                    | -                          | 138   | 138   |
| Bank borrowing – variable rate              | 3.77   | 15,769   | 1,067                                | -                          | 16,836  | 16,785  |
|   |  | <b>30,500</b>  | <b>1,067</b>                         | <b>-</b>                   | <b>31,567</b>                                   | <b>31,516</b>   |
|   | Weighted<br>average<br>effective<br>interest rate<br>% | On<br>demand or<br>less than<br>3 months<br>HK\$'000 | 3 months<br>to<br>1 year<br>HK\$'000 | Over<br>1 year<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>December<br>2015<br>HK\$'000 |
| <b>At 31 December 2015</b>                  |  |  |                                      |                            |   |   |
| <b>Non-derivative financial liabilities</b> |  |  |                                      |                            |   |   |
| Trade and other payables                    | -  | 13,246   | -                                    | -                          | 13,246  | 13,246  |
| Bank borrowing – variable rate              | 4.19   | 16,472   | 4,546                                | 420                        | 21,438  | 21,185  |
|   |  | <b>29,718</b>  | <b>4,546</b>                         | <b>420</b>                 | <b>34,684</b>                                   | <b>34,431</b>   |

### 25c. Fair value measurements of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 26. 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:

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

## 27. OPERATING LEASES

At the end of the reporting period, the Group had commitments for future minimum lease payments for its office premises under non-cancellable operating leases which fall due as follows:

|                                       | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within one year                       | 3,234            | 3,005            |
| In the second to fifth year inclusive | 6,236            | –                |
|                                       | <b>9,470</b>     | <b>3,005</b>     |

Operating lease payments represent rentals payable by the Group for its offices. Leases are negotiated for an average term of 1 to 5 years and rentals are fixed for the lease term.

## 28. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 28. RELATED PARTY TRANSACTIONS AND BALANCES – continued

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

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

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><br><i>HK\$'000</i> | 2015<br><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)               | –                              | 4,976                   |

The guarantees provided by related parties were released during the year.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 29. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

|  | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| <b>NON-CURRENT ASSET</b>                     |                                |                         |
| Investment in a subsidiary                   | <u>1</u>                       | <u>1</u>                |
| <b>CURRENT ASSETS</b>                        |                                |                         |
| Other receivables and prepayments            | –                              | 3,312                   |
| Bank balances and cash                       | <u>20,079</u>                  | <u>–</u>                |
|  | <u>20,079</u>                  | <u>3,312</u>            |
| <b>CURRENT LIABILITIES</b>                   |                                |                         |
| Other payables                               | 902                            | 2,572                   |
| Amount due to a subsidiary                   | <u>5,268</u>                   | <u>9,835</u>            |
|  | <u>6,170</u>                   | <u>12,407</u>           |
| <b>NET CURRENT ASSETS (LIABILITIES)</b>      | <u>13,909</u>                  | <u>(9,095)</u>          |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> | <u>13,910</u>                  | <u>(9,094)</u>          |
| <b>CAPITAL AND RESERVES</b>                  |                                |                         |
| Share capital                                | 2,000                          | –                       |
| Reserves                                     | <u>11,910</u>                  | <u>(9,094)</u>          |
|  | <u>13,910</u>                  | <u>(9,094)</u>          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 29. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY – continued

Movement of capital and reserves:

|   | Share<br>capital<br><i>HK\$'000</i> | Share<br>premium<br><i>HK\$'000</i> | Accumulated<br>losses<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|--|--------------------------|
| At 1 January 2015                                       | –                                   | –                                   | (913)                                    | (913)                    |
| Loss and total comprehensive expense for the year       | –                                   | –                                   | (8,181)                                  | (8,181)                  |
| At 31 December 2015                                     | –                                   | –                                   | (9,094)                                  | (9,094)                  |
| Issue shares by capitalisation of share premium account | 1,400                               | (1,400)                             | –  | –                        |
| Issue of new shares pursuant to placement               | 600                                 | 32,400                              | –  | 33,000                   |
| Expenses incurred in connection with issue of shares    | –                                   | (6,027)                             | –  | (6,027)                  |
| Loss and total comprehensive expense for the year       | –                                   | –                                   | (3,969)                                  | (3,969)                  |
| At 31 December 2016                                     | 2,000                               | 24,973                              | (13,063)                                 | 13,910                   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 30. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31 December 2016 and 2015 are as follows:

| Name of subsidiary  | Place and date of incorporation/ establishment | Issued and fully paid share/ registered capital | Proportion of nominal share of issued original shares capital/ registered capital held by the Company 2016 and 2015 |            | Principal activities  | Legal form                |
|---|--|---|---|------------|---|---------------------------|
|   |  |   | Directly  | Indirectly |   |                           |
| Keen Ocean Electronics Co., Ltd. ("Keen Ocean Electronics") | BVI<br>5 December<br>2014                      | US\$100   | 100%  | -          | Investment holding  | Limited liability company |
| Keen Ocean Industrial Limited                               | Hong Kong<br>17 May<br>2000                    | HK\$3,000,000                                   | -   | 100%       | Trading of transformers, switching mode power supply, electronic parts and components                 | Limited liability company |
| 河源天裕電子塑膠有限公司<br>He Yuan Sky Wealth<br>(note)                | The PRC<br>24 November<br>2010                 | US\$3,500,000                                   | -   | 100%       | Manufacture and trading of transformers, switching mode power supply, electronic parts and components | Limited liability company |
| T-Lab Industrial (Holdings) Ltd.                            | Hong Kong<br>15 August<br>1996                 | HK\$6   | -   | 100%       | Inactive  | Limited liability company |

Note: He Yuan Sky Wealth is a wholly foreign owned enterprise with limited liability. The English translation name is for identification only.

## 31. SHARE OPTION SCHEME

The Company has passed the written resolution on 2 February 2016 to adopt a share option scheme and the principal terms of the share options scheme were set out in the report of the directors in the annual report. No share options have been granted by the Company since the date of adoption of the share option scheme.