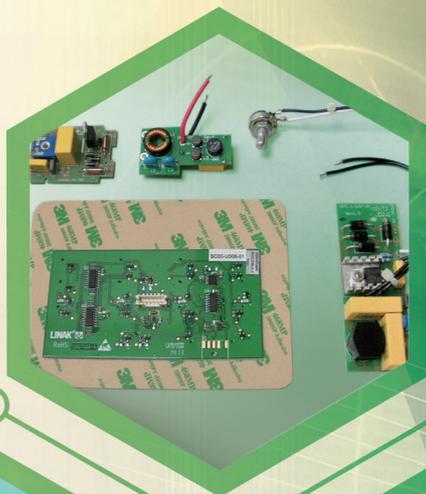


# KEEN OCEAN INTERNATIONAL HOLDING LIMITED

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

Stock Code : 8070



ANNUAL REPORT **2018**

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

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

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

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

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

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

# CONTENTS

Corporate Information	<b>3</b>
Financial Highlights	<b>5</b>
Chairman's Statement	<b>6</b>
Management Discussion and Analysis	<b>7</b>
Biographical Details of Directors and Senior Management	<b>14</b>
Corporate Governance Report	<b>17</b>
Report of the Directors	<b>42</b>
Environmental, Social and Governance Report	<b>64</b>
Independent Auditor's Report	<b>85</b>
Consolidated Statement of Profit or loss and Other Comprehensive Income	<b>90</b>
Consolidated Statement of Financial Position	<b>91</b>
Consolidated Statement of Changes in Equity	<b>92</b>
Consolidated Statement of Cash Flows	<b>93</b>
Notes to the Consolidated Financial Statements	<b>95</b>

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive directors

Mr. Chung Chi Hang, Larry (*Chairman*)  
 Mr. Chung Tin Shing  
 Mr. Wong Shek Fai, Johnson

#### Independent non-executive directors

Mr. Wong Choi Chak (*Resigned on 14 March 2019*)  
 Mr. Li Chung Pong, Stephen  
 Mr. Lam Chon Loi  
 Mr. Ng Wing Cheong (*Appointed on 14 March 2019*)

### COMPANY SECRETARY

Ms. Chau Hing Ling

### COMPLIANCE OFFICER

Mr. Wong Shek Fai, Johnson

### BOARD COMMITTEES

#### Audit committee

Mr. Wong Choi Chak (*Chairman*)  
*(Resigned on 14 March 2019)*  
 Mr. Ng Wing Cheong (*Chairman*)  
*(Appointed on 14 March 2019)*  
 Mr. Li Chung Pong, Stephen  
 Mr. Lam Chon Loi

#### Nomination committee

Mr. Li Chung Pong, Stephen (*Chairman*)  
 Mr. Chung Tin Shing  
 Mr. Lam Chon Loi

#### Remuneration committee

Mr. Lam Chon Loi (*Chairman*)  
 Mr. Wong Choi Chak (*Resigned on 14 March 2019*)  
 Mr. Chung Chi Hang, Larry  
 Mr. Ng Wing Cheong (*Appointed on 14 March 2019*)

#### Risk management committee

Mr. Chung Tin Shing (*Chairman*)  
 Mr. Wong Shek Fai, Johnson  
 Mr. Lam Chon Loi

### AUTHORISED REPRESENTATIVES

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

### COMPANY'S WEBSITE

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

### AUDITOR

ZHONGHUI ANDA CPA LIMITED  
 Unit 701, 7/F.  
 Citicorp Centre  
 18 Whitfield Road  
 Causeway Bay  
 Hong Kong

### COMPLIANCE ADVISER

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

### REGISTERED OFFICE

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

### PRINCIPAL PLACE OF BUSINESS IN CHINA

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## CORPORATE INFORMATION

### PRINCIPAL BANKERS

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

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

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

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

### HONG KONG BRANCH SHARE REGISTRAR

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

### STOCK CODE

8070

## FINANCIAL HIGHLIGHTS

## RESULTS

	For the year ended 31 December				2018
	2014	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	181,973	175,573	129,486	153,993	<b>168,905</b>
Profit (loss) before taxation	6,204	1,683	(6,175)	(6,737)	<b>(6,881)</b>
Income tax expense	(1,178)	(2,212)	(53)	-	-
Profit (loss) for the year	<u>5,026</u>	<u>(529)</u>	<u>(6,228)</u>	<u>(6,737)</u>	<u><b>(6,881)</b></u>

## ASSETS AND LIABILITIES

	At 31 December				2018
	2014	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	97,832	86,864	103,278	110,495	<b>108,930</b>
Total liabilities	50,806	40,367	36,036	49,403	<b>54,335</b>
	<u>47,026</u>	<u>46,497</u>	<u>67,242</u>	<u>61,092</u>	<u><b>54,595</b></u>

## CHAIRMAN'S STATEMENT

Dear Shareholders

On behalf of the Board of the Company, I am pleased to present to the shareholders the annual report of the Group for the financial year ended 31 December 2018.

During the year, the Group has launched several advertising campaigns to promote the Group's products. All these campaigns received very good feedback from both potential and existing customers.

In 2019, the Group will continue to build and foster business relationships with existing customers and to expand its sales in the Group's products. Although the Group is likely to face different types of challenges due to global political instability, I have confidence that the Director's together with the support from the management, will be able to get through difficulties encountered. Moreover, the Group will continue its research and development effort in existing and new products. A team of engineers and salespersons will continue focusing on China and overseas markets.

On behalf of the Board, I would like to thank the management team and all our staff for the enormous efforts in the past year. I would also like to thank all our customers, business partners and shareholders for their staunch support.

**Chung Chi Hang, Larry**

*Chairman*

Hong Kong, 18 March 2019

# 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, especially transformers, switching mode power supplies, electronic parts and components, enamelled copper wire, electric healthcare products and inverters. Customers are mainly manufacturers and trading entities.

Most of the power supply products were manufactured and sold under the Group's branch name called "Keen Ocean" while all electronic parts and component were sold on an original equipment manufacturer basis. Among the products sold, transformers remained the Group's best-selling products and represented approximately 54.4% of the Group's sales for the year ended 31 December 2018 (year ended 31 December 2017: approximately 53.4%). The percentage sales for switching mode power supplies represented approximately 1.1% (year ended 31 December 2017: approximately 1.1%) of the total sales and the electronic parts and components and other products represented approximately the remaining 44.6% of the total sales for the year ended 31 December 2018 (year ended 31 December 2017: approximately 45.5%).

The global economic growth has shown sign of slowdown especially in the fourth quarter of the year. This is mainly due to the ongoing uncertainties around the US-China trade war, the withdrawal of United Kingdom from the European Union and other global geo-political risk. The Group's performance was inevitably affected by these negative uncertainties.

During the year, the Group also faced the rise in material cost, especially the price of copper and silicone steel. Copper price was remaining obstinately high during the year and increased by approximately 8.5% as compared to the average price in corresponding last year. Given the current political climate, the Group anticipates that copper price could remain high for some time. The Group has not attempted to hedge against rise in copper price. Nevertheless, if the price continues to rise, the Group will consider all possible methods to alleviate or counteract the increase.

The Group manufactured and sold enamelled copper wire in the first half of the year but then decided to temporarily suspend the operation for a while because of its low profit margin. It may tie up the Group's resources which would otherwise be used to produce more profitable products at time of high reason.

During the fourth quarter, the Group began to ship two new products, namely electric toothbrush and inverter, to overseas customers. Contribution of sales from these two new products amounted to approximately HK\$6.8 million in 2018. There is a great demand for these two new products from overseas market.

The Group also recorded an increase in sales of other newly developed products such as high power switching mode power supply, amplifier board and the digital signal processing board, even though such increase was lower than the Group expected. The Directors believe that it is just a matter of time before customers accept the products. Investigation is being conducted by the Directors into any other possible reasons for such sluggishness and find ways to improve.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group continued its advertising and marketing campaigns in order to promote its new and existing products. These campaigns included but not limited to placing advertisements in renowned industrial magazines such as Global Source and taking part in exhibitions held overseas.

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

	<b>2018</b> <b>HK\$'000</b>	2017 <i>HK\$'000</i>
Sales of transformers	<b>91,828</b>	82,207
Sales of switching mode power supply	<b>1,809</b>	1,710
Sales of electronic parts and components and other products	<b>75,268</b>	70,076
	<b>168,905</b>	153,993

### 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.

	<b>Revenue from External customers</b>		<b>Non-current assets</b>	
	<b>2018</b> <b>HK\$'000</b>	2017 <i>HK\$'000</i>	<b>2018</b> <b>HK\$'000</b>	2017 <i>HK\$'000</i>
Hong Kong	<b>45,070</b>	35,606	<b>972</b>	1,230
PRC	<b>55,844</b>	52,024	<b>9,372</b>	7,123
Europe	<b>29,732</b>	35,566	-	-
United States	<b>27,618</b>	25,687	-	-
Others	<b>10,641</b>	5,110	-	-
	<b>168,905</b>	153,993	<b>10,344</b>	8,353

# MANAGEMENT DISCUSSION AND ANALYSIS

## Information about major customers

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

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Customer A <sup>1</sup>	<b>19,366</b>	21,002
Customer B <sup>2</sup>	<b>26,123</b>	24,374
Customer C <sup>2,3</sup>	<b>7,246</b>	17,135

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

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

<sup>3</sup> Revenue from customer's did not exceed 10% the total revenue in 2018. The figure is far comparison purpose.

## Financial Review

The Group's revenue increased by approximately HK\$14.9 million, or 9.7%, from approximately HK\$154.0 million for the year ended 31 December 2017 to HK\$168.9 million for the year ended 31 December 2018. Such increase was primarily due to the increase in pricing of its products as a result of increase in production costs. The increase was also due to the contribution from sales of two new products, namely electric toothbrush and inverters. Cost of sales increased by approximately HK\$19.7 million, or 15.8%, from approximately HK\$124.7 million for the year ended 31 December 2017 to approximately HK\$144.4 million for the year ended 31 December 2018. Such increase was mainly due to the rise in labour wages and raw material costs, especially prices of copper and silicon steel which are essential raw materials for manufacturing of the Group's products. The group recorded a rise in prices of copper and silicon steel by approximately 8.5% and 20% respectively as compared to the prices in last year. Despite the increase in sales, the Group's gross profit decreased by approximately HK\$4.8 million, or 16.4%, from approximately HK\$29.3 million for the year ended 31 December 2017 to approximately HK\$24.5 million for the year ended 31 December 2018. Gross profit margin went down from 19.0% for the year ended 31 December 2017 to 14.5% for the year ended 31 December 2018. Such drop was again due to the high material costs and labour wages.

Other income decreased by approximately HK\$22,000 or 2.3% from approximately HK\$937,000 for the year ended 31 December 2017 to approximately HK\$915,000 for the year ended 31 December 2018. Such decrease was mainly due to the reduction of government grant received from the He Yuan Municipal Authority for achievement obtained by the Group's subsidiary in the design and production of innovative products within He Yuan city.

Other gains and losses increased by approximately HK\$333,000 or 211.0% from loss of approximately HK\$226,000 for the year ended 31 December 2017 to gains of approximately HK\$107,000 for the year ended 31 December 2018. Such increase in gain was due to improvement in bad debt allowance as a result of better credit control on collection of trade receivables.

## MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses decreased by approximately HK\$0.3 million or 4.3%, from approximately HK\$7.0 million for the year ended 31 December 2017 to approximately HK\$6.7 million for the year ended 31 December 2018. Such decrease was due to the change in policy in relation to the reimbursement of sales related expenses, such as travelling, entertainment and hotel accommodation, incurred by salesmen in the course of selling the Group's products. Before the change, reimbursement was based on actual receipts presented. After the change, reimbursement is based on the amount of sales concluded by salesmen multiplying by a percentage fixed by management. The change in policy was to prevent abuse in claiming sales related expenses.

Administrative expenses decreased by approximately HK\$4.6 million or 16.0% from approximately HK\$28.7 million for the year ended 31 December 2017 to approximately HK\$24.1 million for the year ended 31 December 2018. The decrease was mainly due to effectively cutting down on unnecessary overhead expenditures and streamlining administrative workflows by the management.

Finance costs increased by approximately HK\$0.4 million or 23.5% from approximately HK\$1.3 million for the year ended 31 December 2017 to approximately HK\$1.7 million for the year ended 31 December 2018. The increase was mainly due to the increase in bank interest arising from the increase in short term factoring service, a common type of debtor finance which the Group sells its accounts receivable to the bank at a discount for immediate cash received, as a result of increase in sales.

There was no provision for income taxes for the Group's operations as a result of losses incurred during the year under review (year ended 31 December 2017: HK\$ nil).

As a result of the above, the Group recorded a loss of approximately HK\$6.9 million for the year ended 31 December 2018 (year ended 31 December 2017: loss of approximately HK\$6.7 million).

### **Prospect**

The growth of the global economy is expected to slow down in 2019 as compared with 2018, according to the Semi-annual Global Economic Prospects Report published by the World Bank. Other world leading investment bankers also share similar economic sentiment. The Directors believe that 2019 will be a challenging year for the Group.

The recent trade war between US and China and the rise in production cost may have impact on the Group's profitability. Nevertheless, the Group will try its best to overcome the obstacles faced and hope to keep the impact, if any, to as minimum as possible. Despite the gloomy economic outlook and political instability, the Directors are of the view that the long term prospect for the industries in which the Group is operating are still favourable. The Directors have confidence to overcome the current stagnant atmosphere and expand its business by producing more customer-oriented products.

The Directors believe that new products will continue to contribute sales to the Group in the coming year as these new products, such as electric healthcare products and inverters, have their niche markets due to their distinctive designs and features which are unique in the market.

## MANAGEMENT DISCUSSION AND ANALYSIS

In the short term, apart from promoting the existing products and exploring new opportunities, the Group will continue to develop new products to broaden its product range, upgrade its production capability, solidify relationship with existing customers and widen customer base. The Group will also streamline its manufacturing operations in order to enhance its effectiveness and efficiency. More advertising campaigns will be launched in 2019. These includes but not limited to more advertisements to be published in magazines and more participations in overseas trade shows and exhibitions.

In the long run, the Group's will strive to increase its market share at time of economic rebound through strengthening its sales and marketing capability. The Group aims to strengthen its competitiveness in the market so as to generate sustainable returns and maximize shareholders' return.

### Liquidity and Financial Resources

During the 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 2018, the Group had a stable financial position with net assets amounted to approximately HK\$54.6 million (31 December 2017: approximately HK\$61.1 million). Net current assets stood at approximately HK\$44.3 million (31 December 2017: approximately HK\$52.7 million).

As at 31 December 2018, Shareholder's fund amounted to approximately HK\$54.6 million (31 December 2017: approximately HK\$61.1 million). Current assets amounted to approximately HK\$98.6 million (31 December 2017: approximately HK\$102.1 million), mainly comprising inventories, trade and other receivables and prepayments, pledged bank deposits, bank and cash balance. Current liabilities amounted to approximately HK\$54.3 million (31 December 2017: approximately HK\$49.4 million), mainly comprising trade and other payables and accruals, bank borrowings and amount due to a related company.

As at 31 December 2018, the Group's bank and cash balance amounted to approximately HK\$4.3 million (31 December 2017: approximately HK\$13.6 million). Net asset value per share was approximately HK\$0.3 (31 December 2017: approximately HK\$0.3).

As at 31 December 2018, the gearing ratio of the Group, which is based on the ratio of interest bearing borrowings net of bank and cash balance to total equity, was approximately 0.28% (31 December 2017: approximately 0.24%). Such increase was mainly due to the increase in bank borrowing during the period under review.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Capital Structure

As at 31 December 2018, the share capital of the Group comprised only ordinary shares. The capital structure of the Group mainly consists of borrowings from bank and equity attributable to owners of the Group, comprising issued share capital and retained earnings respectively. Borrowings from bank were denominated in Hong Kong dollars which were secured by pledged bank deposits and trade receivables of the Group.

## Foreign Exchange Exposure

The sales of the Group are mainly denominated in US dollars. However, the Group has certain foreign currency sales and purchases transactions denominated in Renminbi, Hong Kong dollar, and Pound Sterling, which expose the Group to foreign currency risk. The Group currently has no foreign currency hedging policy and the management monitors the foreign exchange exposure by closely monitoring the movement of foreign currency rates. Nevertheless, the Group will consider hedging significant foreign currency exposure should the need arise.

## Significant Investment Held

As at 31 December 2018, the Group did not have any significant investment held (31 December 2017: nil).

## Contingent Liabilities

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

## Capital Commitment

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

## Employee and Remuneration Policies

As at 31 December 2018, the Group had a total staff of approximately 530 employees (31 December 2017: approximately 520), including the Directors. Total staff costs excluding Directors' remuneration for the year ended 31 December 2018 amounted to approximately HK\$35.5 million (year ended 31 December 2017: approximately HK\$35.4 million). Remuneration packages including staff benefits are maintained at a competitive level and reviewed on a periodical basis. Employees' remunerations and related benefits are determined with reference to their performance, qualifications, experience, positions and the performance of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Charges on the Group's Assets

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

	<b>31 December 2018 HK\$'000</b>	31 December 2017 HK\$'000
Pledged bank deposits	<b>7,256</b>	7,201
Trade receivables	<b>9,737</b>	10,569
	<b>16,993</b>	17,770

### 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.

### Future Plans for Material Investments and Capital Assets

As at 31 December 2018, the Group did not have other plans for material investments and capital assets.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Chung Chi Hang, Larry (鍾志恆)**, aged 47, 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 48, 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 46, 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. Ng Wing (吳永昌)**, aged 47, is an independent non-executive Director of the Company. Mr. Ng has over 20 years of experience in the field of financial, auditing and accounting services. He has been the sole proprietor of Ng Wing Cheong & Co., a firm of certified public accountants since 2004. Mr. Wong holds a bachelor's degree in accountancy from the Hong Kong Polytechnic University in 1993. Mr. Ng is currently a certified public accountant 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 52, 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. Lam Chon Loi (林春雷)**, aged 54, is an independent non-executive Director of the Company. Mr. Lam obtained his bachelor of science degree from McMaster University, Hamilton, Ontario, Canada in May 1988. In October 2015, he received a professional diploma in property management for practitioners in Macao from the Vocational Training Council of Hong Kong.

Mr. Lam has over 22 years of experience in the management of businesses in Macau. He currently owns a property and facilities management company in Macau.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Mr. Yu Siu Ming (余兆明)**, aged 55, 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 40, 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 REPORT

The Board is pleased to present the Corporate Governance Report of the Company for the year ended 31 December 2018.

## CORPORATE GOVERNANCE PRACTICES

The Directors consider that incorporating the core elements of good corporate governance in the management structure and internal control procedures of the Group would help to balance the interest of the shareholders, customers and employees of the Company. The Board has adopted the principles and the code provisions of the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules (the “CG Code”) to ensure that the Group’s business activities and decision making processes are regulated in a proper and prudent manner.

During the year ended 31 December 2018, 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 year ended 31 December 2018.

## 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 (*Resigned on 14 March 2019*)  
Mr. Li Chung Pong, Stephen  
Mr. Lam Chon Loi  
Mr. Ng Wing Cheong (*Appointed on 14 March 2019*)

The biographical details of all Directors are set out on pages 14 to 16 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 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 year ended 31 December 2018, four board meetings were held. Details of the attendance of Directors are as follows:

<b>Directors</b>	<b>Attendance/ Number of meeting(s) held</b>
<b>Executive Directors</b>	
Mr. Chung Chi Hang, Larry	4/4
Mr. Chung Tin Shing	4/4
Mr. Wong Shek Fai Johnson	4/4
<b>Independent Non-Executive Directors</b>	
Mr. Wong Choi Chak ( <i>Resigned on 14 March 2019</i> )	4/4
Mr. Li Chung Pong, Stephen	4/4
Mr. Lam Chon Loi	4/4
Mr. Ng Wing Cheong ( <i>Appointed on 14 March 2019</i> )	0/0

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.

## CORPORATE GOVERNANCE REPORT

### **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 year ended 31 December 2018, each of the Directors, namely Mr. Chung Chi Hang, Larry, Mr. Chung Tin Shing, Mr. Wong Shek Fai, Johnson, Mr. Wong Choi Chak (resigned on 14 March 2019), Mr. Li Chung Pong, Stephen, and Mr. Lam Chon Loi, 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 (resigned on 14 March 2019), Mr. Li Chung Pong, Stephen and Mr. Lam Chon Loi, 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 during the year ended 31 December 2018. 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 (resigned on 14 March 2019), Mr. Ng Wing Cheong (appointed on 14 March 2019), Mr. Li Chung Pong, Stephen, and Mr. Lam Chon Loi 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)).

### 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.

With effect from 14 March 2019, as Mr. Wong Choi Chak has resigned as an independent non-executive Director and the Chairman of the Audit Committee, Mr. Ng Wing Cheong has been appointed as an independent non-executive Director and the Chairman of the Audit Committee. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ng Wing Cheong (appointed on 14 March 2019), Mr. Li Chung Pong, Stephen and Mr. Lam Chon Loi. Mr. Ng Wing Cheong, 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.

## CORPORATE GOVERNANCE REPORT

Four Audit Committee meetings were held during the year ended 31 December 2018. 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 Group's accounting, internal audit 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 2018, the interim results for the six-month period ended 30 June 2018 and the third quarterly results for the nine-month ended 30 September 2018. The Audit Committee has considered and recommended to the Board on change of auditor of the Company. The Audit Committee has reviewed the audited annual results of the Group for the year ended 31 December 2018, 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 2018 and has recommended the Board to re-appoint ZHONGHUI ANDA CPA Limited as the auditor of the Company for the year ended 31 December 2019, subject to approval by the shareholders at the forthcoming annual general meeting expected to be held on 3 June 2019. 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/ Number of meeting(s) held</b>
Mr. Wong Choi Chak ( <i>Chairman</i> ) ( <i>Resigned on 14 March 2019</i> )	4/4
Mr. Li Chung Pong, Stephen	4/4
Mr. Lam Chon Loi	4/4
Mr. Ng Wing Cheong ( <i>Appointed on 14 March 2019</i> )	0/0

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.

The Remuneration Committee currently comprises three members, namely Mr. Lam Chon Loi, Mr. Ng Wing Cheong and Mr. Chung Chi Hang, Larry. Mr. Lam Chon Loi is the chairman of the Remuneration Committee.

With effect from 14 March 2019, as Mr. Wong Choi Chak has resigned as an independent non-executive Director and a member of the Remuneration Committee, Mr. Ng Wing Cheong has been appointed as an independent non-executive Director and a member of the Remuneration Committee. One Remuneration Committee meeting was held during the year ended 31 December 2018. 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/ Number of meeting(s) held</b>
Mr. Lam Chon Loi ( <i>Chairman</i> )	1/1
Mr. Wong Choi Chak ( <i>Resigned on 14 March 2019</i> )	1/1
Mr. Chung Chi Hang, Larry	1/1
Mr. Ng Wing Cheong ( <i>Appointed on 14 March 2019</i> )	0/0

## CORPORATE GOVERNANCE REPORT

### Remuneration of Senior management

The remuneration of the members of the senior management by band for the year ended 31 December 2018 is set out below:

Remuneration bands	Number of Individuals	
	2018	2017
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. Lam Chon Loi 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 year ended 31 December 2018. 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. The Nomination Committee has also assessed the independence of independent non-executive Directors, and has reviewed and recommended to the Board on the change of independent non-executive director and the composition of the Board committees. Details of the attendance of the members of the Nomination Committee meeting are as follows:

Members	Attendance/ Number of meeting(s) held
Mr. Li Chung Pong, Stephen ( <i>Chairman</i> )	1/1
Mr. Chung Tin Shing	1/1
Mr. Lam Chon Loi	1/1

# CORPORATE GOVERNANCE REPORT

## Policy for nomination of directors

The Company has adopted a nomination policy, details of which are disclosed as follows:

### Objectives

The Nomination Committee assists the board in making recommendations to the Board on the appointment of directors, and succession planning for directors.

The policy provides the key selection criteria and principles of the Nomination Committee in making any such recommendations.

### Selection Criteria

The Nomination Committee shall consider the following factors, which are not exhaustive and the Board has discretion if it considers appropriate, in assessing the suitability of the proposed candidate regarding the appointment of directors or re-appointment of any existing Board member(s):-

- (a) Reputation for integrity;
- (b) Accomplishment, experience and reputation in the business and industry;
- (c) Commitment in respect of sufficient time, interest and attention to the businesses of the Company and its subsidiaries;
- (d) Diversity in all aspects, including but not limited to gender, age, cultural/educational and professional background, skills, knowledge and experience;
- (e) Compliance with the criteria of independence, in case for the appointment of an independent non-executive director, as prescribed under Rule 5.09 of the GEM Listing Rules; and
- (f) any other relevant factors as may be determined by the Nomination Committee or the Board from time to time as appropriate. The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Company's Articles of Association and other applicable rules and regulations.

### Nomination Procedures

The proposed candidates will be asked to submit the necessary personal information in a prescribed form by the Nomination Committee.

The Secretary of the Nomination Committee shall convene a meeting, and invite nominations of candidates from Board members (if any), for consideration by the Nomination Committee.

## CORPORATE GOVERNANCE REPORT

For the appointment of any proposed candidate to the Board, the Nomination Committee shall undertake adequate due diligence in respect of such individual and make recommendations for the Board's consideration and approval.

For the re-appointment of any existing member(s) of the Board, the Nomination Committee shall make recommendations to the Board for its consideration and recommendation, for the proposed candidates to stand for re-election at a general meeting.

If a shareholder wants to propose a candidate to the Board for consideration, he/she shall refer to the "Procedures for a Shareholder to Propose a Person for Election as a Director", which is available on the Company's website.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at a general meeting.

### 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. Lam Chon Loi. Mr. Chung Tin Shing is the chairman of the Risk Management Committee.

Two Risk Management Committee meetings were held during the year ended 31 December 2018. 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/ Number of meeting(s) held</b>
Mr. Chung Tin Shing ( <i>Chairman</i> )	2/2
Mr. Wong Shek Fai, Johnson	2/2
Mr. Lam Chon Loi	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 2018, 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.

### Auditor's remuneration

During the year ended 31 December 2018, the remuneration paid or payable to the Company's auditor, ZHONGHUI ANDA CPA Limited, in respect of their audit and non-audit services was as follows:

	<i>HK\$'000</i>
Audit service	400
Non-audit services (Review financial report)	50
Total	450

## 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:

## CORPORATE GOVERNANCE REPORT

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.

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.

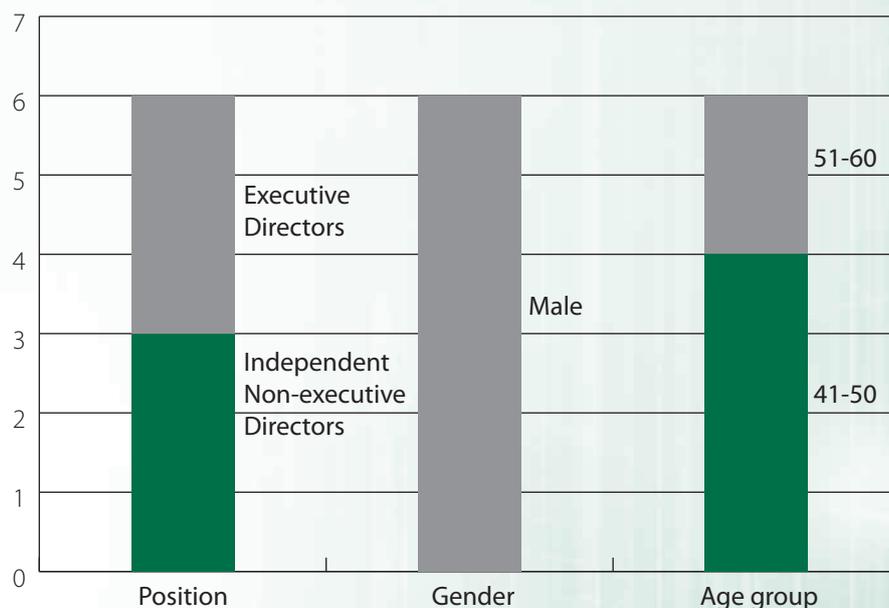
The Board had not set any measurable objectives for the year ended 31 December 2018. Currently, the following measurable objectives have been set for implementing the board diversity policy:

Ensuring that there is no limitation on gender on selection of Directors;

Inclusion of candidates for Board members with working experience in other industries; and

Inclusion of candidates for Board members with knowledge and skills in different aspects.

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 14 to page 16 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*

The Board sets 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

Role	Accountability	Responsibilities
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>

### *Risk Management and Internal Control Review Process*

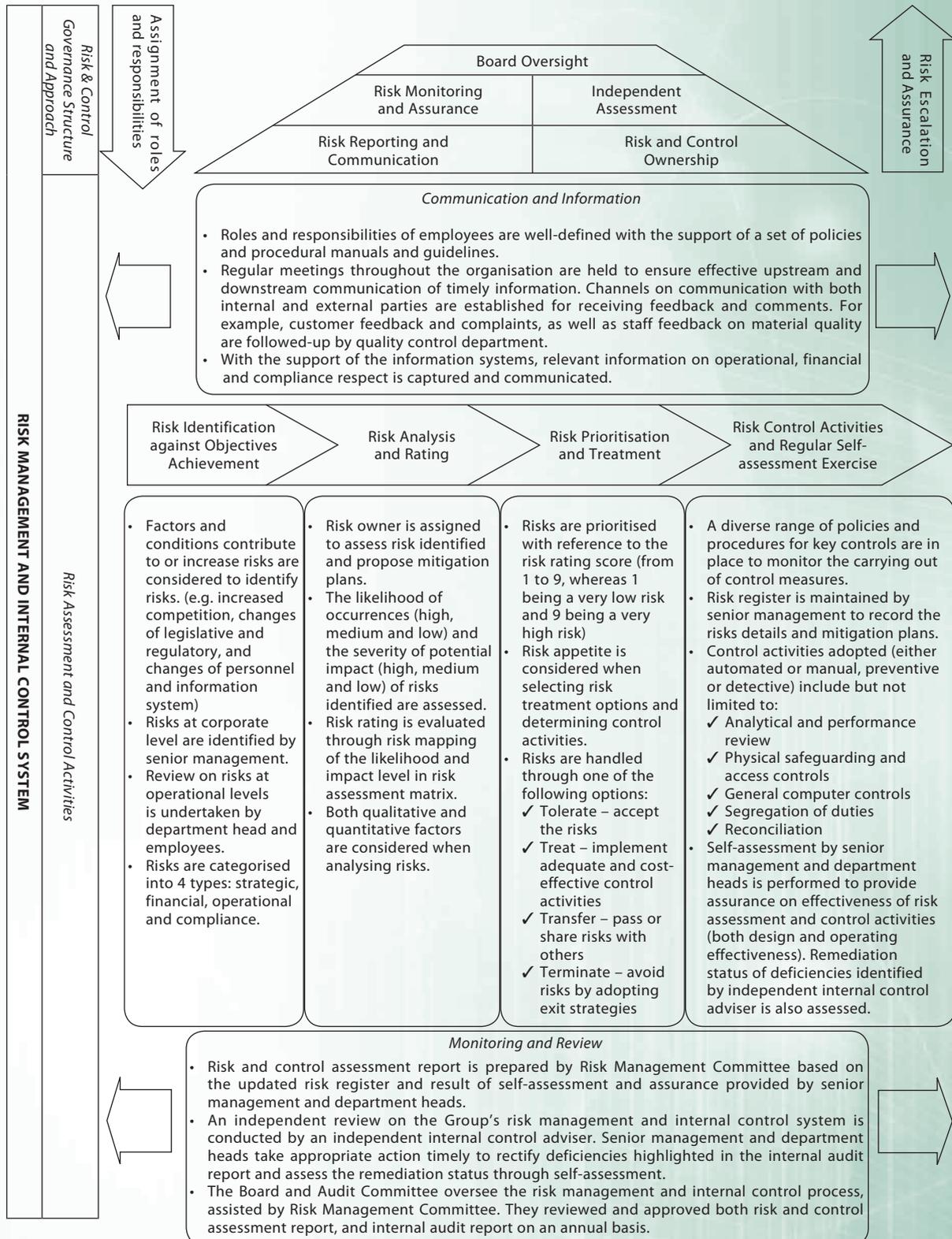
Risk management process is integrated with the internal control system, so that the Group's ability to handle risks that hinder the achievement of strategic, financial, operational and compliance goals is strengthened and the allocation of resources on control measures against specific or high risks 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 2018	Key Risk Mitigation
<b>Strategic Risk</b>		
<p><u>Uncertain economic conditions</u> 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 year 2018, though customers were still cautious and conservative in placing orders due to uncertainty in economic environment, the Group's revenue increased by 9.7% due to the introduction of 2 newly developed products namely electric healthcare product and inverter, and the steady sales growth of high power switching mode power supply, amplifier board and the digital signal processing board.</p>	 Global economic condition is still vulnerable	<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> <li>• Maintain good customer relationship by dealing with customer complaints and dissatisfactions promptly.</li> </ul>
<p><u>Inadequate pricing strategy</u> Operating result of the Group is highly sensitive to any unfavourable changes in selling price and material cost.</p> <p>In current year, gross profit margin was dropped from approximately 19% to 14.5%. Such decrease was mainly attributable to the global increase in the price of copper and silicone steel, which are major raw materials for manufacturing of the Group's products, and rise in other production costs including labour cost.</p>	 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 updated of the recent changes of material costs so that the Group has the latest cost data 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>

## CORPORATE GOVERNANCE REPORT

Risk Description	Changes in 2018	Key Risk Mitigation
<p><b>Operational Risk</b></p> <p><u>Heavy reliance on a handful of major customers</u></p> <p>Top five customers contributed to around 47.9% (2017: 47.2%) 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> <p>In current year, there was no loss of major customers.</p>	 <p>No loss of major customer</p>	<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 contact 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>• Maintain good customer relationship by dealing with customer complaints and dissatisfactions promptly.</li> <li>• Active participation in trade fairs and exhibitions to explore new customers.</li> </ul>

## CORPORATE GOVERNANCE REPORT

Risk Description	Changes in 2018	Key Risk Mitigation
<p><u><i>Failure to maintain product quality and safety</i></u>            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> <p>In current year, there was no material defect on product quality identified.</p>	 <p>No material issue on product quality</p>	<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>

## CORPORATE GOVERNANCE REPORT

Risk Description	Changes in 2018	Key Risk Mitigation
<b>Financial Risk</b>		
<p><u>Poor liquidity and credit controls</u> 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> <p>Included in the allowance for doubtful debts are individually impaired trade debtors with an aggregate balance of HK2.8 million as at 31 December 2018 (31 December 2017: HK\$2.8 million) which have been in severe financial difficulties.</p>	 <p>Liquidity position is maintained as stable</p>	<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>
<p><u>Expose to foreign currency risk</u> 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>	 <p>Currency volatility is a market norm</p>	<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>

## CORPORATE GOVERNANCE REPORT

Risk Description	Changes in 2018	Key Risk Mitigation
<b>Compliance Risk</b>		
<p><u>Failure to comply with the GEM Listing Rules</u> Adherence to the GEM Listing Rules is required. Any failure to comply with relevant rules may be subject to disciplinary actions and sanctions.</p> <p>There was no material effect on the Group for the change of the GEM Listing Rules in the current year.</p>	 No material change on GEM Listing Rules.	<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 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> 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> <p>In current year, adequate provision, in accordance with the relevant laws and regulations, was made.</p>	 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> </ul>

*Remark:*

Risk level increased



Risk level remained unchanged



Risk level decreased

## CORPORATE GOVERNANCE REPORT

### Inside information control

The Company has established procedures and internal controls for the handling and dissemination of inside information which are summarised 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.

### 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 2018. 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;

## CORPORATE GOVERNANCE REPORT

- 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;
- 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 an 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.

## CORPORATE GOVERNANCE REPORT

### GENERAL MEETING

During the year ended 31 December 2018, the Company held an annual general meeting on 5 June 2018 ("2018 AGM") and below is the attendance of each Director:

Attendance/No. of Meeting	2018 AGM
<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 ( <i>Resigned on 14 March 2019</i> )	1/1
Mr. Li Chung Pong, Stephen	1/1
Mr. Lam Chon Loi	1/1
Mr. Ng Wing Cheong ( <i>Appointed on 14 March 2019</i> )	0/0

The 2018 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 2018 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.

## CORPORATE GOVERNANCE REPORT

### *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.

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.

In order to promote effective communication, the Company also maintains website ([www.keenocean.com.hk](http://www.keenocean.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.

## CORPORATE GOVERNANCE REPORT

### **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 2018, 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 year ended 31 December 2018.

## REPORT OF THE DIRECTORS

The Directors submit herewith their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

### 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 31 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 13 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 28 to 38. Also, the financial risk management objectives and policies of the Group can be found in Note 5 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 84. The probable future business development of the Company is discussed in the paragraph headed “Prospect” in the Management Discussion and Analysis section from pages 10 to 11 of this annual report.

## REPORT OF THE DIRECTORS

### Results

The results of the Group for the financial year ended 31 December 2018 and the state of affairs of the Group as at that day are set out in the consolidated financial statements on pages 90 to 94.

### Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

### Dividend Policy

The Company has adopted a dividend policy (the “**Dividend Policy**”), details of which are disclosed as follows:

In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value.

The Company does not have any pre-determined dividend payout ratio.

The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the Articles of the Association of the Company and all applicable laws and regulations and the factors set out below.

The Board shall also take into account the following factors of the Company and its subsidiaries (collectively, the “**Group**”) when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

## REPORT OF THE DIRECTORS

Depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period:

- interim dividend;
- final dividend;
- special dividend; and
- any distribution of net profits that the Board may deem appropriate.

Any final dividend for a financial year will be subject to shareholders' approval.

The Company may declare and pay dividends by way of cash or by other means that the Board considers appropriate.

Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Company's Articles of Association.

### Annual general meeting

The forthcoming annual general meeting (the "**Annual General Meeting**") of the Company is scheduled to be held on 3 June 2019. 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 28 May 2019 to 3 June 2019 (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 27 May 2019.

### 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:

## REPORT OF THE DIRECTORS

- (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.

## REPORT OF THE DIRECTORS

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 year ended 31 December 2018, 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.

### Major customers and suppliers

During the year ended 31 December 2018, the Group's five largest customers accounted for approximately 47.9% of the revenue (31 December 2017: approximately 53.7%). The Group's five largest suppliers accounted for approximately 52.1% of the total purchases for the year ended 31 December 2018 (31 December 2017: approximately 24.7%). In addition, the Group's largest customer accounted for approximately 15.5% of the revenue and the Group's largest supplier accounted for approximately 33.4% of the total purchases for the year ended 31 December 2018 (31 December 2017: approximately 29.5% and 14.4%).

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 2018 are set out in the consolidated statement of changes in equity and statement of changes in equity respectively in this annual report.

### Distributable reserves

As at 31 December 2018, 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 2018 are set out in note 23 to the consolidated financial statements in this annual report.

## REPORT OF THE DIRECTORS

### Directors

During the year ended 31 December 2018 and up to the date of this annual report, the Directors were:

#### *Executive directors*

Mr. Chung Chi Hang, Larry  
Mr. Chung Tin Shing  
Mr. Wong Shek Fai, Johnson

#### *Independent non-executive directors*

Mr. Wong Choi Chak (*Resigned on 14 March 2019*)  
Mr. Li Chung Pong, Stephen  
Mr. Lam Chon Loi  
Mr. Ng Wing Cheong (*Appointed on 14 March 2019*)

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

Mr. Li Chung Pong, Stephen and Mr. Chung Tin Shing 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.

Mr. Ng Wing Cheong was appointed by the Board as an independent non-executive Director on 14 March 2019 to fill a casual vacancy on the Board. In accordance with Article 83(3) of the Articles, Mr. Ng Wing Cheong shall hold office until the forthcoming annual general meeting and, being eligible will offer himself for election at the forthcoming annual general meeting.

### 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.

## REPORT OF THE DIRECTORS

### (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.

### (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.

## REPORT OF THE DIRECTORS

(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.

## REPORT OF THE DIRECTORS

*(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.

*(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.

## REPORT OF THE DIRECTORS

(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.

## REPORT OF THE DIRECTORS

*(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.

*(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.

## REPORT OF THE DIRECTORS

*(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.

## REPORT OF THE DIRECTORS

(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.

(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.

## REPORT OF THE DIRECTORS

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

## REPORT OF THE DIRECTORS

- (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:

- (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.

(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.

## REPORT OF THE DIRECTORS

*(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 year ended 31 December 2018 and there were no outstanding share options under the Share Option Scheme as at 31 December 2018 and up to the date of this annual report.

## REPORT OF THE DIRECTORS

### 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 2018, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the 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*

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

Notes:

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

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

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

## REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company had any interests and short positions in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) or (ii) which were required to be recorded in the register required to be kept by the Company under Section 352 of the SFO or (iii) which were otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules.

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

Save as disclosed above, as at 31 December 2018, the Directors and chief executive are not aware of any person, other than a Director or chief executive of the Company, who has an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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

Save as disclosed in this annual report, at no time during the year ended 31 December 2018 was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the Directors and chief executive of the Company (including their spouses and children under 18 years of age) to hold any interest or short positions in the shares, or underlying shares, or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

### **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 2018.

### **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 2018.

## REPORT OF THE DIRECTORS

### 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 2018.

### 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 2018.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2018, 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 2018 are set out in note 21 to the consolidated financial statements in this annual report.

### RETIREMENT BENEFITS PLANS

Particulars of retirement benefits plans of the Group as at 31 December 2018 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, namely Mr. Wong Choi Chak, Mr. Li Chung Pong, Stephen and Mr. Lam Chon Loi, a confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and based on their confirmations, the Company considers all the independent non-executive Directors are independent.

### CONNECTED TRANSACTIONS

The related party transactions and balance of the Company are set out in note 30 to the consolidated financial statements in this annual report. All the related party transactions did not fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" which were subject to disclosure in this annual report under Chapter 20 of the GEM Listing Rules are not required to comply with any of the relevant reporting, announcement or independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Information on connected transactions effective during the year ended 31 December 2018 which are fully exempt connected transactions pursuant to the Rule 20.74 of the GEM Listing Rules are contained in note 30 to the consolidated financial statements in this annual report.

## REPORT OF THE DIRECTORS

### **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 year ended 31 December 2018, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any of the Shares.

### **DONATIONS**

During the year ended 31 December 2018, the Group donated RMB8,000 to He Yuan Charity Federation to support the underprivileged group in Guangdong.

### **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.

## REPORT OF THE DIRECTORS

### 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 17 to 41 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 five 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 2018 have been audited by ZHONGHUI ANDA CPA Limited who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of ZHONGHUI ANDA CPA Limited as the auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

Deloitte Touche Tohmatsu resigned as the auditor of the Company with effect from 21 July 2017 and ZHONGHUI ANDA CPA Limited has been appointed as the auditor of the Company with effect from the same date. Save for the above, there has been no other change in the Company's auditor in any of the preceding three years.

## REPORT OF THE DIRECTORS

### CHANGES IN THE BOARD AND THE DIRECTORS' INFORMATION

The changes in the Board since the date of the Company's 2018 interim report are set out below:

- (1) With effect from 14 March 2019, Mr. Wong Choi Chak has resigned as an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee.
- (2) With effect from 14 March 2019, Mr. Ng Wing Cheong has been appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee.

There is no change in the information of the Directors required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

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

Hong Kong, 18 March 2019

# 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 annual 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 Group has considered the applicability and materiality of the relevant key performance indicators (the “**KPIs**”) under the ESG Guide. The Report, which mainly highlights the Group’s key policies and measures in relation to the environmental and social aspects, and the KPIs of plant operation in China for the financial year ended 31 December 2018, has complied with all the “comply or explain provisions” under the ESG Guide. For information regarding the corporate governance section, please refer to the Corporate Governance Report.

## ENVIRONMENTAL PROTECTION

Protecting the environment is as important as expanding the business. Environmental protection is educated as a shared value embedded in daily operations. A set of internal policies and procedures in connection with environmental protection management and waste management 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 a qualified inspection and testing agency 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.
- 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.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Full compliance with local environmental laws and regulations including the Environmental Protection Law of the People's Republic of China (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.

### Air emission

Waste gas are mainly generated from the use of insulating varnish for the production of enamelled copper wires and steel core. Waste gas generated from the production in the year was 39,595,452 tonnes (2017: 16,396,470 tonnes).

The relevant data of the five key types of air pollutants in waste gas, namely benzene, toluene, xylene, particulate matter ("PM") and non-methane hydrocarbon ("NMHC"), are listed as follows:

	2018 (kg)	2017 (kg)
<i>Air pollutants:</i>		
• Benzene	<b>0.40167</b>	0.16396
• Toluene	<b>8.00342</b>	2.60524
• Xylene	<b>48.00974</b>	20.75719
• PM	<b>754.76787</b>	338.15106
• NMHC	<b>279.78522</b>	115.35677
<b>Total</b>	<b>1,090.96792</b>	477.03422

On the other hand, there are altogether 6 vehicles used for China operation, which generated nitrogen oxides ("NO<sub>x</sub>"), sulphur oxides ("SO<sub>x</sub>") and PM. The relevant emissions data are set out as follows:

	Private Cars (kg)	2018 Medium & Heavy goods vehicle (=> 15 tonnes) (kg)	Total (kg)	Private Cars (kg)	2017 Medium & Heavy goods vehicle (5.5 – 15 tonnes) (kg)	Total (kg)
<i>Air pollutants:</i>						
• NO <sub>x</sub>	<b>16.59311</b>	<b>352.65506</b>	<b>369.24817</b>	16.65078	200.58746	217.23824
• SO <sub>x</sub>	<b>0.18286</b>	<b>0.23110</b>	<b>0.41396</b>	0.18319	0.23404	0.41723
• PM	<b>1.22172</b>	<b>25.35736</b>	<b>26.57908</b>	1.22596	19.88461	21.11057
			<b>396.24121</b>			<b>238.76604</b>

(Note: In 2018, the 6 vehicles are categorised as 5 private cars (2017: 5 private cars) and 1 medium & heavy goods vehicle (=> 15 tonnes) (2017: 1 medium & heavy goods vehicle (5.5-15 tonnes), which run on unleaded petrol and diesel oil, respectively.)

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*Greenhouse gas emission*

Since purchased electricity is the main source of energy consumed in plant operation in China, the Group's main greenhouse gas ("GHG") emission are the indirect emission resulting from electricity consumed under scope 2 of GHG emission – energy indirect emission. Direct emissions under scope 1 are mainly attributable to GHG emissions from mobile combustion sources of the 6 vehicles. Other indirect emissions under scope 3 from the operation are minimal and excluded from the disclosure. Carbon dioxide ("CO<sub>2</sub>") equivalent emissions under scope 1 and scope 2, and the intensity were illustrated in the table below:

	<b>2018</b> <b>(tonnes)</b>	2017 <i>(tonnes)</i>
<i>Absolute value:</i>		
• CO <sub>2</sub> equivalent emissions under scope 1	<b>71.57</b>	72.11
• CO <sub>2</sub> equivalent emissions under scope 2 (Note 1)	<b>2,698.36</b>	2,610.33
Total	<b>2,769.93</b>	2,682.44
	<b>(kg)</b>	<i>(kg)</i>
<i>Intensity:</i>		
• CO <sub>2</sub> equivalent emissions per unit of production volume (Note 2)	<b>0.06586</b>	0.08616

*Note:*

1. Emission factor used was with reference to "2011 and 2012 Average Carbon Dioxide Emission Factors for Regional Power Grids in China" announced by National Development and Reform Commission in September 2014.
2. To better reflect the actual situation, except for the use of production volume of finished goods to calculate the intensity of packaging materials, denominator used for calculation of intensity of all the other KPIs was production volume of both finished goods and work in progress.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Measures adopted to mitigate emissions

In order to mitigate air emissions, the Group is dedicated to introduce and reinforce the emission mitigation equipment. Air emission treatment systems with water spray tower installation, activated carbon absorption device and centrifugal fan were set up and used in the production lines of enamelled copper wires and steel core since the end of 2014. To ensure complete collection and proper treatment of air emission, subsequent to the enhancement of treatment system in the production line of steel core in October 2017, treatment system including the installation of additional gas collection system and rotating-stream-tray scrubber in the production line of enamelled copper wires was enhanced. The upgrade of treatment systems resulted in the increase of air pollutants per unit of production volume from 0.000015kg in 2017 to 0.000026kg in 2018.

To achieve fuel saving, car pooling and task combination arrangement is encouraged to reduce the use of vehicles. Besides, drivers are reminded to switch off idling vehicles to reduce idling emissions.

To reduce GHG emission, efficient use of purchased electricity, which is the main source of energy consumed in plant operation in China, is essential. Details of the initiatives implemented on saving electricity are stated in the section – “Use of Resources – Measures employed for efficient use of energy”.

### Hazardous waste

Hazardous wastes, such as waste organic solvent, waste mineral oil, scrap lamps, waste barrels, waste resin, waste rags, waste active charcoal, sludge from metal surface treatment and waste cutting fluid are generated in the plant. The total amount of hazardous wastes and its intensity were summarised below:

	<b>2018</b> <b>(tonnes)</b>	2017 <i>(tonnes)</i>
<i>Absolute value:</i>		
• Hazardous wastes (Note)	<b>34.38</b>	46.63
	<b>(kg)</b>	<i>(kg)</i>
<i>Intensity:</i>		
• Hazardous wastes per unit of production volume	<b>0.00082</b>	0.00150

(Note: These hazardous wastes were classified as hazardous waste in the National Catalogue of Hazardous Wastes with effective from 1 August 2016.)

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*Non-hazardous waste*

Non-hazardous wastes are mainly consisted of electronic waste, plastic waste, paper waste, scrap copper and scrap iron from plant operation, and effluents mainly generated from daily consumption. Only a small proportion of water is consumed in production process. Non-hazardous wastes generated in total and its intensity were summarised below:

	2018		2017	
	(cbm)	(tonnes)	(cbm)	(tonnes)
<i>Absolute value:</i>				
• Effluents	<b>140,520.60</b>	–	167,076.90	–
• Non-hazardous wastes	–	<b>175.57</b>	–	196.23
	(cbm)	(kg)	(cbm)	(kg)
<i>Intensity:</i>				
• Effluents per employee (Note)	<b>261.47</b>	–	328.95	–
• Non-hazardous wastes per unit of production volume	–	<b>0.00417</b>	–	0.00630

Note: Average number of employees during the financial year was used for the calculation.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Measures adopted on waste treatment and waste reduction*

With the aim to handle hazardous wastes and non-hazardous wastes, four basic principles of “reduce”, “recover”, “reuse” and “recycle” are adopted. Their relevant measures adopted are described as below:

<p><u>Reduction</u></p> <p>Waste reduction is achieved through certain ways such as:</p> <ul style="list-style-type: none"> <li>• Less use of paper through use of email to substitute circulation of paper documents; filing of documents in an electronic format; and conserve paper usage by printing double-sided to the extent practicable; and</li> <li>• Less waste of metal materials through the introduction of new models of automatic slitting and winding machines.</li> </ul>	<p><u>Reuse</u></p> <p>Methods on reuse of materials and resources are applied, including:</p> <ul style="list-style-type: none"> <li>• Reuse of waste paper with printing on one side, and envelopes and packaging materials for internal use;</li> <li>• Reuse of plastics, epoxy, components and parts from disqualified products for production.</li> </ul>
<p><u>Recover and Recycle</u></p> <p>Procedures on waste recover and recycle are implemented as follows:</p> <ul style="list-style-type: none"> <li>• Hazardous wastes such as waste resin, waste active charcoal and used mineral oil are stored separately against non-hazardous wastes in a designated warehouse for hazardous wastes;</li> <li>• Hazardous wastes and non-hazardous wastes (e.g. including scrap copper and scrap iron) are separated, collected and labeled by different types in warehouse; and</li> <li>• All wastes are recovered by qualified subcontractors for processing and recycling.</li> </ul>	

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Hazardous wastes per unit of production volume was 0.00082kg (2017: 0.00150kg) while non-hazardous wastes per unit of production volume was 0.00417kg (2017: 0.00630kg). The decrease was mainly attributable to the strict implementation of the waste treatment and reduction measures. Particularly for hazardous wastes, the decrease was a positive result caused by the installation of UV photolysis facility in the production line of enamelled copper wires.

All effluents are discharged into the municipal sewer systems for collective treatment in accordance with the "Effluent Water Quality Standards for the Urban Sewage System". A drop of effluents per employee from 328.95cbm in 2017 to 261.47cbm in 2018 is achieved by the water efficiency initiatives presented in the section – "Use of Resources – Measures employed for efficient use of water".

### 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 minimise 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Energy consumption

Purchased electricity is the main source of energy consumed in plant operation in China. Other energy consumption are insignificant comparatively. The energy consumption in total and its intensity were reported as follows:

	<b>2018</b> <i>(kwh'000)</i>	2017 <i>(kwh'000)</i>
<i>Absolute value:</i>		
• Total energy consumption for production in factory	<b>3,999.91</b>	4,095.08
• Total energy consumption for daily use of employee	<b>1,119.35</b>	859.17
<b>Total</b>	<b>5,119.26</b>	4,954.25
<i>Intensity:</i>		
• Energy consumed for production per unit of production volume	<b>0.00010</b>	0.00013
• Energy consumed for daily use per employee ( <i>Note</i> )	<b>2.08</b>	1.69

(*Note:* The average number of employees during the financial year was used for the calculation.)

## Measures employed for efficient use of energy

The decrease of purchased electricity consumed for production was attributed to the effective and continuous adoption of certain measures in place and mainly caused by the followings:

1. Integration of production orders of enamelled copper wires: Production orders of enamelled copper wires were combined together to reduce the frequency on turning on and off of machines in the production line since the second half of 2016;
2. Replacement of conventional fluorescent lamps with LED lights: During the year, 650 LED lights were used to replace the existing conventional fluorescent lamps which were burnt out; and
3. Use of new advanced technique in 2018: In addition to the substitution of existing slitting and winding machines by new models of automatic slitting and winding machines during the second half of 2017 for the purpose of saving both manpower and electricity, and improving product quality as well, the existing vertical enameling machine has been replaced by an advanced one for energy saving at the end of 2018.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The relevant electricity consumption data of the above measures in 2018 and 2017 was summarised as follows:

	<b>2018</b> <i>(kwh)</i>	2017 <i>(kwh)</i>	<b>Increase/(Decrease)</b>	
			<i>(kwh)</i>	<i>(%)</i>
<i>Integration of production orders of enamelled copper wires:</i>				
• Electricity consumed per kg of enamelled copper wire	<b>2.47944</b>	3.31865	(0.83921)	(25.29)
<i>Replacement of 650 conventional fluorescent lamps in 2017 with LED lights in 2018:</i>				
• Electricity consumed per hour of usage	<b>11.7</b>	26	(14.3)	(55)
<i>Use of new advanced technique in 2018:</i>				
• Electricity consumed per hour of usage	<b>0.5</b>	0.7	(0.2)	(28.57)

The increase of electricity consumed for daily use was mainly caused by the increase of production labour employed in current year.

### *Water consumption*

Water are mainly consumed for domestic use. Its total consumption and intensity were disclosed as follows:

	<b>2018</b> <i>(cbm)</i>	2017 <i>(cbm)</i>
<i>Absolute value:</i>		
• Total water consumption	<b>156,134</b>	185,641
<i>Intensity:</i>		
• Water consumed for domestic use per employee ( <i>Note</i> )	<b>290.53</b>	365.49

(*Note:* Average number of employees during the financial year was used for the calculation.)

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### *Measures employed for efficient use of water*

There are no significant issues identified in sourcing water that is fit for purpose. A substantial amount of water is consumed for domestic use and merely a minimal amount of water is used for production purpose. Less water is utilized in the year through the effective implementation of water efficiency initiatives as described below:

<p><u><i>Education to change employee behaviour</i></u></p> <p>The message of water conservation was widely spread in the factory to educate every employee to be self-discipline on daily use of water, including the following areas:</p> <ul style="list-style-type: none"> <li>• Wash dishes, vegetables and clothes in a container filled with water, instead of washing them under running water;</li> <li>• Run a washing machine only with a full load of clothes to reduce the frequency of wash;</li> <li>• Turn off the tap after use or when using intermittently (e.g. while brushing teeth and washing face);</li> <li>• Flush toilet with water used for washing vegetables and fruit; and</li> <li>• Fix dripping taps, water mains and breakdowns on devices using water promptly.</li> </ul>	<p><u><i>Use of water saving means</i></u></p> <p>The following means were adopted with the aim to save water:</p> <ul style="list-style-type: none"> <li>• Post various types of green messages and environmental protection labels (e.g. “please turn off the tap” and “water conservation”) at every area of water usage such as pantry and washroom to serve as a friendly reminder to employees;</li> <li>• Reuse cooling water for production process;</li> </ul>
--	---

### *Packaging material used for finished products*

Carton boxes with various sizes are used for packing finished products. Total packaging material used was 238.43 tonnes (2017: 235.50 tonnes), and its intensity was 0.05173kg per unit of production volume of finished goods (2017: 0.04364kg per unit of production volume).

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 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.

The Group endeavours to promote environmental awareness and protection of natural resources by integrating the concept and value into its daily operations and by spreading the green message to other stakeholders. In addition to reaching the emission standard and complying with the local environmental laws and regulations, the Group strives to minimise impact on the environment and natural resources through a number of ways:

1. Adoption of green policies supported with the basic principles of “reduce”, “recover”, “reuse” and “recycle”;
2. Education on energy and water saving, and adequate use of resources through training and internal guidelines;
3. Regular review of emission and waste data to assess if there is a need to enhance the emission and waste mitigation means or strengthen the energy-saved measures; and
4. Coordinate closely with the local Environmental Protection Bureau on its advice to reach the emission standard and to minimise emission and waste generated.

## 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.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- **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 hour 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 laws.
- **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.

During the reporting period, there was no non-compliance related to applicable employment laws and regulations.

### Health and Safety

Heavy emphasis is placed on minimising 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 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.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- 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 organised 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 were adhered to during the reporting period.

### 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 organised 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. During the reporting period, there were no non-compliance cases related to child labour or forced labour.

# 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:

- **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.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- **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 unauthorised access and virus attack in the ERP system containing customer information.
- **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 were 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 the relevant applicable local and national laws and regulations in relation to corrupt practices. No corruption cases including bribery, extortion, fraud and money laundering were found.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Community Investment

To create values for the community, efforts and resources have been devoted to community engagement through close collaboration with local government and other enterprises, and through the Group's involvement in charity activities.

### *Donation*

In the current year, He Yuan Sky Wealth, the Company's subsidiary in China, donated RMB10,000 to He Yuan Charity Foundation to support the underprivileged group in Guangdong.

### *Other contributions*

He Yuan Sky Wealth received a total reward of approximately RMB180,000 from He Yuan municipal authority in relation to the recognized achievements of reaching the sales target.

A fund of HK\$28,000 was received by the Group from Hong Kong Productivity Council through successfully participating in the Cleaner Production Partnership Programme, which is to provide funding and technical support to Hong Kong owned factories operating in Guangdong Province in adoption of clean production technologies.

As one of the council units of the Chamber of He Yuan High-Tech Development Zone since July 2017, He Yuan Sky Wealth closely communicate with both the local government and its peer for the contribution on development and prosperity of community.

He Yuan Sky Wealth also served as the first enterprise workstation of Guangdong Academy of Sciences since 2017 for the purpose of providing innovative technical support and cooperation.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## INDEX OF GENERAL DISCLOSURES AND KPIS AGAINST THE ESG GUIDE

The ESG Guide		Relevant Disclosure Section	
<b>A. Environmental</b>			
A1. Emissions			
	<p><u>General Disclosure</u></p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste.</p>	"Environmental Protection – Emission"	
	KPI A1.1	The types of emissions and respective emission data.	"Environmental Protection – Emission – Air emission"
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Environmental Protection – Emission – Greenhouse gas emission"
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Environmental Protection – Emission – Hazardous waste"
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Environmental Protection – Emission – Non-hazardous waste"
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	"Environmental Protection – Emission – Measures adopted to mitigate emission"
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	"Environmental Protection – Emission – Measures adopted on waste treatment and waste reduction"

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The ESG Guide		Relevant Disclosure Section
<b>A. Environmental</b>		
A2. Use of Resources		
	<u>General Disclosure</u> Policies on the efficient use of resources, including energy, water and other raw materials.	"Environmental Protection – Use of Resources"
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	"Environmental Protection – Use of Resources – Energy consumption"
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	"Environmental Protection – Use of Resources – Water consumption"
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	"Environmental Protection – Use of Resources – Measures employed for efficient use of energy"
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	"Environmental Protection – Use of Resources – Measures employed for efficient use of water"
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	"Environmental Protection – Use of Resources – Packaging materials used for finished products"
A3. The Environment and Natural Resources		
	<u>General Disclosure</u> Policies on minimising the issuer's significant impact on the environment and natural resources.	"Environmental Protection – The Environmental and Natural Resources"
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	"Environmental Protection – The Environmental and Natural Resources"

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The ESG Guide	Relevant Disclosure Section
<b>B. Social</b>	
<i>Employment and Labour Practices</i>	
B1. Employment	
<p><u>General Disclosure</u></p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.</p>	<p>“Social Commitment – Employment and Labour Practices”</p>
B2. Health and Safety	
<p><u>General Disclosure</u></p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.</p>	<p>“Social Commitment – Health and Safety”</p>
B3. Development and Training	
<p><u>General Disclosure</u></p> <p>Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.</p>	<p>“Social Commitment – Development and Training”</p>

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The ESG Guide	Relevant Disclosure Section
<b>B. Social</b>	
<i>Employment and Labour Practices</i>	
B4. Labour Standards	
<p><u>General Disclosure</u></p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.</p>	<p>“Social Commitment – Labour Standards”</p>
<i>Operating Practices</i>	
B5. Supply Chain Management	
<p><u>General Disclosure</u></p> <p>Policies on managing environmental and social risks of the supply chain.</p>	<p>“Social Commitment – Supply Chain Management”</p>
B6. Product Responsibility	
<p><u>General Disclosure</u></p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.</p>	<p>“Social Commitment – Product Responsibility”</p>

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The ESG Guide	Relevant Disclosure Section
<b>B. Social</b>	
<i>Employment and Labour Practices</i>	
B7. Anti-corruption	
<p><u>General Disclosure</u></p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.</p>	"Social Commitment – Anti-corruption"
<i>Community</i>	
B8. Community Investment	
<p><u>General Disclosure</u></p> <p>Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.</p>	"Social Commitment – Community Investment"

Note: Recommended disclosures in relation to the KPIs of social aspects were not reported in this Report.

## INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS 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 and its subsidiaries (collectively referred to as the “Group”) set out on pages 90 to 132, which comprise the consolidated statement of financial position as at 31 December 2018, 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 notes to the consolidated financial statements, including 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 2018, 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 (the “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

### ***Trade receivables***

Refer to Note 17 to the consolidated financial statements

The Group tested the amount of trade receivables for impairment. This impairment test is significant to our audit because the balance of trade receivables of HK\$28,878,000 as at 31 December 2018 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's procedures on granting credit limits and credit periods to customers;
- Assessing the Group's relationship and transaction history with the customers;
- Evaluating the Group's impairment assessment;
- Assessing ageing of the debts;
- Assessing creditworthiness of the customers;
- Checking subsequent settlements from the customers; and
- Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

We consider that the Group's impairment test for trade receivables is supported by the available evidence.

## INDEPENDENT AUDITOR'S REPORT

### ***Inventories***

Refer to Note 16 to the consolidated financial statements

The Group tested the amount of inventories for impairment. This impairment test is significant to our audit because the balance of inventories of HK\$52,115,000 as at 31 December 2018 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's procedures on ordering and holding of inventories;
- Evaluating the Group's impairment assessment;
- Assessing the marketability of the inventories;
- Assessing the ageing of the inventories;
- Assessing the net realisable values of the inventories; and
- Checking subsequent sales and usage of the inventories.

We consider that the Group's impairment test for inventories is supported by the available evidence.

## INDEPENDENT AUDITOR'S REPORT

### **Other Information**

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 identified above when it becomes available 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.

### **Responsibilities of Directors for the Consolidated Financial Statements**

The directors 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.

# INDEPENDENT AUDITOR'S REPORT

## **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. We report our opinion solely to you, as a body, 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/>

This description forms part of our auditor's report.

### **ZHONGHUI ANDA CPA Limited**

*Certified Public Accountants*

#### **Ng Ka Lok**

Audit Engagement Director

Practising Certificate Number P06084

Hong Kong, 18 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>Revenue</b>	6	<b>168,905</b>	153,993
Cost of sales		<b>(144,432)</b>	(124,656)
Gross profit		<b>24,473</b>	29,337
Interest revenue		<b>128</b>	164
Other income	7	<b>915</b>	937
Other gains and (losses)	8	<b>107</b>	(226)
Selling and distribution expenses		<b>(6,691)</b>	(6,967)
Administrative expenses		<b>(24,149)</b>	(28,654)
<b>Loss from operations</b>		<b>(5,217)</b>	(5,409)
Finance costs	9	<b>(1,664)</b>	(1,328)
<b>Loss before tax</b>		<b>(6,881)</b>	(6,737)
Income tax expense	10	<b>-</b>	-
<b>Loss for the year</b>	11	<b>(6,881)</b>	(6,737)
<b>Other comprehensive income after tax:</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		<b>370</b>	587
<b>Total comprehensive expense for the year</b>		<b>(6,511)</b>	(6,150)
<b>Loss for the year attributable to:</b>			
Owners of the Company		<b>(6,884)</b>	(6,737)
Non-controlling interests		<b>3</b>	-
		<b>(6,881)</b>	(6,737)
<b>Total comprehensive expenses for the year attributable to:</b>			
Owners of the Company		<b>(6,514)</b>	(6,150)
Non-controlling interests		<b>3</b>	-
		<b>(6,511)</b>	(6,150)
<b>Loss per share</b>			
Basic and diluted (HK cents)	14	<b>(3.44)</b>	(3.37)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	15	10,344	8,353
<b>Current assets</b>			
Inventories	16	52,115	39,315
Trade and other receivables and prepayments	17	34,897	41,909
Prepaid income tax		–	76
Pledged bank deposits	18	7,256	7,201
Bank and cash balances	18	4,318	13,641
		<b>98,586</b>	102,142
<b>Current liabilities</b>			
Trade and other payables and accruals	19	26,579	19,283
Contract liabilities	20	6,511	1,077
Bank loans and overdrafts	21	19,411	28,448
Amount due to a related party	22	1,834	595
		<b>54,335</b>	49,403
<b>Net current assets</b>		<b>44,251</b>	52,739
<b>NET ASSETS</b>		<b>54,595</b>	61,092
<b>Capital and reserves</b>			
Share capital	23	2,000	2,000
Reserves	25	52,578	59,092
Equity attributable to owners of the Company		<b>54,578</b>	61,092
Non-controlling interests		17	–
<b>TOTAL EQUITY</b>		<b>54,595</b>	61,092

The consolidated financial statements on pages 90 to 132 were approved and authorised for issue by the Board of Directors on 18 March 2019 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 2018

	Attributable to owners of the Company					Non-controlling interests	Total equity	
	Share capital	Share premium	Special reserve	Retained profits	Translation reserve			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2017	2,000	24,973	3,000	37,379	(110)	67,242	-	67,242
Loss and total comprehensive expense for the year	-	-	-	(6,737)	587	(6,150)	-	(6,150)
At 31 December 2017	2,000	24,973	3,000	30,642	477	61,092	-	61,092
At 1 January 2018	2,000	24,973	3,000	30,642	477	61,092	-	61,092
Loss and total comprehensive expense for the year	-	-	-	(6,884)	370	(6,514)	3	(6,511)
Contribution by a non-controlling shareholders	-	-	-	-	-	-	14	14
At 31 December 2018	2,000	24,973	3,000	23,758	847	54,578	17	54,595

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
<b>Cash flows from operating activities</b>		
Loss before tax	(6,881)	(6,737)
Adjustments for:		
Depreciation	2,278	2,748
Interest income	(128)	(164)
Finance costs	1,664	1,328
Allowance for trade receivables	–	638
Operating loss before working capital changes	(3,067)	(2,187)
Change in inventories	(12,800)	(6,251)
Change in trade and other receivables and prepayments	7,012	(14,144)
Change in trade and other payables and accruals	7,286	714
Change in contract liabilities	5,434	349
Change in amount due to a related party	1,239	457
Cash generated from/(used in) operations	5,104	(21,062)
Income tax refunded	100	1,050
<b>Net cash generated from/(used in) operating activities</b>	<b>5,204</b>	<b>(20,012)</b>
<b>Cash flows from investing activities</b>		
Interest received	128	164
Acquisition of property, plant and equipment	(4,916)	(2,986)
Proceeds from disposal of property, plant and equipment	3	573
Withdrawal of pledged bank deposits	3,100	3,024
Placement of pledged bank deposits	(3,155)	(3,131)
Withdrawal of the bank deposits with original maturity of over 3 months	–	10,047
<b>Net cash (used in)/generated from investing activities</b>	<b>(4,840)</b>	<b>7,691</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
<b>Cash flows from financing activities</b>		
New borrowings raised	154,460	182,078
Repayment of bank borrowings	(163,497)	(170,415)
Interest paid	(1,664)	(1,328)
<b>Net cash (used in)/generated from financing activities</b>	<b>(10,701)</b>	10,335
<b>Net decrease in cash and cash equivalents</b>	<b>(10,337)</b>	(1,986)
Effect of foreign exchange rate changes	1,014	587
Cash and cash equivalents at beginning of year	13,641	15,040
<b>Cash and cash equivalents at end of year</b>	<b>4,318</b>	13,641
<b>Analysis of cash and cash equivalents</b>		
Bank and cash balances	4,318	13,641

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of the Group are the manufacture and trading of transformers, switching mode power supply, electronic parts and components and other products. Details of the principal activities of its subsidiaries are set out in note 31 to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2018, Cyber Goodie Limited ("Cyber Goodie"), a company incorporated in the British Virgin Islands (the "BVI"), is the immediate parent and Mr. Chung Chi Hang Larry is the ultimate controlling party of the Company.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

### HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	31 December 2017 HK\$'000	1 January 2017 HK\$'000
<b>At 31 December 2017</b>		
Decrease in trade and other payables and accruals	(1,077)	(727)
Increase in contract liabilities	1,077	727

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

### Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling interests and owners of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Consolidation – continued

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

### Foreign currency translation

#### (a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the Company's presentation currency. The functional currency of the Company is United States dollars ("US\$"). The directors consider that choosing HK\$ as the presentation currency best suits the needs of the shareholders and investors.

#### (b) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Foreign currency translation – continued

#### (c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- (iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 3. SIGNIFICANT ACCOUNTING POLICIES – continued

#### Property, plant and equipment – continued

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

#### Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

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

### Financial assets

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

Financial assets of the Group are classified as amortised cost;

### Financial assets at amortised cost

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Loss allowances for expected credit losses

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

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

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

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

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Trade and other payables

Trade and other payables are initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Revenue from contracts with customers

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

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

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

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

### Other revenue

Interest income is recognised using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Employee benefits

#### (a) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (b) *Pension obligations*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (“MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on 5% of the employees’ relevant income, subject to a ceiling of monthly relevant income of HK\$30,000 and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group also participates in a defined contribution retirement scheme organised by the government in the PRC. The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

#### (c) *Termination benefits*

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### 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 capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

### Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become 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.

### Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Taxation – continued

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the 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 and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Related parties

A related party is a person or entity that is related to the Group.

- (A) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
  
- (B) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (A).
  - (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets, except inventories and receivables 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 any impairment loss. Where 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.

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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 4. KEY ESTIMATES

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, are discussed below.

### (a) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

### (b) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign 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 HK\$, Renminbi ("RMB"), British Pound ("GBP") and Euro dollars ("EUR"), 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	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
HK\$	4,452	7,519	6,963	9,653
RMB	3,119	4,996	-	3
GBP	-	60	-	-
EUR	-	18	-	-

### Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in US\$ against the RMB. 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 loss when US\$ strengthens 5% against RMB. For a 5% weakening of US\$ against RMB, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 5. FINANCIAL RISK MANAGEMENT – continued

### (a) Foreign currency risk – continued

*Sensitivity analysis – continued*

	RMB	
	2018 HK\$'000	2017 HK\$'000
Impact	<b>(117)</b>	(187)

### (b) Credit risk

The carrying amount of the pledged bank deposits, bank and cash balances, trade and other receivables and prepayments included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on pledged bank deposits and cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2018 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade receivables. 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 Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 5. FINANCIAL RISK MANAGEMENT – continued

### (b) Credit risk – continued

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

- internal credit rating;
- external credit rating (if available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 5. FINANCIAL RISK MANAGEMENT – continued

### (c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. All of the Group's financial liabilities are due within one year.

### (d) Interest rate risk

The Group is 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 pledged bank deposits, bank balances and bank borrowings.

### (e) Categories of financial instruments

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Financial assets:</b>		
Financial asset at amortised cost (including cash and cash equivalents)	<b>41,551</b>	58,322
<b>Financial liabilities:</b>		
Financial liabilities at amortised cost	<b>47,473</b>	48,029

### (f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statements of financial position approximate their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 6. REVENUE AND SEGMENT INFORMATION

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>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Sales of transformers	<b>91,828</b>	82,207
Sales of switching mode power supply	<b>1,809</b>	1,710
Sales of electronic parts and components and other products	<b>75,268</b>	70,076
Revenue from contracts with customers	<b>168,905</b>	153,993

Disaggregation of revenue from contracts with customers:

### Geographical information

The Group's operation is located in the People's Republic of China (the "PRC") (country of domicile). Information about the Group's revenue is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 6. REVENUE AND SEGMENT INFORMATION – continued

### Geographical information – continued

	Revenue from external customers		Non-current assets	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Hong Kong	45,070	35,606	972	1,230
PRC	55,844	52,024	9,372	7,123
Europe	29,732	35,566	-	-
United States	27,618	25,687	-	-
Others	10,641	5,110	-	-
	<b>168,905</b>	<b>153,993</b>	<b>10,344</b>	<b>8,353</b>

All timing of revenue recognition is at a point of time for the year end 2018 and 2017.

Revenue from major customers individually accounting for 10% or more of total revenue are as follows:

	2018 HK\$'000	2017 HK\$'000
Customer A (sales of transformers)	19,366	21,002
Customer B (sales of electronic parts and components and other products)	26,123	24,374
Customer C (sales of electronic parts and components and other products)	7,246*	17,135

\* Revenue from the customer did not exceed 10% of total revenue in the respective year. The amount was shown for comparative purpose.

### Sales of transformers, switching mode power supply, electronic parts and components and other products

The Group manufactures and sells transformers, switching mode power supply, electronic parts and components and other products to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 15 to 90 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 7. OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Sales of scrap materials	648	548
Government grants	241	389
Others	26	–
	<b>915</b>	<b>937</b>

## 8. OTHER GAINS AND (LOSSES)

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Net exchange gain	107	412
Allowance for trade receivables	–	(638)
	<b>107</b>	<b>(226)</b>

## 9. FINANCE COSTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest on loans and overdrafts	1,664	1,328

## 10. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year 2018 and 2017.

No provision for PRC enterprise income tax is required since the Group has no assessable profit for the year. 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 2018

## 10. INCOME TAX EXPENSE – continued

The reconciliation between the income tax expense and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	<b>2018</b> <b>HK\$'000</b>	2017 <i>HK\$'000</i>
Loss before tax	<b>(6,881)</b>	(6,737)
Tax at Hong Kong Profits Tax rate of 16.5%	<b>(1,135)</b>	(1,112)
Tax effect of income not taxable and expenses not deductible	<b>(20)</b>	(25)
Tax effect of temporary differences not recognised	<b>342</b>	625
Tax effect of tax loss not recognised	<b>813</b>	512
Income tax expense	<b>–</b>	–

Note:

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 2018, the Group has unused tax losses of HK\$5,391,737 (2017: HK\$3,687,000). No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses will expire in 2021 to 2023.

## 11. LOSS FOR THE YEAR

The Group's loss for the year has been arrived at after charging the following:

	<b>2018</b> <b>HK\$'000</b>	2017 <i>HK\$'000</i>
Auditor's remuneration	<b>400</b>	400
Depreciation of property, plant and equipment	<b>2,278</b>	2,748
Cost of inventories sold	<b>143,559</b>	123,965
Operating lease charges	<b>2,898</b>	3,034
Research and development expenses	<b>3,468</b>	3,761
Directors' remuneration ( <i>Note 12</i> )	<b>1,410</b>	1,426
Staff costs (not including directors' emoluments)		
Salaries, bonus and allowances	<b>33,094</b>	33,328
Retirement benefits scheme contributions	<b>2,387</b>	2,106
Total staff costs (including directors' emoluments)	<b>36,891</b>	36,860

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

Details of the emoluments paid or payable to the Directors and the chief executive were as follows:

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefit contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>For the year ended 31 December 2018</b>				
<b>Executive directors</b>				
Mr. Chung Chi Hang Larry	–	222	10	232
Mr. Chung Tin Shing	–	520	18	538
Mr. Wong Shek Fai	–	478	18	496
	–	1,220	46	1,266
<b>Independent non-executive directors</b>				
Mr. Wong Choi Chak (resigned on 14 March 2019)	48	–	–	48
Mr. Li Chung Pong, Stephen	48	–	–	48
Ms. Lam Chon Loi	48	–	–	48
	144	–	–	144
	144	1,220	46	1,410

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – continued****(a) Directors' and chief executive's emoluments – continued**

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefit contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2017				
<b>Executive directors</b>				
Mr. Chung Chi Hang Larry	–	246	12	258
Mr. Chung Tin Shing	–	515	18	533
Mr. Wong Shek Fai	–	473	18	491
	–	1,234	48	1,282
<b>Independent non-executive directors</b>				
Mr. Wong Choi Chak (resigned on 14 March 2019)	48	–	–	48
Mr. Li Chung Pong, Stephen	48	–	–	48
Mr. Tang Sze Wo (resigned on 30 June 2017)	24	–	–	24
Ms. Lam Chon Loi (appointed on 30 June 2017)	24	–	–	24
	144	–	–	144
	144	1,234	48	1,426

*Note:*

- (a) 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.
- (b) 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.
- (c) 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.
- (d) There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### (b) Five highest paid individuals

The five highest paid individuals in the Group during the year included three (2017: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2017: two) individuals are set out below:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Basic salaries and allowances	853	830
Retirement benefits contributions	33	34
	<b>886</b>	864

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

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13. DIVIDENDS

The directors of the Company did not recommend the payment of any dividend for the years ended 31 December 2018 and 2017.

## 14. LOSS PER SHARE

	2018 <i>HK\$'000</i>	2017 <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>(6,884)</b>	(6,737)
	<b>'000</b>	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per share	<b>200,000</b>	200,000

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 2018

## 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>					
At 1 January 2017	3,882	11,431	2,875	2,950	21,138
Additions	–	2,903	63	20	2,986
Disposals	(3,483)	–	(1,189)	(129)	(4,801)
At 31 December 2017 and 1 January 2018	399	14,334	1,749	2,841	19,323
Additions	959	3,659	98	200	4,916
Disposals	–	–	–	(51)	(51)
Exchange differences	(54)	(967)	(75)	(90)	(1,186)
At 31 December 2018	1,304	17,026	1,772	2,900	23,002
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2017	3,484	6,410	1,593	963	12,450
Charge for the year	8	2,017	168	555	2,748
Eliminated on disposals	(3,442)	–	(680)	(106)	(4,228)
At 31 December 2017 and 1 January 2018	50	8,427	1,081	1,412	10,970
Charge for the year	314	1,304	147	513	2,278
Eliminated on disposals	–	–	–	(48)	(48)
Exchange differences	(12)	(423)	(46)	(61)	(542)
At 31 December 2018	352	9,308	1,182	1,816	12,658
<b>CARRYING AMOUNTS</b>					
At 31 December 2018	952	7,718	590	1,084	10,344
At 31 December 2017	349	5,907	668	1,429	8,353

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 16. INVENTORIES

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Raw materials	<b>15,139</b>	11,108
Work in progress	<b>27,243</b>	18,686
Finished goods	<b>9,733</b>	9,521
	<b>52,115</b>	39,315

## 17. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables	<b>31,671</b>	39,101
Less: allowance for doubtful receivables	<b>(2,793)</b>	(2,793)
	<b>28,878</b>	36,308
Deposits	<b>944</b>	1,260
Prepayments	<b>3,394</b>	2,524
Other tax recoverable	<b>582</b>	645
Other receivables	<b>1,099</b>	1,172
	<b>34,897</b>	41,909

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 21). The carrying amount of the trade receivables at 31 December 2018 that have been transferred but have not been derecognised amounted to HK\$9,737,000 (31 December 2017: HK\$10,569,000) and the carrying amount of the associated liability is HK\$5,226,000 (31 December 2017: HK\$8,186,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

The Group allows an average credit period of 15 to 90 days to its trade customers. The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0-90 days	<b>23,555</b>	31,719
91 to 180 days	<b>3,208</b>	1,718
181 to 365 days	<b>1,084</b>	1,649
Over 1 year	<b>1,031</b>	1,222
	<b>28,878</b>	36,308

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\$7,451,000 as at 31 December 2018 (31 December 2017: HK\$7,454,000) 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.

### Reconciliation of allowance for trade receivables

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
At the beginning of the year	<b>2,793</b>	2,155
Allowance for the year	–	638
At the end of the year	<b>2,793</b>	2,793

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 HK2,793,000 as at 31 December 2018 (31 December 2017: HK\$2,793,000) which have been in severe financial difficulties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Reconciliation of allowance for trade receivables – continued

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	1-30 days past due	31-60 days past due	60-120 days past due	Over 120 days past due	Total
<b>At 31 December 2018</b>						
Weighted average expected loss rate	0%	0%	0%	0%	57%	
Receivable amount (HK'000)	21,427	2,128	1,069	2,139	4,908	31,671
Loss allowance (HK'000)	–	–	–	–	2,793	2,793
<b>At 31 December 2017</b>						
Weighted average expected loss rate	0%	0%	0%	0%	49%	
Receivable amount (HK'000)	28,854	2,865	573	1,145	5,664	39,101
Loss allowance (HK'000)	–	–	–	–	2,793	2,793

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

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Company. At 31 December 2018, the pledged bank deposits carry prevailing market interest rate from 0.40% to 1.98% (2017: 0.20% to 1.40%) per annum. At 31 December 2018, bank balances of the Company carry interest at market rates from 0.12% to 0.30% (2017: 0.01% to 1.05%) per annum.

## 19. TRADE AND OTHER PAYABLES AND ACCRUALS

	2018 HK\$'000	2017 HK\$'000
Trade payables	19,678	15,046
Accrued expenses	6,550	3,940
Other tax payables	351	297
	<b>26,579</b>	<b>19,283</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0-90 days	<b>14,775</b>	14,368
91 to 180 days	<b>4,533</b>	169
181 to 365 days	<b>80</b>	196
Over 1 year	<b>290</b>	313
	<b>19,678</b>	15,046

The average credit period on purchases of goods is 90 days.

## 20. CONTRACT LIABILITIES

Disclosures of revenue-related items:

	<b>As at 31 December</b>		As at 1 January
	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Contract liabilities	<b>6,511</b>	1,077	727

	<b>As at 31 December</b>		As at 1 January
	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Contract receivables (included in trade receivables)	<b>28,878</b>	36,308	24,704

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 20. CONTRACT LIABILITIES – continued

Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
-2018	N/A	1,077
-2019	<b>6,511</b>	–
	<b>6,511</b>	1,077

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue recognised in the year that was included in contract liabilities at beginning of year	<b>740</b>	273

### Significant changes in contract liabilities during the year

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Increase due to operations in the year	<b>6,174</b>	623
Transfer of contract liabilities to revenue	<b>740</b>	273

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 21. BANK LOANS AND OVERDRAFTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Bank loans	2,000	2,077
Trust receipt loans	8,616	15,071
Factoring loans ( <i>note 17</i> )	5,226	8,186
Bank overdraft	3,569	3,114
	<b>19,411</b>	28,448
Bank borrowings which are secured by assets held by the Group ( <i>note 26</i> )	19,411	28,371
Unsecured bank borrowings	-	77
	<b>19,411</b>	28,448
The borrowings are guaranteed by the Company.		
The fair value of the guarantee at the date of inception is not material and is not recognised in the Company's financial statements.		
The borrowings are repayable as follows:		
On demand or within one year	19,411	28,448
More than one year but within two years	-	-
	<b>19,411</b>	28,448
Less: Amount due for settlement within 12 months (shown under current liabilities)	<b>(19,411)</b>	(28,448)
Amount due for settlement after 12 months	-	-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 21. BANK LOANS AND OVERDRAFTS – 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>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
HK\$	<u>3,570</u>	<u>6,848</u>

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings as at 31 December 2018 and 2017, respectively, are as follows:

	<b>2018</b>	2017
Effective interest rates (per annum):		
Variable interest rates	<u>2.85% – 6.20%</u>	<u>3.15% – 4.75%</u>

## 22. AMOUNT DUE TO A RELATED PARTY

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

## 23. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital</b> <i>HK\$</i>
Authorised:		
Ordinary shares of HK\$0.01, (2017: HK\$0.01) each		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	<u>1,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01, (2017: HK\$0.01) each		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	<u>200,000,000</u>	<u>2,000,000</u>

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 loans and overdrafts and amount due to a related party, disclosed in notes 21 and 22, and equity of the Group, comprising issued share capital and reserves.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 23. SHARE CAPITAL – continued

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 associated 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.

## 24. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Non-current assets</b>		
Investment in subsidiaries	1	1
<b>Current assets</b>		
Other receivables and prepayments	58	66
Amounts due from subsidiaries	11,322	2,837
Bank and cash balances	73	10,173
	<b>11,453</b>	13,076
<b>Current liabilities</b>		
Other payables	726	669
	<b>726</b>	669
<b>Net current assets</b>	<b>10,727</b>	12,407
<b>NET ASSETS</b>	<b>10,728</b>	12,408
<b>Capital and reserves</b>		
Share capital	2,000	2,000
Reserves	8,728	10,408
<b>TOTAL EQUITY</b>	<b>10,728</b>	12,408

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 25. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

### (b) Company

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2017	24,973	(13,063)	11,910
Loss and total comprehensive expense for the year	–	(1,502)	(1,502)
At 31 December 2017 and 1 January 2018	24,973	(14,565)	10,408
Loss and total comprehensive expense for the year	–	(1,680)	(1,680)
At 31 December 2018	<u>24,973</u>	<u>(16,245)</u>	<u>8,728</u>

## 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:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Pledged bank deposits	<b>7,256</b>	7,201
Trade receivables	<b>9,737</b>	10,569
	<b><u>16,993</u></b>	<u>17,770</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 27. OPERATING LEASE COMMITMENTS

At 31 December 2018 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within one year	<b>3,080</b>	3,164
In the second to fifth year inclusive	<b>1,926</b>	1,420
	<b>5,006</b>	4,584

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. CAPITAL COMMITMENTS

The Group did not have any capital commitments as at 31 December 2018 and 2017.

## 29. CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 31 December 2018 and 2017.

## 30. RELATED-PARTY TRANSACTIONS

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

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Amount due to a related company:</b>		
T-Lab Electronics & Plastics (He Yuan) Co., Ltd.*	<b>1,834</b>	595

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

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

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Rental paid to a related party</b>		
T-Lab Electronics & Plastics (He Yuan) Co., Ltd	<b>2,069</b>	1,718

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 30. RELATED-PARTY TRANSACTIONS – continued

### (c) Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and other key management of the Group. The key management personnel compensations are as follows:

	2018 HK\$'000	2017 HK\$'000
Basic salaries and allowances	2,214	2,202
Retirement benefit contributions	88	90
	<b>2,302</b>	<b>2,292</b>

## 31. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2018 are set out below:

Name of subsidiaries	Date and place of incorporation/ establishment	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Group		Principal activities
			Directly	Indirectly	
Keen Ocean Electronics Co., Ltd. ("Keen Ocean Electronics")	BVI 5 December 2014	US\$100	100%	–	Investment holding
Keen Ocean Industrial Limited	Hong Kong 17 May 2000	HK\$3,000,000	–	100%	Trading of transformers, switching mode power supply, electronic parts and components
He Yuan Sky Wealth (河源天裕電子塑膠有限公司) (Note)	The PRC 24 November 2010	US\$3,500,000	–	100%	Manufacture and trading of transformers, switching mode power supply, electronic parts and components
T-Lab Industrial (Holdings) Ltd.	Hong Kong 18 February 2011	HK\$6	–	100%	Inactive
KOS TECHNOLOGY COMPANY LIMITED	Hong Kong 17 September 2017	US\$4,000	–	55% (2017: 100%)	Trading of electronic parts and components

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 31. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY – continued

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

None of the subsidiaries had issued any debt securities at the end of the year.

## 32. 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.

## 33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	<b>Bank loans and overdrafts</b> <i>HK\$'000</i>
At 1 January 2017	16,785
Changes in cash flows	10,335
Non-cash changes – interest charged	<u>1,328</u>
At 31 December 2017 and 1 January 2018	28,448
Changes in cash flows	(10,701)
Non-cash changes – interest charged	<u>1,664</u>
At 31 December 2018	<u>19,411</u>

## 34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 18 March 2019.