

KEEN OCEAN INTERNATIONAL HOLDING LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8070



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

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

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

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 Listed Company Information” page of the Stock Exchange’s website at www.hkexnews.hk for at least 7 days from the date of its posting and will also be published on the Company’s website at www.keenocean.com.hk.

CONTENTS

| | |
|--|----|
| Corporate Information | 3 |
| Financial Highlights | 4 |
| Chairman's Statement | 5 |
| Management Discussion and Analysis | 6 |
| Biographical Details of Directors and Senior Management | 14 |
| Corporate Governance Report | 17 |
| Report of the Directors | 38 |
| Environmental, Social and Governance Report | 61 |
| Independent Auditor's Report | 85 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 90 |
| Consolidated Statement of Financial Position | 91 |
| Consolidated Statement of Changes in Equity | 93 |
| Consolidated Statement of Cash Flows | 94 |
| Notes to the Consolidated Financial Statements | 96 |

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

COMPANY SECRETARY

Ms. Chau Hing Ling

COMPLIANCE OFFICER

Mr. Wong Shek Fai, Johnson

BOARD COMMITTEES

Audit committee

Mr. Cheung Yee Tak, Jonathan (*Chairman*)
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. Chung Chi Hang, Larry
Mr. Cheung Yee Tak, Jonathan

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
23/F, Tower 2
Enterprise Square Five
38 Wang Chiu Road
Kowloon Bay
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

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 | 2019 | 2020 | 2021 | 2022 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue | 168,905 | 164,209 | 155,935 | 267,268 | 394,867 |
| Profit (loss) before taxation | (6,926) | (1,942) | 1,195 | 12,996 | 21,009 |
| Income tax expense | — | — | — | (776) | (4,211) |
| Profit (loss) for the year | <u>(6,926)</u> | <u>(1,942)</u> | <u>1,195</u> | <u>12,220</u> | <u>16,798</u> |

ASSETS AND LIABILITIES

| | At 31 December | | | | |
|-------------------|----------------|---------------|---------------|----------------|-----------------------|
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Total Assets | 113,539 | 105,941 | 128,854 | 177,670 | 238,222 |
| Total Liabilities | <u>59,128</u> | <u>53,840</u> | <u>72,916</u> | <u>108,119</u> | <u>156,417</u> |
| | <u>54,411</u> | <u>52,101</u> | <u>55,938</u> | <u>69,551</u> | <u>81,805</u> |

CHAIRMAN'S STATEMENT

Dear Shareholders

On behalf of the board of Directors (the "**Board**") of the Company, I am pleased to present to the shareholders of the Company the annual report of the Group for the financial year ended 31 December 2022.

Against the background of the devastating development of the Russia-Ukraine conflict and new variants of economic uncertainties and disruption to production and supply chains around the world, the Group has endured unexpected business challenges including volatile demand patterns, inconsistent shipment timeline as well as inflated delivery costs and material costs. Also, the Group's management confirms that the recent incident involving Silicon Valley Bank (SVB) and the appointment of the Federal Deposit Insurance Corporation of the United States of America (FDIC) as receiver of SVB due to liquidity concerns poses no impact to the Group.

Our Directors and the management will be cautious and pay careful attention to the development and any challenges ahead. Our research and development team will continue to strive for breakthrough in product upgrades and invention. Further, the Group will look for business development opportunities through the rising demand of clean energy appliances.

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

Chung Chi Hang, Larry
Chairman

Hong Kong, 14 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year, the Group principally engaged in the design, development, production and sale of transformers, switching mode power supplies, electric healthcare products, other electronic parts and components and others products. The Group sells its products domestically as well as overseas. Customers are mainly manufacturers and trading entities.

Most of the transformers and power supply products were manufactured and sold under the Group's brand name "Keen Ocean", while all electronic parts and components as well as electric healthcare products were sold on an original equipment manufacturer (OEM) basis. Among the products manufactured and sold, transformers remained the Group's flagship products and represented approximately 55.6% of the Group's sales for the year ended 31 December 2022 (for the year ended 31 December 2021: approximately 50.1%). The switching mode power supply represented approximately 0.7% of the Group's sales for the year ended 31 December 2022 (for the year ended 31 December 2021: approximately 1.5%). The electronic parts and components and others products represented approximately 43.4% of the Group's sales for the year ended 31 December 2022 (for the year ended 31 December 2021: approximately 48.2%). The electric healthcare products accounted for approximately 0.3% of the Group's sales for the year ended 31 December 2022 (for the year ended 31 December 2021: 0.2%).

Revenue generated by the Group increased during the year as compared to the corresponding period in the previous year. This was mainly due to the increase in purchase orders for transformers, and electronic parts and components from several existing customers during the period under review to meet the continuing surge in demand of clean energy appliances, and the increase in sales price to reflect the increase in the cost of raw materials.

The Group's manufacturing process mainly involved copper and steel as raw materials for the Group's products. The management of the Group observed the average copper price has decreased slightly in last quarter of 2022 compared to the same period in 2021. The Group will continue to strive to improve the efficiency of production in order to reduce production waste and the overall costs of production.

The operating margin has declined during the period under review. This was mainly attributable to the increase in the costs of the raw materials and the productions costs during the period under review.

During the year, the management of the Group stayed connected with existing customers and closely followed up with the revised delivery schedule in order to maintain and solidify business relationships. The Group continued to place advertisements in renowned industrial magazines. The Group also capitalised on the recovery of manufacturing sector and was able to resume the postponed shipment and/or delivery schedule of goods during the year. However, due to the travel restrictions and the mandatory quarantine measures in response to COVID-19, the Group was still not able to promote its products through traditional exhibitions and physical marketing events.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has been paying close attention to the development of the pandemic. The Group has deployed appropriate preventive measures to enhance the vigilance and self-protection awareness of its employees, and to protect them by creating a healthy and hygienic working environment.

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

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Sales of transformers | 219,390 | 133,907 |
| Sales of switching mode power supply | 2,645 | 3,919 |
| Sales of electronic parts and components | 171,260 | 128,763 |
| Sales of electric healthcare products | 1,572 | 679 |
| | 394,867 | 267,268 |

Geographical information

Information about the Group's revenue is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

| | Revenue from external customers | | Non-current assets | |
|---------------|--|-------------------------|--------------------------------|-------------------------|
| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
| Hong Kong | 28,691 | 28,101 | 560 | 1,071 |
| PRC | 48,939 | 53,725 | 14,465 | 15,452 |
| Europe | 148,225 | 94,503 | - | - |
| United States | 31,373 | 37,768 | - | - |
| India | 124,512 | 46,413 | - | - |
| Others | 13,127 | 6,758 | - | - |
| | 394,867 | 267,268 | 15,025 | 16,523 |

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:

| | 2022 HK\$'000 | 2021 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Customer A (sales of transformers) | 41,584 | 13,579* |
| Customer B (sales of electronic parts and other products) | 124,512 | 51,112 |
| Customer C (sales of transformers) | 106,115 | 46,297 |
| Customer D (sales of transformers) | 14,947* | 43,807 |

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

The Group is aware of the recent incident involving Silicon Valley Bank (SVB) and the appointment of the Federal Deposit Insurance Corporation of the United States of America (FDIC) as receiver of SVB due to liquidity concerns. The Group's management confirms that the Group neither has had any business dealings nor has placed any deposits with SVB or its affiliates and as such there is no impact to the Group.

FINANCIAL REVIEW

The Group's revenue increased by approximately HK\$127.6 million, or 47.7%, from approximately HK\$267.3 million for the year ended 31 December 2021 to approximately HK\$394.9 million for the year ended 31 December 2022. Such increase was primarily due to the increase in the placement of purchase orders for transformers, and electronic parts and components from existing customers which engaged in the production of components for clean energy appliances.

Cost of sales increased by approximately HK\$112.1 million, or 49.8%, from approximately HK\$225.0 million for the year ended 31 December 2021 to approximately HK\$337.1 million for the year ended 31 December 2022. The increase was in line with the increase in revenue and was primarily due to the increase in the costs of raw materials during the period under review.

As a result, the Group's gross profit increased by approximately HK\$15.5 million, or 36.7%, from approximately HK\$42.2 million for the year ended 31 December 2021 to approximately HK\$57.7 million for the year ended 31 December 2022, while gross profit margin decreased from 15.8% for the year ended 31 December 2021 to 14.6% for the year ended 31 December 2022. Such decrease was mainly attributable to the increase in the costs of raw materials and production costs during the period under review.

Other income increased by approximately HK\$1.0 million, or 95.2%, from approximately HK\$1.0 million for the year ended 31 December 2021 to approximately HK\$2.0 million for the year ended 31 December 2022. Such increase was mainly due to the gain on disposal of motor vehicle and increased volume of waste disposal.

MANAGEMENT DISCUSSION AND ANALYSIS

Other gains increased by approximately HK\$3.4 million, or 11,982.1%, from approximately HK\$28,000 for the year ended 31 December 2021 to approximately HK\$3.4 million for the year ended 31 December 2022. Such increase was mainly attributable to the appreciation of US dollars against Renminbi during the period under review resulting in gains on transfer of intercompany funds for balances denominated in Renminbi and investment income.

Selling and distribution expenses increased by approximately HK\$1.1 million, or 14.1%, from approximately HK\$8.0 million for the year ended 31 December 2021 to approximately HK\$9.1 million for the year ended 31 December 2022. Such increase was mainly attributable to the increase in expenses as a result of the corresponding increase in revenue during the period under review. The Group has continued efforts to offset increased transport and freight costs by recharge to customers for low volume shipments.

Administrative expenses increased by approximately HK\$9.8 million, or 48.3%, from approximately HK\$20.3 million for the year ended 31 December 2021 to approximately HK\$30.0 million for the year ended 31 December 2022. The increase was mainly attributable to the increase in research and development expenses of approximately HK\$8.6 million compared to the year ended 31 December 2021. Such increase is due to the development of new products and upgrade of existing products to meet with the global trend in clean energy, as well as the development to improve existing production processes to reduce costs. In addition to the above, higher staff costs and related expenses in line with the increase in revenue also attributed to the increase in administrative expenses during the period under review.

Finance costs increased by approximately HK\$1.0 million, or 50.0%, from approximately HK\$1.9 million for the year ended 31 December 2021 to approximately HK\$2.9 million for the year ended 31 December 2022. Such increase was mainly attributable to the increase in bank borrowings during the period under review.

Income tax expenses increased by approximately HK\$3.4 million or 442.7% from approximately HK\$0.8 million for the year ended 31 December 2021 to approximately HK\$4.2 million for the year ended 31 December 2022. Such increase was mainly attributable to the increase of assessable profit as a result from the increase of the profit before tax for the year ended 31 December 2022, and there being no tax losses brought forward to set off against assessable profit for the period under review.

As a result of the above, the Group recorded a profit of approximately HK\$16.8 million for the year ended 31 December 2022 (for the year ended 31 December 2021: approximately HK\$12.2 million).

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT

The spread of COVID-19 including its new variants has triggered huge economic uncertainties and disruption to production and supply chains around the world. The Group had experienced business challenges including volatile demand patterns, inconsistent shipment timeline as well as inflated delivery costs and material costs.

The management of the Group is determined to rise to these challenges. The production team maintains sufficient inventory buffer to cope with the demand and supply chain uncertainties. The management also strives to sustain the Group's competitive advantages through solidifying business relationships. Further, the Board has since late 2021 adopted a hedging policy regarding dealings in copper option contracts for better control on the material costs of the Group.

In addition, the management spotted a rising demand of clean energy appliances, particularly the electronic parts and components of the Group, as the global policies leaned more towards renewability and sustainability. Besides, after continuous delivery of products with satisfactory quality control, together with strong demographics and growing consumption, the Group recorded increasing orders from the developed customer base. Furthermore, in order to meet the changing demands and expectations from our customers, the resources used in electric healthcare products has been reallocated to other products within the Group. With the increased production capacity during the period under review to cope with the increasing demand from the customers, the management is optimistic about the market and confident that the Group can continue to accelerate business growth.

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

The Group's management is aware of and is closely monitoring the development of the Russia-Ukraine conflict and accordingly evaluates any possible impact to its financial position and performance. The Group's management believes that the impact of the conflict on its current operations, supply chain and financial performance is minimal.

In the long run, the Group is confident that it shall explore opportunities after the pandemic and lay the foundations for a durable and sustainable growth with its continuous effort and solid customer base.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group's source of funds was primarily from the cash generated from operating activities. The Group also utilised bank borrowings to finance its operations. As at 31 December 2022, the Group had a financial position with net assets amounted to approximately HK\$81.8 million (31 December 2021: approximately HK\$69.6 million). Net current assets stood at approximately HK\$66.8 million (31 December 2021: approximately HK\$55.0 million).

As at 31 December 2022, shareholder's fund amounted to approximately HK\$81.8 million (31 December 2021: approximately HK\$69.6 million). Current assets amounted to approximately HK\$223.2 million (31 December 2021: approximately HK\$161.1 million), mainly comprising inventories, trade and other receivables and prepayments, pledged bank deposits, bank and cash balance. Current liabilities amounted to approximately HK\$156.4 million (31 December 2021: approximately HK\$106.2 million), mainly comprising trade and other payables and accruals, bank borrowings and overdrafts.

As at 31 December 2022, the Group's bank and cash balance amounted to approximately HK\$19.3 million (31 December 2021: approximately HK\$4.7 million). Net asset value per share was HK\$0.41 (31 December 2021: HK\$0.35).

As at 31 December 2022, 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 0.41 (31 December 2021: approximately 0.55). The decrease in the gearing ratio, even though bank borrowings have increased, is mainly due to the increase in bank and cash balances during the year under review.

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

CAPITAL EXPENDITURE

For each of the years ended 31 December 2022 and 31 December 2021, the Group incurred capital expenditures in respect of additions of property, plant and equipment in the amount of approximately HK\$4.4 million and HK\$4.0 million respectively. The following table sets out the financial capital expenditures during the years under review:

| | Year ended 31 December | |
|---|------------------------|--------------|
| | 2022 | 2021 |
| | HK\$'000 | HK\$'000 |
| Plant and machinery | 3,867 | 3,438 |
| Leasehold improvements | 529 | 539 |
| Furniture, fixtures and other equipment | 17 | 27 |
| TOTAL | 4,413 | 4,004 |

MANAGEMENT DISCUSSION AND ANALYSIS

The capital expenditures incurred in each of the years ended 31 December 2022 and 31 December 2021 primarily related to replacing plant and machinery, leasehold improvements, and replacing of furniture, fixtures and other equipment and motor vehicles. The Group funded capital expenditures primarily with the cash generated from operating activities.

CAPITAL STRUCTURE

The Group maintains a prudent funding and treasury policy and the management is responsible for monitoring its funding requirements and performing ongoing liquidity review. As at 31 December 2022, the issued 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 and Hong Kong dollars, which may 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 2022, the Group did not have any significant investment held (31 December 2021: nil).

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any material contingent liabilities (31 December 2021: nil).

CAPITAL COMMITMENT

As at 31 December 2022, the Group did not have any significant capital commitment (31 December 2021: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2022, the Group had approximately 598 employees (31 December 2021: approximately 487 employees), including the Directors. Total staff costs excluding Directors' remuneration for the year ended 31 December 2022 amounted to approximately HK\$46.0 million (for the year ended 31 December 2021: approximately HK\$41.6 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. Ongoing training on quality control and production facilities operations is provided to employees, with relevant procedural and operational guidelines formulated.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON THE GROUP'S ASSETS

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

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|--------------------------------|--|---------------------------------|
| Pledged bank deposit (note 30) | 11,835 | 11,764 |
| Trade receivable (note 30) | 3,006 | 5,076 |
| | 14,841 | 16,840 |

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2022, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

On 23 February 2023, the Company as purchaser entered into two provisional agreements with Jip Cheong Industrial Limited as vendor to purchase two non-residential properties which are located at Rooms 01 and 02, 37/F, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong (collectively, the "Properties") for a consideration of approximately HK\$21.7 million for its own use as office premises. The Group currently rents premises for use as offices in Hong Kong. In acquiring self-owned premises, the Group can reduce the risk of relocation upon expiration of lease or termination of the existing lease as well as saving on rental, administrative costs and removal and renovation expenses in the long run, improving the efficiency of the Group's operations and enabling business expansion. It is currently expected that completion of acquisition of the Properties (the "Acquisitions") will take place on or before 15 June 2023. As one or more of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Acquisitions is more than 25% but is less than 100%, the Acquisitions constitute a major transaction for the Company and is therefore subject to the announcement, reporting and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules. For further details, please refer to the announcement dated 24 February 2023 of the Company.

Save as disclosed above, the Group does not have any plans for material investments and capital assets as at the date of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this annual report, there were no other significant events after the end of the reporting period and up to the approval date of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chung Chi Hang, Larry (鍾志恆), aged 51, 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 monitors the Group's financial position. He is the founder of the Group in May 2000. Being the founder and in view of 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, which 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 business in construction from March 1998 to August 2001 and was principally responsible for monitoring the work progress, calculating construction workers' wages and overseeing the financial operation.

Mr. Chung Tin Shing (鍾天成), aged 52, 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 50, 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 a 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, he was responsible for the project development and providing technical support to the sales and marketing team.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Yee Tak, Jonathan (張以德), aged 34, is an independent non-executive Director of the Company. Mr. Cheung obtained a bachelor's degree in commerce from the University of Toronto, Canada in 2011. Mr. Cheung is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over 10 years of experience in the financial industry. From September 2011 to July 2015, Mr. Cheung worked at PricewaterhouseCoopers, where his last position was a senior associate. In February 2016, Mr. Cheung joined Kingsway Capital Limited, a subsidiary of Sunwah Kingsway Capital Holdings Limited (stock code: 188) whose shares are listed on the main board of the Stock Exchange, where he acted as a licensed representative of the Securities and Futures Commission for Type 1 and Type 6 regulated activities, and was subsequently promoted as a senior manager in the corporate finance department in July 2018. From July 2019 to July 2020, Mr. Cheung worked at Sinolink Securities (Hong Kong) Company Limited, a subsidiary of Sinolink Securities Co. Ltd (stock code: 600109) whose shares are listed on the Shanghai Stock Exchange, where his last position was an associate director of the corporate finance department. During his employment with Kingsway Capital Limited and Sinolink Securities (Hong Kong) Company Limited. Mr. Cheung executed a wide variety of capital markets and corporate finance transactions, including initial public offerings, mergers and acquisitions and compliance advisory.

Mr. Li Chung Pong, Stephen (李仲邦), aged 56, 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's 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 a 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lam Chon Loi (林春雷), aged 58, 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 25 years of experience in the management of businesses in Macau. He currently owns a property and facilities management company in Macau.

SENIOR MANAGEMENT

Mr. Yu Siu Ming (余兆明), aged 59, 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 44, 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 2022.

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 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 2022, the Company has complied with the code provisions set out in the CG Code.

COMPANY’S CULTURE

The Board believes that corporate culture underpins the long-term business, economic success and sustainable growth of the Group. A strong culture enables the Company to deliver long-term sustainable performance and fulfil its role as a responsible corporate citizen. The Company is committed to developing a positive and progressive culture that is built on its purpose.

The Board sets and promotes corporate culture and expects and requires all employees to reinforce.

The Board considers that the corporate culture and the purpose, values and strategy of the Group are aligned.

CORPORATE GOVERNANCE REPORT

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 2022.

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 Officer*)

Independent non-executive directors

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

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.

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.

CORPORATE GOVERNANCE REPORT

Board meetings and board practices

The Board conducts at least four regular meetings a year. At least 14 days' notice is 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 are recorded in sufficient detail the matters considered by the Board and the decisions reached.

During the year ended 31 December 2022, five board meetings were held and chairman held a meeting with independent non-executive Directors without the presence of other Directors. Details of the attendance of Directors are as follows:

| Directors | Attendance/ Number of meeting(s) held |
|--|--|
| Executive Directors | |
| Mr. Chung Chi Hang, Larry | 5/5 |
| Mr. Chung Tin Shing | 5/5 |
| Mr. Wong Shek Fai, Johnson | 5/5 |
| Independent Non-Executive Directors | |
| Mr. Cheung Yee Tak, Jonathan | 5/5 |
| Mr. Li Chung Pong, Stephen | 5/5 |
| Mr. Lam Chon Loi | 5/5 |

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 B.2.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. 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, 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 C.1.4 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 2022, each of the Directors, namely Mr. Chung Chi Hang, Larry, Mr. Chung Tin Shing, Mr. Wong Shek Fai, Johnson, Mr. Cheung Yee Tak, Jonathan, 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. Cheung Yee Tak, Jonathan, 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 requirements to ensure compliance and enhance their awareness of good corporate governance practices during the year ended 31 December 2022. In addition, continuing briefing and professional development to Directors would 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 independent non-executive Directors in office during the year ended 31 December 2022, Mr. Cheung Yee Tak, Jonathan and Mr. Li Chung Pong, Stephen have 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. Cheung Yee Tak, Jonathan, Mr. Li Chung Pong, Stephen, and Mr. Lam Chon Loi to be independent.

Chairman and chief executive

In accordance to the code provision C.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

The Board is assisted by four board committees in its work, 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) and the Stock Exchange's website (www.hkexnews.hk).

Audit Committee

The board established an audit committee (the "**Audit Committee**") on 2 February 2016, which operates under terms of reference approved by the Board. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review the policies of the Group, and to perform the Company's corporate governance functions and to perform other duties and responsibilities as assigned by the Board.

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Cheung Yee Tak, Jonathan, Mr. Li Chung Pong, Stephen and Mr. Lam Chon Loi. Mr. Cheung Yee Tak, Jonathan, who has the appropriate accounting and related 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 2022. The Audit Committee has reviewed the internal control review 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 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 2022, the interim results for the six-month period ended 30 June 2022 and the third quarterly results for the nine-month ended 30 September 2022. The Audit Committee has considered and recommended to the Board on re-appointment and change of auditor of the Company. The Audit Committee has reviewed the audited annual results of the Group for the year ended 31 December 2022, 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 2022 and has recommended the Board to re-appoint ZHONGHUI ANDA CPA Limited as the auditor of the Company for the year ending 31 December 2023, subject to approval by the shareholders at the forthcoming annual general meeting expected to be held on 6 June 2023. 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 A.2.1 of the CG Code delegated by the Board. The attendance record of each member of the Audit Committee meeting is set out as follows:

| Members | Attendance/ Number of meeting(s) held |
|--|--|
| Mr. Cheung Yee Tak, Jonathan (<i>Chairman</i>) | 4/4 |
| Mr. Li Chung Pong, Stephen | 4/4 |
| Mr. Lam Chon Loi | 4/4 |

In the opinion of the Audit Committee, as the Company has appointed an independent internal control adviser to review the Group's risk management and internal control systems, the internal audit function of the Company remains 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 A.2.1 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 CG Code and disclosure in the Corporate Governance Report of the Company.

Remuneration committee

The Board 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 the Group's 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 the Directors and senior management; (iii) reviewing and approving the management's remuneration proposals with reference to the 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 one executive Director, being Mr. Chung Chi Hang, Larry, and two independent non-executive Directors, being Mr. Lam Chon Loi and Mr. Cheung Yee Tak, Jonathan. Mr. Lam Chon Loi is the chairman of the Remuneration Committee.

One Remuneration Committee meeting was held during the year ended 31 December 2022. The Remuneration Committee has reviewed the Company's remuneration policies, the remuneration packages of all Directors and senior management of the Company and has recommended the remuneration of the independent non-executive Directors to the Board. In the opinion of the Remuneration Committee, the remuneration payable to all 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:

| Members | Attendance/ Number of meeting(s) held |
|--------------------------------------|--|
| Mr. Lam Chon Loi (<i>Chairman</i>) | 1/1 |
| Mr. Chung Chi Hang, Larry | 1/1 |
| Mr. Cheung Yee Tak, Jonathan | 1/1 |

The remuneration of senior management during the year ended 31 December 2022 fell within the following bands:

| Remuneration bands | Number of Individuals | |
|---------------------------|------------------------------|-------------|
| | 2022 | 2021 |
| Nil to HK\$1,000,000 | 3 | 3 |

CORPORATE GOVERNANCE REPORT

Further particulars regarding directors' remuneration and the five highest paid employees are set out in note 13 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 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 one executive Director, being Mr. Chung Tin Shing, and two independent non-executive Directors, being Mr. Li Chung Pong, Stephen and Mr. Lam Chon Loi. Mr. Li Chung Pong, Stephen is the chairman of the Nomination Committee.

One Nomination Committee meeting was held during the year ended 31 December 2022. The Nomination Committee has reviewed the structure, size and composition of the Board and board diversity policy as well as discussed matters regarding the retirement and re-election of Directors, and has assessed the independence of independent non-executive Directors. 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 |

Policy for nomination of directors

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

CORPORATE GOVERNANCE REPORT

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 the case of 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.

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.

CORPORATE GOVERNANCE REPORT

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, to assist the Board in overseeing hedging policies including its activities in forward purchases of copper and entering into the relevant contracts, and made recommendations to the Board on the same.

The Risk Management Committee currently comprises two executive Directors, being Mr. Chung Tin Shing and Mr. Wong Shek Fai, Johnson and one independent non-executive Director, being Mr. Lam Chon Loi. Mr. Chung Tin Shing is the chairman of the Risk Management Committee.

One Risk Management Committee meeting was held during the year ended 31 December 2022. 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 and reviewed the hedging policy. In the opinion of the Risk Management Committee, as the Company has appointed an independent internal control adviser to review the Group's risk management and internal control systems, the internal audit function of the Company remains effective. Details of the attendance of the members of the Risk Management Committee meeting are as follows:

| Members | Attendance/ Number of meeting(s) held |
|---|--|
| Mr. Chung Tin Shing (<i>Chairman</i>) | 1/1 |
| Mr. Wong Shek Fai, Johnson | 1/1 |
| Mr. Lam Chon Loi | 1/1 |

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 2022, 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 2022, 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 | 440 |
| Non-audit services (Review financial report, CCT report) | 55 |
| Total | 495 |

BOARD DIVERSITY POLICY

The Company has adopted the board diversity policy (the "**Policy**") which sets out the approach to achieve diversity of the Board. The Company embraces the benefits of having a diverse Board to enhance the quality of its performance.

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

CORPORATE GOVERNANCE REPORT

The Nomination Committee of the Board will disclose the composition of the Board in Corporate Governance Report every year and supervise the implementation of this Policy. The Nomination Committee will review this Policy and the measurable objective at least annually, as appropriate, to ensure the continued effectiveness of the Board. 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 currently comprises of six Directors, of which three are executive Directors and three are independent non-executive Directors. Among which, one in the age group of 30-40; one in the age group of 41-50; and four in the age group of 51-60. With reference to the qualifications and working experience of the Directors, the Board is of the view that the Board has an appropriate mix of skills, experience and diversity that are relevant to the Company's strategy, governance and business.

The Board will identify suitable female candidate(s) to serve on the Board in due course and will appoint at least one female Director no later than 31 December 2024.

We will implement comprehensive programs aimed at identifying and training on female staff who display leadership and potential, with the goal of promoting them to the senior management on the Board.

Workforce diversity

The gender ratio in the workforce (including senior management) for the year ended 31 December 2022 is 55%: 45%. The total gender diversity of the Group is balanced and the Group will continue to maintain the gender diversity in workforce. For further details of gender ratio and initiatives taken to improve gender diversity together with the relevant data, please refer to the disclosure in the ESG report.

CORPORATE GOVERNANCE REPORT

Board Independence

The Company recognizes that Board independence is key to good corporate governance. The Company has in place effective mechanisms that underpin an independent Board and its independent views. The independent non-executive Directors represent more than one-third of the Board and the members of the Audit Committee are all independent non-executive Directors. The Nomination Committee, Remuneration Committee and Audit Committee are all chaired by independent non-executive Directors. The remuneration of independent non-executive Directors are subject to a regular review to maintain competitiveness and commensurate with their responsibilities and workload. The independence of each independent non-executive Director is assessed upon his appointment and annually.

Directors are requested to declare their direct or indirect interests, if any, in proposals or transactions to be considered by the Board at the Board meetings and abstain from voting, where appropriate. External independent professional advice is available to all Directors, including independent non-executive Directors, whenever deemed necessary. The independent non-executive Directors have consistently demonstrated strong commitment and the ability to devote sufficient time to discharge their responsibilities at the Board.

The Company has also established channels through formal and informal means whereby independent non-executive Directors can express their views in an open manner, and in a confidential manner, should circumstances require.

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.

RISK MANAGEMENT AND INTERNAL CONTROLS SYSTEMS OVERVIEW

The Group considers maintaining 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.

CORPORATE GOVERNANCE REPORT

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 to bring good corporate governance practices to employees and instilling their behaviour 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 in every employee. A decentralised model with a centralised monitoring system over the risk management process is adopted. As such, the Board believes every employee takes part in it and understands thoroughly on its way 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.

Main features of the risk management and internal control systems

The Group's risk governance structure and the main responsibilities of each level of the structure are summarised below:

Board

- Establishes the business strategies and objectives of the Group, and evaluates and determines the nature and extent of risks it is willing to take in achieving the Group's strategic objectives;
- Ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems;
- Oversees management in the design, implementation and monitoring of the risk management and internal control systems; and
- Conducts annual review to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions.

CORPORATE GOVERNANCE REPORT

Audit Committee

- Supports the Board to perform its responsibilities of risk management and internal control systems; and
- Considers key matters on risk management and internal control, and reports and makes recommendations to the Board.

Risk management Committee

- 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;
- Assists the Board to monitor significant risk and exposure and supervise the conduct of risk management and internal control process; and
- Reviews the Company's corporate governance policies and compliance practices.

Management

- Designs, implements and maintains appropriate and effective risk management and internal control systems;
- Identifies, evaluates and manages the risks that may potentially impact the major processes of the operations;
- Responsible for carrying out day-to-day risk management and control activities according to policies and guidelines established;
- Gives prompt responses to, and follow up on risk identified significant and material internal control defects; and
- Reports on material risk identified at operational level and recommend action plan and detailed control procedures to senior management for discussion.

Internal control adviser

- Reports to the Audit Committee and Risk Management Committee the findings of the internal control review and makes recommendations to the management to improve the material systems deficiencies or control weaknesses identified.

CORPORATE GOVERNANCE REPORT

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 processes to review the integrated risk management and internal control systems include:

- Identify, analyse, rate and prioritise of risks;
- Establish and update a risk register to document and track the identified risks;
- Analyse risks by taking into accounts of both qualitative and quantitative factors;
- Assess risks by considering the likelihood of occurrences and the potential impact;
- Prioritise risks with reference to the risk rating score;
- Develop action plans on significant risk areas;
- Engage independent internal control adviser to perform independent review on internal control system under risk-based approach;
- Adopt enhanced control measures to resolve material internal control weaknesses; and
- Evaluate overall effectiveness of risk management and internal control systems.

Whistleblowing Policy

The Company expects and encourages employees of the Group and those who deal with the Group (e.g. suppliers, customers, creditors and debtors) to report to the Company, in confidence, any suspected impropriety, misconduct or malpractice concerning the Group. The Company adopts the whistleblowing policy to provide reporting channels and guidance on reporting possible improprieties in a confidential or anonymous manner.

The whistleblowing policy will be reviewed on a regular basis, any suspected cases will be reported to the Audit Committee.

CORPORATE GOVERNANCE REPORT

Anti-corruption Policy

The Company does not tolerate any form of bribery, whether direct or indirect, by, or of, its Directors, officers, employees, agents or consultants or any persons or companies acting for it or on its behalf. The Company adopts the anti-corruption policy in assisting the employees in recognising circumstances which may lead to or appear to be involved in corruption or unethical business conduct, so as to avoid such conduct which is clearly prohibited, and to promptly seek guidance if necessary.

The anti-corruption policy will be reviewed on a regular basis. Any convicted cases will be reported to the Audit Committee.

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 the staff handbook.

ASSESSMENT OF 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 2022. 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 following aspects:

- the changes in the nature and extent of significant risks since the previous review, and the Group’s ability to respond to changes in its business and the external environment;
- the scope and quality of the management’s ongoing monitoring of risks and of the internal control systems, the work of department heads and senior management;

CORPORATE GOVERNANCE REPORT

- 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 result of risk assessment;
- the internal control weaknesses identified and corresponding management responses with action plans stated in the internal control review report prepared by independent internal control adviser;
- the significant control 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 the appointment of an independent internal control adviser is more adequate and cost-effective than forming such a function based on the following rationale:

- an independent internal control adviser was engaged to assist the Audit Committee and Risk Management Committee to carry out the independent review of the adequacy and effectiveness of the Group's risk management and internal control systems,
- 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 2022, the Company held an annual general meeting on 6 June 2022 ("2022 AGM") and set out below is the attendance of each Director:

| Attendance/No. of Meeting | 2022 AGM |
|--|-----------------|
| Executive Directors | |
| Mr. Chung Chi Hang, Larry | 1/1 |
| Mr. Chung Tin Shing | 1/1 |
| Mr. Wong Shek Fai, Johnson | 1/1 |
| Independent Non-Executive Directors | |
| Mr. Cheung Yee Tak, Jonathan | 1/1 |
| Mr. Li Chung Pong, Stephen | 1/1 |
| Mr. Lam Chon Loi | 1/1 |

The 2022 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 2022 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 exchange 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 a 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 providing, in a 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 F.2.2 of the CG Code, the management ensures that the external auditor attends 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 at Unit 5, 34th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, 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 a Company website (www.keenocan.com.hk) which includes the latest information relating to the Group and its businesses.

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

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business performance and strategies. The Company recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make informed investment decisions.

The Company has adopted the shareholders' communication policy, which set out the framework the Company has put in place to promote effective communication with shareholders so as to enable them to interact actively with the Company and exercise their rights as shareholders in an informed manner. The shareholders communication policy will be reviewed on a regular basis by the Board.

The Company has established a range of communication channels between itself and its Shareholders, investors and other stakeholders. These include (i) the publication of quarter, interim and annual reports and/or dispatching circulars, notices, and other announcements; (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 Company's website and the Stock Exchange's website; (iv) the Company's website offering communication channel between the Company and its stakeholders; (v) the Company's share registrar in Hong Kong serving the Shareholders in respect of all share registration matters; and (vi) convening investor meeting and/or analyst briefings, which are led by our executive Directors and investor relations team with existing and potential investors.

The implementation and effectiveness of the shareholders' communication policy has been reviewed by the Board during the year ended 31 December 2022 and the Board considered that it is adequate and effective, having considered the communication channels in place provided Shareholders and investment community with information about the latest development of the Group in a timely manner, and the Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders to allow the Company to receive feedback effectively.

COMPANY SECRETARY

With effect from 29 June 2022, Mr. TANG Siu Fung Calvin has resigned as the company secretary. Ms. Chau Hing Ling, an executive director of Corporate Services of Vistra Corporate Services (HK) Limited, which is an external service provider, has been appointed as the company secretary on the same date. Her primary contact at the Company is Mr. Yu Siu Ming, the financial controller of the Group.

During the year ended 31 December 2022, Ms. Chau Hing Ling has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge in compliance with Rule 5.15 of the GEM Listing Rules.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There were no significant changes in the constitutional documents of the Company for the year ended 31 December 2022.

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 2022.

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 (the “**Reorganisation**”). 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 34 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 6 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 31. 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 is provided on page 4 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 58 to 86. The probable future business development of the Company is discussed in the paragraph headed “Prospect” in the Management Discussion and Analysis section on page 10 of this annual report.

Results

The results of the Group for the financial year ended 31 December 2022 and the state of affairs of the Group as at that day are set out in the consolidated financial statements on pages 90 to 140.

REPORT OF THE DIRECTORS

Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (for the year ended 31 December 2021: nil).

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:

- operating and financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- taxation considerations;
- capital requirements and expenditure plans;
- interests of shareholders;
- statutory and regulatory restrictions;
- 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 be reverted 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 Tuesday, 6 June 2023. 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 31 May 2023 to 6 June 2023 (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 30 May 2023.

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 2022, 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 2022, the Group's five largest customers accounted for approximately 79.0% of the revenue (31 December 2021: approximately 53.4%). The Group's five largest suppliers accounted for approximately 39.6% of the total purchases for the year ended 31 December 2022 (31 December 2021: approximately 33.2%). In addition, the Group's largest customer accounted for approximately 31.5% of the revenue and the Group's largest supplier accounted for approximately 18.8% of the total purchases for the year ended 31 December 2022 (31 December 2021: approximately 14.6% and 17.2%).

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 2022 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 2022, 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 16 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 2022 are set out in note 27 to the consolidated financial statements in this annual report.

REPORT OF THE DIRECTORS

Directors

During the year ended 31 December 2022 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. Li Chung Pong, Stephen
Mr. Lam Chon Loi
Mr. Cheung Yee Tak, Jonathan

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

Mr. Chung Chi Hang, Larry and Mr. Lam Chon Loi 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.

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 (representing 10% of the issued shares as at the date of this annual report), 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
- (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.

REPORT OF THE DIRECTORS

(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 2022 and there were no outstanding share options under the Share Option Scheme as at 31 December 2022 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 executive of the Company in the shares, underlying shares and debentures of the Company or the associated corporations.

As at 31 December 2022, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required as otherwise to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(i) Interests in the Company

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

Notes:

(1) All interest stated are long positions.

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

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

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

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2022, 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 2022, 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 2022 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 13 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 2022.

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 2022.

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 2022.

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 2022.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2022, 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 2022 are set out in note 24 to the consolidated financial statements in this annual report.

RETIREMENT BENEFITS PLANS

Particulars of retirement benefits plans of the Group as at 31 December 2022 are set out in note 3 to the consolidated financial statements in this annual report.

CONFIRMATION OF INDEPENDENCE

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

CONNECTED TRANSACTIONS

The related party transactions and balance of the Company are set out in note 33 to the consolidated financial statements in this annual report. Apart from the continuing connected transactions disclosed below, all the other related party transactions did not fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" which are subject to disclosure in this annual report under Chapter 20 of the GEM Listing Rules and 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 2022 which are fully exempt connected transactions pursuant to the Rule 20.74 of the GEM Listing Rules are contained in note 33 to the consolidated financial statements in this annual report.

REPORT OF THE DIRECTORS

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

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) in accordance with the terms of the agreements governing the relevant transactions, and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The independent non-executive Directors of the Company also have confirmed that the continuing connected transactions set out below are subject to the reporting and announcement requirements but is exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

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

Leasing

On 25 March 2015, 河源天裕電子塑膠有限公司 (He Yuan Sky Wealth Electronic and Plastic Company Limited) ("**He Yuan Sky Wealth**") and 天工電子塑膠(河源)有限公司 (T-Lab Electronic and Plastic (He Yuan) Co. Ltd.) ("**He Yuan T-Lab**") entered into a tenancy agreement (the "**Tenancy Agreement**") whereby He Yuan Sky Wealth would lease from He Yuan T-Lab the properties located at the east of Xinggong Avenue and south of Keqi Road, High-tech Development Zone, Heyuan City, Guangdong Province, the PRC (the "**Properties**") for a term of three years commencing from the listing of the Company on 24 February 2016 (the "**Listing Date**") at a monthly rental of RMB124,000 (excluding any utilities and management fees). The Properties are used by He Yuan Sky Wealth for production, warehouse and dormitory uses, with an option to renew every three years.

He Yuan T-Lab is a company established in the PRC on 12 January 2005 and is wholly-owned by Yield Speed Limited which is ultimately owned as to 90% by Cyber Goodie Limited and as to 10% by Mr. Chung Tin Shing. At present, other than holding and leasing the Properties, He Yuan T-Lab does not engage in any operating activities. Cyber Goodie Limited is wholly-owned by Mr. Chung Chi Hang, Larry, the controlling shareholder of the Company. Mr. Chung Tin Shing is one of the shareholders and executive Directors of He Yuan T-Lab. As such, He Yuan T-Lab is a connected person of the Company under Rule 20.07 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

During each of the three years ending 31 December 2022, the rental payment payable by the Group under the Tenancy Agreement shall not exceed the annual cap (the “**Cap**”) of RMB1,488,000 (equivalent to approximately HK\$1,681,000). During the year ended 31 December 2022, the actual annual rental payment paid by the Group to He Yuan T-Lab is approximately HK\$1,681,000.

On 28 December 2020, He Yuan T-Lab (as landlord) and He Yuan Sky Wealth (as tenant) entered into the 2021 Tenancy Agreement to further renew the lease of the Properties for three years from 1 January 2021 to 31 December 2023 (both days inclusive) with principal terms as follows:

| | |
|------------------|---|
| Date: | 28 December 2020 |
| Parties: | (i) He Yuan T-Lab (as landlord) (ii) He Yuan Sky Wealth (as tenant) |
| Properties: | East of Xinggong Avenue and south of Keqi Road, High-tech Development Zone, Heyuan City, Guangdong Province, the PRC |
| Term: | Three years commencing from 1 January 2021 and expiring on 31 December 2023 (both days inclusive) |
| Rent: | RMB124,000 (equivalent to approximately HK\$140,000) per month (excluding any utilities and management fees), payable in advance on the 5th day of each month |
| Use of property: | Production facilities, warehouse and dormitory of the Group |

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules in respect of the connected transactions and continuing connected transactions. Save for the continuing connected transactions disclosed above, the Group does not have other connected transactions and continuing connected transactions as defined under the GEM Listing Rules.

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.

TAX RELIEF

The Company is not aware of any relief from taxation available to Shareholders by reason of their holdings in Shares.

EQUITY-LINKED AGREEMENTS

Save as disclosed otherwise, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2022, 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.

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

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 37 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 financial highlights on page 4 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group acquired leasehold land and buildings at a total consideration of HK\$21,680,000. For details of the transaction, please refer to the Company's announcement dated 24 February 2023.

Up to the date of this annual report, save as disclosed above, the Group had no significant events after the reporting period which needs to be disclosed.

AUDITOR

The financial statements for the year ended 31 December 2022 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.

There has been no other change in the Company's auditor in any of the preceding three years.

CHANGES IN THE BOARD AND THE DIRECTORS' INFORMATION

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.

OBLIGATIONS OF ON-GOING DISCLOSURE UNDER THE GEM LISTING RULES

The Company has no other disclosure obligation under Rule 17.22, Rule 17.23 and Rule 17.24 of the GEM Listing Rules.

By order of the Board
Chung Chi Hang, Larry
Chairman

Hong Kong, 14 March 2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Keen Ocean International Holding Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) present its Environmental, Social and Governance Report (the “**ESG Report**”) for the year ended 31 December 2022 (the “**Year 2022**”).

The Group is committed to the long-term sustainability of its business, as well as providing support to environmental protection and the communities in which it operates. Quality accommodation services are delivered to customers by the Group, and its business is managed prudently under sound decision-making processes. The Group seeks to balance the views and interests of the stakeholders through constructive conversation with a purpose to set the course for long-term prosperity. The Board is responsible for evaluating and determining the ESG risks of the Group, and ensuring that relevant risk management and internal control systems are in place and operate effectively. The Group has set up a working team (the “**ESG Working Team**”) of which the team members meet regularly to review and evaluate the corporate performance on the relevant ESG issues.

COMPANY PROFILE

During the Year 2022, the Group was principally engaged in the design, development, production and sale of transformers, switching mode power supplies, healthcare products and other electronic parts and components. The Group sells its products domestically as well as overseas. Customers are mainly manufacturers and trading entities. Most of the transformers and power supply products were manufactured and sold under the Group’s branch name “Keen Ocean” while all electronic parts and components as well as electric healthcare products were sold on an Original Equipment Manufacturer (“**OEM**”) basis. Among the products manufactured and sold, the transformers remained the Group’s flagship products.

REPORTING FRAMEWORK

The ESG Report is prepared in compliance with the Environmental, Social and Governance (the “**ESG**”) Reporting Guide under Appendix 20 of the Rules Governing the Listing of Securities on the GEM, and will be published annually. For information regarding the governance section, please refer to Corporate Governance Report as incorporated in the Company’s Annual Report 2022.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GOVERNANCE STRUCTURE

Board's oversight of ESG issues

The board of directors of the Company (the "**Board**") has a primary role in overseeing the Group's ESG issues. During the Year 2022, the Board, the management and the ESG Working Team evaluate the impacts of ESG-related risks towards the operation and formulate ESG-related policies in dealing with relevant risks. The oversight of the Board ensures that the management and the ESG Working Team can have all the right tools and resources to oversee the ESG issues.

To demonstrate the Group's commitment to transparency and accountability, the management and ESG Working Team review and evaluate the Group's performance in respect of ESG issues and report to the Board regularly.

Board's ESG management approach and strategy for material ESG-related issues

To better understand the opinions and expectations of different stakeholders on the ESG issues, materiality assessment is conducted annually. The Group ensures various platforms, and channels of communication are used to reach, listen and respond to its key stakeholders. Through communication with the stakeholders, the Group can understand their expectations and concerns. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impacts of the business decisions.

The Group has evaluated the materiality in ESG aspects through the following steps: (i) identification of ESG issues by the Group; (ii) key ESG areas prioritisation with stakeholder engagement; and (iii) validation and determining material ESG issues based on the results of communication with the stakeholders.

Taking these steps enhances the understanding of the expectations and concerns of the Group's stakeholders on various ESG issues, which enable the Board to plan the sustainable development direction to address material ESG-related issues in the future.

Board review progress against ESG-related goals and targets

The progress of implementation and the performance of the goals and targets should be closely reviewed from time to time. Modification may be needed if the progress falls short of expectation or change of business operations. Effective communication about the goals and targets with key stakeholders such as employees, customers and suppliers are essential.

Setting strategic goals enables the Group to develop a realistic roadmap and focus on results of achieving the visions. The Board will carefully examine the attainability of the targets which should be weighed against the Group's ambitions and goals.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING PRINCIPLES

The report is centred on four principles:

Materiality: Stakeholder engagement and materiality assessment were conducted regularly to identify material ESG issues, and to ensure that these issues are addressed in the report.

Quantitative: Data presented in this report have been collected prudently. Please refer to the environmental and social performance data for standards and methodologies used for calculation of key performance indicators.

Balance: Both positive and negative sides of the performance have been presented in a transparent manner.

Consistency: Unless otherwise stated, the disclosures, data collection and calculation methods have remained consistent throughout the years to facilitate comparability over time.

REPORTING BOUNDARIES

This ESG Report focuses on the ESG performance of the Group in Year 2022 in respect of its major subsidiary in the People's Republic of China ("PRC"), namely, He Yuan Sky Wealth Electronic and Plastic Company Limited ("He Yuan Sky Wealth"), which has plant operation in Heyuan, the PRC. Hence, the disclosures in this ESG Report focus on the policies and performance of the plant operation in relation to four environmental aspects and eight social aspects.

The preparation of this ESG Report includes identifying and ranking major concerns of stakeholders relating to ESG; deciding on the coverage of the ESG Report; and collecting relevant ESG policies and data.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

The Group is committed to promoting sustainable development, which it deems as extremely important for creating long-term value for the Group's shareholders, government/regulatory authorities, investors, customers, employees, suppliers, community, general public and other stakeholders. The Group cares about the impact of its daily operation on the environment and society, and strives to set a good example for the public, while effectively conducting business operations. It makes every effort to address the interests of all stakeholders; contribute to the economy, environment and society; and promote good corporate governance – striving to achieve a fine balance while realising such objectives.

| Stakeholders | Appeals and expectations for the Group | Communication and Response |
|--|---|--|
| Shareholders | <ul style="list-style-type: none"> • Financial results • Corporate transparency • Sound risk management and internal control | <ul style="list-style-type: none"> • Improvement in profitability • Regular information disclosure • Optimise risk management and internal control |
| Government/ Regulatory authorities | <ul style="list-style-type: none"> • Compliance with laws and GEM Listing Rules • Pay taxes according to law • Promotion of regional economic development and employment | <ul style="list-style-type: none"> • Continuously strengthen corporate compliance management to ensure compliance for the operation of the Group • Pay taxes in a full and timely manner • Closely monitor any changes in government policies |
| Investors | <ul style="list-style-type: none"> • Implement corporate governance and create value • Information disclosure | <ul style="list-style-type: none"> • Optimise corporate governance and continuously improve corporate value • Release operating data in due course, set up investor hotline |
| Customers | <ul style="list-style-type: none"> • Product quality • Protection of consumers' rights and interests • Customer information security | <ul style="list-style-type: none"> • Customer satisfaction survey • Handle customer complaints and products return • Customer privacy protection |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

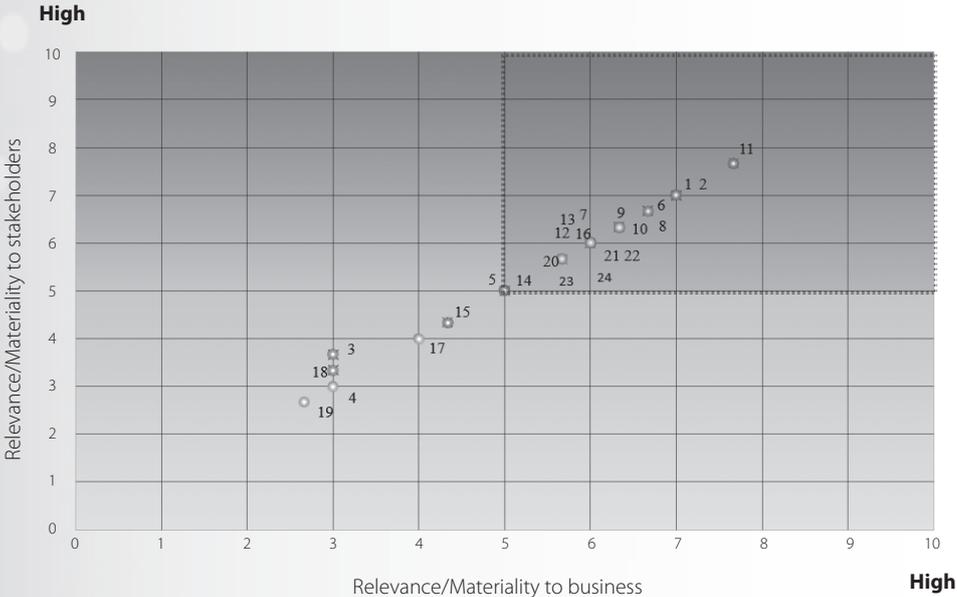
| Stakeholders | Appeals and expectations for the Group | Communication and Response |
|--------------|--|---|
| Employees | <ul style="list-style-type: none"> • Reasonable salary and welfare • Employee promotion and development • Occupational health and safety • Care of employees | <ul style="list-style-type: none"> • Competitive remuneration package • Transparent promotion channel • Conduct regular occupational health and safety awareness training for staff • Provide accommodation for employees |
| Suppliers | <ul style="list-style-type: none"> • Integrity cooperation • Business ethics and credibility | <ul style="list-style-type: none"> • Establish a responsible supply chain • Fulfillment of obligations under any contract in accordance with laws |
| Community | <ul style="list-style-type: none"> • Serve the community | <ul style="list-style-type: none"> • Proactively carry out and participate in charitable donations and social welfare activities |
| Public | <ul style="list-style-type: none"> • Environmental protection • Response to climate change • Establish a resource-saving and environmental protection mechanism in work process | <ul style="list-style-type: none"> • Classify and recycle hazardous waste • Utilise low-carbon energy • Environmental and energy-saving equipment was put into use |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

In Year 2022, the Company undertook its annual materiality assessment exercise. This involved conducting interviews and/or surveys with internal and external stakeholders to identify “material issues” and reflect the environmental, social and operational issues which have the most significant impacts on the Company’s business and the relevant issues which are of concern to the stakeholders.

With reference to the scope of disclosure as required under the ESG Reporting Guide, as well as taking into consideration its business features, the Group has identified and determined 24 issues covering greenhouse gas (“GHG”) emissions, energy consumption, employee welfare, occupational health and safety, training and development, supply chain management, customer privacy, anti-corruption, and community investment with respect to its business operation.



Environmental

- 1. Greenhouse gas emissions
- 2. Energy consumption
- 3. Water consumption
- 4. Waste
- 5. Saving energy measures
- 6. Use of raw materials and packaging materials
- 7. Utilization of energy resources
- 8. Use of chemicals

Social

- 9. Local community engagement
- 10. Community investment
- 11. Occupational health and safety
- 12. Labour standards in supply chain
- 13. Training and development
- 14. Employee welfare
- 15. Inclusion and equal opportunities
- 16. Talent attraction and retention

Operating practices

- 17. Economic value generated
- 18. Corporate governance
- 19. Anti-corruption
- 20. Supply chain management
- 21. Customer satisfaction
- 22. Customer privacy
- 23. Intellectual property protection
- 24. Marketing and labelling

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMISSIONS

The Group is principally engaged in manufacturing process, emissions and wastes are mainly generated in the production process. To minimise the environmental impacts, the Group is dedicated to protecting the environment by enhancing means to mitigate emissions and to promote environmental awareness. The policies for managing the emissions effectively adopted by the Group are listed out as below:

- Regular examinations on air and water emissions and noise are carried out by a qualified inspection and testing agency to ensure the emissions are up-to-standard;
- Adopt an effective management system to prevent pollution and reduce the impact on environment;
- Optimise production processes by effectively using energy, water and raw materials;
- Use of facilities and processes which generates less or no emission is widely promoted in the Group;
- Emission mitigation equipment and waste reduction means are introduced and reinforced through the regular assessment of needs and investigation of adequate facilities and measures;
- Use of resources effectively to reduce unnecessary waste generation and encourage the habit of reuse and recycle where applicable;
- Employees are educated continuously by broadcasted messages on environmental protection during orientation training programs as well as regular trainings to meet their environmental obligations. Messages on environmental protection are also delivered to external stakeholders. For example, the suppliers are also introduced to green purchasing standards from time to time.

Air Emission

Waste gases are mainly generated from the use of insulating varnish for the production of enamelled copper wires and steel core.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The relevant data of the four key types of air pollutants, including volatile organic compounds (“VOCs”), xylene, and non-methane hydrocarbon (“NMHC”), are listed out as below:

| Environmental Indicators | Year 2022 | Year 2021 |
|---|---------------|-----------------------|
| Air pollutants ^(Note 1) | | |
| VOCs (kg) | 456.00 | — ^(Note 2) |
| Xylene (kg) | 22.08 | 52.84 |
| NMHC (kg) | 446.40 | 290.57 |
| Total | 924.48 | 343.41 |

Note 1: Each of the air pollutants is calculated by using actual emission rate (kg/hour) measured by local government authority, multiplied by annual factory operating hour.

Note 2: No corresponding figure is collected in Year 2021.

Besides the production process, there are 5 motor vehicles used for business in Mainland China, which generated nitrogen oxides (“NO_x”), sulphur oxides (“SO_x”) and PM. The air pollutants from the vehicles are set out as follows:

Gaseous emissions from the use of motor vehicles

| Environmental Indicators | Year 2022 | Year 2021 |
|---|---------------|-----------|
| Emissions | | |
| NO _x (kg) ^(Note 1 & Note 2) | 434.40 | 437.37 |
| SO _x (kg) ^(Note 1 & Note 2) | 0.38 | 0.42 |
| PM (kg) ^(Note 1 & Note 2) | 32.57 | 32.87 |
| Total | 467.35 | 470.66 |

Note 1: In Year 2022, 5 motor vehicles are used, of which 3 private cars (Year 2021: 7 motor vehicles are used, of which 5 private cars) run on unleaded petrol, 1 medium & heavy goods vehicle (≥ 15 tonnes) run on diesel oil and 1 medium & heavy goods vehicle (5.5 - 15 tonnes) (the same with Year 2021) run on diesel oil.

Note 2: The emission factors used to calculate the NO_x, SO_x and PM are sourced from: the Hong Kong Environmental Protection Department’s (“EPD”) EMFAC-HK Vehicle Emission Calculation model and the United States Environmental Protection Agency’s Vehicle Emission Modeling Software - MOBILE6.1; and the assumptions of 80% relative humidity, a temperature of 25 degrees Celsius, an average speed of 30kmh, and include running exhaust emissions only.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GHG emissions from operations

| Environmental Indicators | Year 2022 | Year 2021 |
|--|-------------------|------------|
| GHG Emissions | | |
| Total GHG emissions (Tonnes of carbon dioxide equivalent ("Tonnes of CO ₂ e")) ^(Note 1) | 2,809.22 | 2,694.71 |
| No. of unit produced | 12,356,821 | 12,635,135 |
| GHG emissions per unit produced (kg of CO ₂ e) | 0.22734 | 0.21324 |
| Direct emissions (Scope 1) (Tonnes of CO ₂ e) | 62.76 | 71.38 |
| Indirect emissions (Scope 2) (Tonnes of CO ₂ e) ^(Note 2) | 2,689.23 | 2,568.87 |
| Other indirect emissions (Scope 3) (Tonnes of CO ₂ e) ^(Note 3) | 57.23 | 54.46 |

Note 1: GHG emissions (direct and indirect) can be divided into the following three separate areas:

Scope 1: Direct GHG emissions from operations that are owned or controlled by the relevant company including GHG emissions from vehicles controlled by the relevant company;

Scope 2: "Energy indirect" GHG emissions resulting from generation of purchased or acquired electricity, heating, cooling and steam consumed within the relevant company; and

Scope 3: All other indirect GHG emissions that occurred outside the relevant company, including both upstream and downstream emissions.

Note 2: The emission factor of electricity consumed is sourced from the China Southern Power Grid in 2019.

Note 3: Emission factor used = Unit electricity consumption of processing sewage (obtained from Drainage Services Department) × Territory-wide default value (i.e. 0.7kg/kWh) of purchased electricity For calculation of sewage drained for commercial institutional purposes, assuming 100% of the fresh water consumed will enter the sewage system.

Target(s) set for emissions and steps taken to achieve them

Reduction target of air emissions

| Environmental KPI | Reduction Target | Baseline Year | Status |
|---------------------------|------------------------|---------------|------------------|
| Air emissions | | | |
| NO _x intensity | Reduce 5% by Year 2024 | Year 2020 | Reduced by 4.1% |
| SO _x intensity | Reduce 5% by Year 2024 | Year 2020 | Reduced by 47.8% |
| PM intensity | Reduce 5% by Year 2024 | Year 2020 | Reduced by 2.8% |

Reduction target of GHG emission

| Environmental KPI | Reduction Target | Baseline Year | Status |
|----------------------------------|------------------------|---------------|------------------|
| GHG emission intensity (Scope 1) | Reduce 5% by Year 2024 | Year 2020 | Reduced by 47.8% |
| GHG emission intensity (Scope 2) | Reduce 5% by Year 2024 | Year 2020 | Reduced by 19.3% |
| GHG emission intensity (Scope 3) | Reduce 5% by Year 2024 | Year 2020 | – |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The emission target is to mitigate air emissions no matter there are more or less productions. The Group adopted steps below to achieve the target:

1. Reinforcing the emission mitigation equipment. Air emission treatment systems with water spray tower installation, activated carbon absorption device and centrifugal fan were adopted in the production process of copper wires and steel core since the end of 2014.
2. To ensure complete collection and proper treatment of air emissions, subsequent to the enhancement of the new treatment system in October 2017, the installation of additional gas collection system and rotating-stream-tray scrubber in the production process of copper wires was enhanced in the above-mentioned new treatment system.
3. Since February 2020, the Group imply “water-based paint take place of oil-based paint” to reduce emissions.
4. To achieve an organised and up-to-standard emissions, a comprehensive rectification project has been carried out for the collection of gas in production process since July 2020.
5. Since November 2020, two sets of UV photolysis equipments has been adopted to replace the original equipments.
6. Since October 2021, a new activated carbon adsorption equipment has been put into use (the original facility is applied for scrapping) and a dry filter was installed at the front end of the activated carbon facility to reduce mist entering the activated carbon facility.

To achieve the target in fuel saving, carpooling and task combination travel arrangement have been enhanced to reduce the use of vehicles. Unnecessary business trips were cut down as far as possible. If available, all employees would take seats in the economy class on flights whenever they go on necessary business trips to minimize carbon emissions.

To achieve reducing GHG emission target, we have implemented a series of electricity-saving measures (see the paragraph under heading “Use of Resources” for details).

Hazardous Waste

Hazardous Waste, including 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 production process. The total amount and intensity of hazardous waste are summarized as below:

| Environmental Indicators | Year 2022 | Year 2021 |
|---|----------------|-----------|
| Waste | | |
| Hazardous waste generated in total (Tonnes) <i>(Note)</i> | 47.26 | 33.61 |
| Hazardous waste generated per unit produced (kg) | 0.00382 | 0.00266 |

Note: The waste was classified as hazardous waste in the National Catalogue of Hazardous Wastes effective from 1 August 2016.

The increase in hazardous waste produced was due to the use of different components of products as compared with Year 2021.

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 portion of water is consumed in production process. Non-hazardous wastes generated in total and their intensity are summarized below:

| Environmental Indicators | Year 2022 | Year 2021 |
|--|-------------------|------------|
| Waste | | |
| Effluents generated in total (cbm) | 103,318.00 | 104,217.00 |
| Effluents generated per employee ^(Note 1) | 172.77 | 214.00 |
| Non-hazardous waste generated in total (Tonnes) | 167.92 | 94.00 |
| Non-hazardous waste generated per unit produced (kg) | 0.01359 | 0.00744 |

Note 1: Total number of employees at the year end were used for the calculation.

Targets set for waste management and reduction and steps taken to achieve them

Reduction target of waste produced

| Environmental KPI | Reduction Target | Baseline Year | Status |
|--|------------------------|---------------|--------------------|
| Hazardous waste produced intensity | Reduce 5% by Year 2024 | Year 2020 | Increased by 56.9% |
| Effluents | Reduce 5% by Year 2024 | Year 2020 | Reduced by 34.2% |
| Non-hazardous waste produced intensity | Reduce 5% by Year 2024 | Year 2020 | Reduced by 50.2% |

Aiming at reducing hazardous wastes and non-hazardous wastes, four basic principles namely "reduce", "recover", "reuse" and "recycle" are adopted. The detailed steps taken are listed as below:

Reduction

Less waste of paper through five steps as follows:

- Using more electronic means of communications instead of using paper communications;
- Filing the above-said electronic documents;
- Encouraging double-sided printing to minimize necessary paper printing;
- Collecting double-printed paper into bags for recycling company to collect regularly; and
- Considering reminding clients or employees in emails not to print out the emails, if possible, so as to reduce paper consumption and carbon emissions.

Less waste of metal materials through one step as follows:

- Introduction of new models of automatic slitting and winding machines.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Reuse

Less waste of paper through one step as follows:

- Reuse of one-side printed paper and reuse the envelopes and packaging materials internally.

Less waste of other materials through one step as follows:

- Reuse of plastics, epoxy, components and parts from disqualified products for production.

Recover and Recycle

Less wastes through two steps recycle as follows:

- Hazardous wastes are stored separately against non-hazardous wastes in a designated house; and
- Wastes are handled by qualified subcontractors for processing and recycling.

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”.

Compliance with relevant laws and regulations

Full compliance with local environmental laws and regulations including the Environmental Protection Law of the PRC and the Law of the PRC on the Prevention and Control of Atmospheric Pollution is assured through strict implementation of these policies and measures. No non-compliance with relevant laws and regulations occurred in Year 2022.

USE OF RESOURCES

The Group incorporates the Reduce, Reuse and Recycle principle and implements environmentally friendly measures in its operations to efficiently use resources, reduce waste and conserve energy. The Group remains steadfast in its support of environmental protection efforts, which is consistent with its commitment to being a good corporate citizen.

The Group advocates environmental protection in its ordinary business operations, and has implemented a variety of environmental protection measures and set up comprehensive policies in its office premises as well as plant manufacturing process.

We mitigate the negative impacts of office operations on the environment by making optimal use of office resources, including paper, electricity, toner cartridges and water.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Efficient use of resources and improvement in of efficiency have been 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. In the staff handbook (“**Staff Handbook**”), policies for energy saving and water conservation is stated clearly, including methods of water saving, electricity saving, paper saving, recycling of packages and wastes. Labels for saving water are posted to remind the employees;
- **Product design reform:** New technology, production process, materials and equipment are adopted for the invention of energy-efficient products;
- **Production process redesign:** Production schedules are thoroughly planned and production steps are streamlined to minimize the energy consumed and frequency of use of machine; and
- **Use of energy-efficiency equipment:** Energy-efficiency is one of the selection criteria on acquisition and use of equipment.

Energy consumption

Purchased electricity is the main source of energy consumed in plant operation in the PRC. The data of energy consumption in total and its intensity are listed out as below:

| Environmental Indicators | Year 2022 | Year 2021 |
|---|------------------|-----------|
| Electricity consumption in plant operation/production (kWh) | 4,184,684 | 4,060,830 |
| Diesel consumption (kWh) ^(Note1) | 205,299 | 201,108 |
| Petrol consumption (kWh) ^(Note1) | 44,357 | 79,552 |
| Electricity consumption in dormitory (kWh) | 1,099,716 | 987,050 |
| Total energy consumption (kWh) ^(Note2) | 5,534,056 | 5,328,540 |
| Energy consumption per unit produced (kWh) | 0.44785 | 0.42172 |

Note 1: The conversion factors used to calculate the unit to kWh are sourced from the Energy Statistics Manual issued by the International Energy Agency.

Note 2: Gas or oil consumption is not significant in production process, therefore it is not included in the ESG Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water consumption

Water is mainly consumed for daily use. The total amount and intensity are listed out as below:

| Environmental Indicators | Year 2022 | Year 2021 |
|---|-------------------|------------------|
| Water consumption in total (cbm) | 114,572.00 | 104,217.00 |
| Water consumption per employee ^(Note1) | 191.59 | 214.00 |

Note 1: Total number of employees at the year end was used for the calculation.

Targets set for efficient use of energy and water and steps adopted for achieve them

Reduction target of resources consumption

| Environmental KPI | Reduction Target | Baseline Year | Status |
|------------------------------|-------------------------|----------------------|------------------|
| Energy consumption intensity | Reduce 5% by Year 2024 | Year 2020 | Reduced by 12.8% |
| Water consumption intensity | Reduce 5% by Year 2024 | Year 2020 | Reduced by 27.0% |

Targeted at reducing the electricity consumed for production, during the Year 2022, 696 LED lights were used to replace the existing conventional fluorescent lamps which were burnt out, to control energy consumption.

The increase of electricity consumed for daily use of employee was caused by the increase of time for the employees to stay at dormitory. The Group will keep on implementing the above said electricity saving method to save energy.

There are no significant issues identified in seeking appropriate water source. A substantial amount of water is consumed for domestic use and merely a minimal amount of water is used for production. The target set for efficient use of water is to reduce water consumption and water consumed for domestic use per employee. Less water is utilized in Year 2022 through the effective implementation of water efficiency steps described as below:

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Educational guidelines to change employee behavior are listed as follows:

- Reminding our employees to avoid wastage by posting the “Save Water” sign. The message of water conservation was widely spread in the factory to educate every employee to be self-discipline on daily use of water.
- Orientation introduction of how to save water has been arranged for new employees, including the following areas: wash dishes, vegetables and clothes in a container filled with water, instead of washing them under running water; run a washing machine only with a full load of clothes to reduce the frequency of wash; turn off the tap after use or when using intermittently (e.g. while brushing teeth and washing face); flush toilet with water used for washing vegetables and fruits; and fix dripping taps, water mains and breakdowns of devices using water promptly.
- Monitoring and inspection from time to time.

Use of water saving means are listed as follows:

- Replacement of bottled potable water with water filter. The water outlet time and water volume of faucets in toilets have been shortened and reduced by the management office of the building to save water.
- Posting 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;
- Reuse of cooling water for production process.

Packaging material used for products

| Environmental Indicators | Year 2022 | Year 2021 |
|---|------------------|------------------|
| Packaging material in total (Tonnes) <i>(Note 1)</i> | 420.51 | 177.45 |
| Packaging material per unit of production volume (kg) | 0.03403 | 0.01404 |

Note 1: Carton boxes with various sizes are used for packing products.

Other Resource Management Methods

We put recyclable items such as paper, plastics, aluminum, batteries into recycling bins and separate such items into different categories for recycling.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE ENVIRONMENT 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 strive to improve the waste management mechanism. Policies such as green and resource-saving policy in the Staff Handbook, including methods of water saving, electricity saving, paper saving, recycling of packages and wastes were introduced.

The Group endeavors 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 minimize impact on the environment and natural resources through a number of ways below:

- Adoption of green policies supported with the basic principles of “reduce”, “recover”, “reuse” and “recycle”;
- Education on energy and water saving, and adequate use of resources through training and internal guidelines;
- Regular review of emission and waste data to assess if there is a need to enhance emission and waste mitigation means or strengthen the energy-saving measures;
- In order to reduce the damage on the forest, our offices use Forest Stewardship Council (FSC) certified paper and encourage double-sided printing of various types of documents; and
- Coordinate closely with the local Environmental Protection Bureau on its advice to reach the emission standard and to minimize emission and waste generated.

CLIMATE CHANGE

Significant climate-related issues and policies on identification and mitigation of significant climate-related issues

Incredibly high temperatures are becoming the new norm due to global warming. Rising temperatures are impacting productivity in the factory in Heyuan, the PRC. High temperatures won't just impact productivity, but also put workers at risk. The Group has made policies on identification and mitigation of significant climate-related issues. Actions taken to manage the significant climate-related issues are as follows:

- For extremely hot or cold climates, when the weather reached certain degrees, jobsite air-conditioners and heaters can keep employees and temperature-sensitive components cool or warm enough to work safely. There are even blankets available to help concrete cure properly during the cold winter months; and
- Policies to avoid hurricanes also already have been prepared, backup power options have been set. These can help keep things productive during power outages.

During the Year 2022, there was no climate-related risk, including physical risks and transitional risks that had a significant impact to the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT

Every effort is made to meet requirements under the PRC Labor Law and other relevant applicable laws and regulations. It has also stuck to the principles and strictly followed the regulations related to recruitment and promotion, compensation and dismissal, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare. The Group has never employed minors or forced labors with a basic salary below minimum wage.

The Group's administration and human resources department has formulated comprehensive human resources policies, and expressly stated the same in its Staff Handbook to learn the rules of personnel. In addition to compliance with basic labor laws, the Group also formulates and implements human resources policies when necessary and provides benefits more than those required by laws to recruit, retain and develop the talents.

Distribution of workforce of the Group classified by different catalogues as follows:

| Social Performance | Unit | Year 2022 | Year 2021 |
|---------------------------------|---------------|------------------|------------------|
| By Gender | | | |
| Male | People | 327(55%) | 280(57%) |
| Female | People | 271(45%) | 207(43%) |
| Total | People | 598(100%) | 487(100%) |
| By Age Group | | | |
| Under 30 years old | People | 85(14%) | 97(20%) |
| 30 - 50 years old | People | 352(59%) | 258(53%) |
| Over 50 years old | People | 161(27%) | 132(27%) |
| Total | People | 598(100%) | 487(100%) |
| By Employment Categories | | | |
| Senior level | People | 17(3%) | 10(2%) |
| Middle level | People | 26(4%) | 49(10%) |
| Entry level | People | 555(93%) | 428(88%) |
| Total | People | 598(100%) | 487(100%) |
| By Geographical Region | | | |
| Hong Kong | People | 17(3%) | 18(4%) |
| Mainland China | People | 581(97%) | 469(96%) |
| Total | People | 598(100%) | 487(100%) |

As at 31 December 2022, the Group had 598 employees, of whom 79% were full-time employees and 21% were part-time employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As at 31 December, the turnover rates of employees of the Group by different categories are as follows:

| Employee turnover rate <small>(Note 1)</small> | Year 2022 | Year 2021 |
|---|------------------|-----------|
| By Gender | | |
| Male | 32% | 33% |
| Female | 31% | 35% |
| By Age | | |
| Under 30 years old | 109% | 84% |
| 30-50 years old | 20% | 24% |
| Over 50 years old | 16% | 16% |
| By Geographical Region | | |
| Hong Kong | 6% | – |
| Mainland China | 33% | 35% |

Note 1: The employee turnover rate is calculated based on the number of employees who cease employment during the year divided by the number of employees at end of the year in each category.

Recruitment and promotion

Equal employment and promotion policy are 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. Labor contract is formally signed with relevant terms and conditions stated.

Remuneration

A comprehensive remuneration and welfare package are offered to employee with salary adjustment benchmarked against individual performance. The Group formulates salaries and salary review policies based on the internal relativity which is established in accordance with qualification benchmark system among each grade. Under the qualification benchmark system, the Group determines the salary starting point for individual entry rank with reference to the remuneration level of similar position in the market and after considering other factors related to the nature of the work.

Work-life balance

Work-life balance is strongly emphasized to enhance sense of belonging of employees, as well as work efficiency and productivity. We are committed to enhancing the quality of life for our staff, their families and the community, and put the objective of work-life balance into practice while seeking to create a harmonious workplace and enhance loyalty among our staff. The Group engages our staff members in a variety of recreational events so as to promote staff morale. Such events can also provide more opportunities for the management to reach out to our staff, and increase communication channels to deepen mutual understanding. Standard working hour mechanism is adopted and regular entertainment and sports activities are organized. Holidays and statutory paid leaves are provided in compliance with the requirements of both the Hong Kong and the PRC laws.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 from offending or seriously breaching the relevant policies.

Compliance with relevant laws and regulations

The Group is not aware of any material non-compliance with the Labour Law of the PRC, Labour Contract Law of the PRC, Payment of Wages Tentative Provisions and other applicable laws and regulations that has a significant impact relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare on the Group in Year 2022.

No non-compliance with law that resulted in significant fines or sanctions had been reported in Year 2022.

HEALTH AND SAFETY

Along with the enforcement of the Group's 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 Work Safety were adhered to during the reporting period. During the Year 2022 there was no material illegal or non-compliance issue that had a significant impact on the Group. There are no work-related fatalities in Year 2022 and Year 2021 and one work-related fatality occurred in Year 2020 due to heart attack. The total days lost due to work injury in Year 2022 is 294 days.

Heavy emphasis is placed on minimizing occupational health and safety risks in the workplace, and therefore providing a safe working environment for employees is crucial. For the purpose of effective prevention of occupational hazard and emergencies such as disease outbreaks, especially when COVID-19 breaks out, 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 comprised 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 device: Adequate protection device 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. To prevent emergency diseases and protect the employees from COVID-19, plenty of surgical masks have been provided. Proper instruction is provided to guide the use and wearing. Penalty punishment shall be imposed to employees who does not wear surgery mask properly.

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 organized regularly.
- The Group has drawn up and executed a clear plan to support employees that complies with applicable health advice and guidelines. Whenever there is an outbreak of emergency public disease, the Group is proactive and transparent when communicating with employees, providing relevant updates on clinical and business impacts. The Group assesses opportunities to strengthen purpose and morale among employees. It considers ways to support response efforts (e.g. financial, R&D, medical staff, etc.) Several steps have been taken to prevent spreading of disease, such as when starting work before entering the office building, the employees are required to consciously take a temperature measurement. If the body temperature is normal, one can enter the building and is required to wash his hands in the bathroom. If the body temperature exceeds 37.2°C, he will be prohibited from entering into the building to work and should go home to have a rest and inspection, if necessary, go to the hospital for treatment. The Group also adopts divided meals to avoid crowded people. The restaurant is disinfected daily, and the tables and chairs are disinfected after use. Cutlery must be sterilized at high temperature. The operation room should be kept clean and dry. It is strictly forbidden to mix raw food and cooked food, and to serve raw meat. A nutritious, light and delicious meal is suggested.

The Group implemented a series of measures to improve indoor air quality in offices: for example, regular air quality testing, provision of air cleaners, regular cleaning of ventilation systems, use of water-cooled air conditioning systems and enhancement of air circulation in offices. In order to reduce the employees' chance of suffering from respiratory infections and COVID-19, the Group issues influenza notices when necessary and enhance preventive measures, such as the preparation of hygiene masks and hand sanitizers for staff's usage at any time.

Compliance with relevant laws and regulations

The Group is not aware of any material non-compliance with the Law of the PRC on Work Safety, Regulations on Work-Related Injury Insurance of the PRC and other applicable laws and regulations that has a significant impact on the Group relating to provide a safety working environment and protecting employees from occupational hazards in Year 2022.

No non-compliance with law that resulted in significant fines or sanctions had been reported in Year 2022.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

DEVELOPMENT AND TRAINING

Regular trainings are scheduled to strengthen competence and develop the potential of employees no matter the gender. Ongoing internal training programs covering the aspects of production skills, equipment operation, communication and negotiation skills, fire safety and environmental protection knowledge are organised for employees as well as management. Quizzes in verbal or written form is held to test the knowledge of employees and management. As orientation trainings and regularly trainings have already been recorded, these KPIs have no significant impact on its business.

During the year, the employee training rate is as follows:

| | Year 2022 | Year 2021 |
|---|-------------|-----------|
| Percentage of employees trained <i>(Note 1)</i> | 100% | 100% |
| Percentage of employees trained by gender <i>(Note 2)</i> | | |
| Male | 55% | 57% |
| Female | 45% | 43% |
| Percentage of employees trained by employment category <i>(Note 2)</i> | | |
| Senior management | 3% | 2% |
| Middle management | 4% | 10% |
| General staff | 93% | 88% |

Note 1: It is calculated by dividing the number of employees who took part in training by the number of employee as at year end.

Note 2: It is calculated by dividing the number of employees trained in such category by the total number of employees trained.

The information on average training hours completed per employee by gender and employee category are considered not significant, hence they are not covered in this ESG Report.

Feedbacks are obtained from both the 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 in entertainment and sports activities organized internally and externally by the community.

LABOUR STANDARDS

As explicitly defined in the Staff Handbook and the employment management policy, employment of candidates under the age of 16 and forced labour are prohibited.

Through the stringent internal review and monitoring procedure designed to verify the personal information during the recruitment process, such situations are believed to be effectively avoided and the PRC Labour Law is complied with. A labour contract is formally signed with relevant terms and conditions stated to protect the interests of employees. The ages of employees have been checked when signing the labour contract to avoid child labour. Interviews have been arranged to ensure no forced labour.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Compliance with relevant laws and regulations

The Group is not aware of any non-compliance with the Labour Law of the PRC, Provisions on the Prohibition of Using Child Labour, Protection of Minors of the PRC and other applicable laws and regulations relating to preventing child or forced labour on the Group in Year 2022.

No non-compliance with law that resulted in significant fines or sanctions had been reported in Year 2022.

SUPPLY CHAIN MANAGEMENT

The general suppliers of the Group comprise of suppliers engaged in manufacturing toroidal transformers, EI transformer, inductor and switching mode power supply. Most suppliers are from the PRC. The number of suppliers is trade secret therefore not included into this Report. 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. Our purchase decisions are made according to the pricing, the quality of products, production capacity, past performance, suitability and general reputation of suppliers. The supplier's 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, the Supplier Quality Assurance Agreement stating the commitment on product quality is required to be signed by the suppliers. Environmental-friendly suppliers have priority when selecting the suppliers. We identify the suppliers (if any) who have been punished by government because of environmental or social risks and do not cooperate with them anymore. In addition, regular evaluation on the suppliers' performance is carried out to ensure ongoing quality monitoring. We highlight environmentally preferable products when promote our products.

During the year, the number of suppliers by geographical region is as follows:

| Social KPI | Year 2022 | Year 2021 |
|-------------------|------------------|------------------|
| Mainland China | 164 | 117 |
| Hong Kong | 25 | 44 |

PRODUCT RESPONSIBILITY

The Group has implemented certain measures according to its internal policies related to maintain product quality, safeguard product image and protect customer interests in the following aspects:

Quality assurance

Sales of products cover several geographical locations including Hong Kong, the 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 certificates of export countries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.

Quality control employees are well-trained to handle the internal customer feedback management procedural manual. Timely responses from customers are collected to improve the goods and services quality in the future. Generally, we would deal with clients' urgent complaints or comments within 24 hours. Issues related to our products are normally handled by our employees from production department and operation representatives. As for issues related to clients' feedbacks, customer service representatives would collect the opinions and raise them at regular meetings, so that each department could get to the bottom of the problems. Records of customer complain are duly kept and collected by the production department.

Promotion

Products are promoted through various channels like product exhibition, company website and online sales platform. Factual information on products is delivered to potential customers while exaggeration and overstatement is not allowed.

Customer privacy

The Group is committed to protecting customer information and safeguard their privacy. Guidelines has been set up to control the collection, access, updating, security and retention of customer data and assets. In addition, sufficient IT related control measures are implemented to prevent unauthorized access and virus attack in the ERP system containing customer information.

Intellectual Property Rights ("**IP rights**"): The Group has obtained five patents for certain aspects of proprietary technology product designs and technical know-how, and registered four trademarks. One new patent has been obtained in Year 2022. The Group engaged experts to regularly monitor any potential infringement of IP rights.

In Year 2022, there were no cases of product recall and 79 complaints received against the Group's products and services. None of them were due to health and safety issues.

Compliance with relevant laws and regulations

The Group is not aware of any material non-compliance with the Patent Law of the PRC and other applicable laws and regulations that has a significant impact relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress on the Group in Year 2022.

No significant fines had been reported in Year 2022.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ANTI-CORRUPTION

The Group implements a comprehensive internal control system and stringent policies against fraud, bribery, extortion and money laundering. The Group has complied with the related laws and regulations in both Hong Kong and the PRC. During the reporting period, there was no related material illegal or non-compliance issue that had a significant impact on the Group.

The Staff Handbook has specified that employees of the Company shall not offer bribes, grant or receive any bonus, commission or other similar illegal benefits which will affect business decisions for business interest. The employees shall not require any person or company to accept gifts, entertainment activities or bonus which do not comply with the normal social etiquette and ethical business practices. Related training is offered in orientation section. Anticorruption trainings have been provided to directors and employees from time to time. No legal cases regarding corrupt practices brought against the Company or its employees during the reporting period.

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

During the Year 2022, the Group held one session of anti-corruption training for its directors and staff.

Compliance with relevant laws and regulations

The Group is not aware of any material non-compliance with the Anti-Unfair Competition Law of the PRC and other applicable laws and regulations that has a significant impact on the issuer relating to bribery, extortion, fraud and money laundering in Year 2022.

There was no legal case concerning corruption brought against the Group or its employees in Year 2022.

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. The Group's focus area of contribution is on helping the needy by hiring the low-income community employees.

Contributing to society and working together to build a better environment are integral components of corporate social responsibility. Recognising this, the Group has participated in an event of fund donation with total amount of approximately RMB135,000 to local government labour authorities in Year 2022. The Group believes that such activities are not only beneficial to the health of staff, but are also conducive to bond building outside of the workplace, improving cross-departmental communications, and promoting camaraderie, leading ultimately to a more harmonious and productive working environment.

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 (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 90 to 140, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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

Inventories

Refer to Note 18 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\$104,106,000 as at 31 December 2022 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

Trade receivables

Refer to Note 19 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\$69,757,000 as at 31 December 2022 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

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.

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

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

Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirement 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:

<https://www.hkicpa.org.hk/en/Standards-setting/Standards/Our-views/auditre>

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Yeung Hong Chun

Audit Engagement Director

Practising Certificate Number P07374

Hong Kong, 14 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

| | Notes | 2022 HK\$'000 | 2021 HK\$'000 |
|---|-------|----------------------|------------------|
| Revenue | 7 | 394,867 | 267,268 |
| Cost of sales | | <u>(337,125)</u> | <u>(225,026)</u> |
| Gross profit | | 57,742 | 42,242 |
| Interest revenue | | 87 | 8 |
| Other income | 8 | 1,975 | 1,012 |
| Other gains/(losses) | 9 | 3,327 | (28) |
| Selling and distribution expenses | | (9,153) | (8,023) |
| Administrative expenses | | <u>(30,059)</u> | <u>(20,275)</u> |
| Profit from operations | | 23,919 | 14,936 |
| Finance costs | 10 | <u>(2,910)</u> | <u>(1,940)</u> |
| Profit before tax | | 21,009 | 12,996 |
| Income tax expense | 11 | <u>(4,211)</u> | <u>(776)</u> |
| Profit for the year | 12 | 16,798 | 12,220 |
| Other comprehensive income after tax: | | | |
| <i>Items that may be reclassified to profit or loss:</i> | | | |
| Exchange differences on translating foreign operations | | <u>(4,544)</u> | <u>1,393</u> |
| Total comprehensive income for the year | | <u>12,254</u> | <u>13,613</u> |
| Profit for the year attributable to: | | | |
| Owners of the Company | | 16,805 | 12,233 |
| Non-controlling interests | | <u>(7)</u> | <u>(13)</u> |
| | | <u>16,798</u> | <u>12,220</u> |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | 12,261 | 13,626 |
| Non-controlling interests | | <u>(7)</u> | <u>(13)</u> |
| | | <u>12,254</u> | <u>13,613</u> |
| Earnings per share | | | |
| Basic and diluted (HK cents) | 15 | <u>8.40</u> | <u>6.12</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

| | Notes | As at 31 December 2022 HK\$'000 | As at 31 December 2021 HK\$'000 |
|--|-------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | 16 | 13,041 | 12,487 |
| Right-of-use assets | 17 | 1,984 | 4,036 |
| | | 15,025 | 16,523 |
| Current assets | | | |
| Inventories | 18 | 104,106 | 81,534 |
| Trade and other receivables and prepayments | 19 | 86,123 | 63,145 |
| Investments at fair value through profit or loss | 20 | 1,800 | – |
| Pledged bank deposits | 21 | 11,835 | 11,764 |
| Bank and cash balances | 21 | 19,333 | 4,704 |
| | | 223,197 | 161,147 |
| Current liabilities | | | |
| Trade and other payables and accruals | 22 | 87,080 | 53,867 |
| Contract liabilities | 23 | 11,377 | 1,706 |
| Bank loans and overdrafts | 24 | 52,534 | 42,869 |
| Amount due to a related party | 25 | 972 | 4,781 |
| Lease liabilities | 26 | 2,076 | 2,168 |
| Current tax liabilities | | 2,378 | 776 |
| | | 156,417 | 106,167 |
| Net current assets | | 66,780 | 54,980 |
| Total assets less current liabilities | | 81,805 | 71,503 |
| Non-current liabilities | | | |
| Lease liabilities | 26 | – | 1,952 |
| NET ASSETS | | 81,805 | 69,551 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

| | | As at 31 December 2022 HK\$'000 | As at 31 December 2021 HK\$'000 |
|--|--------------|--|--|
| | <i>Notes</i> | | |
| Capital and reserves | | | |
| Share capital | 27 | 2,000 | 2,000 |
| Reserves | 29 | 79,819 | 67,558 |
| Equity attributable to owners of the Company | | 81,819 | 69,558 |
| Non-controlling interests | | (14) | (7) |
| TOTAL EQUITY | | 81,805 | 69,551 |

The consolidated financial statements on pages 90 to 140 were approved and authorised for issue by the Board of Directors on 14 March 2023 and are signed on its behalf by:

Chung Chi Hang, Larry
Director

Chung Tin Shing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

| | Attributable to owners of the Company | | | | | Total | Non-controlling interests | Total equity |
|---|---------------------------------------|---------------|-----------------|------------------|---------------------|---------------|---------------------------|---------------|
| | Share capital | Share premium | Special reserve | Retained profits | Translation reserve | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | | | |
| At 1 January 2021 | 2,000 | 24,973 | 3,000 | 22,838 | 3,121 | 55,932 | 6 | 55,938 |
| Profit/(loss) and total comprehensive income/(expense) for the year | - | - | - | 12,233 | 1,393 | 13,626 | (13) | 13,613 |
| At 31 December 2021 | <u>2,000</u> | <u>24,973</u> | <u>3,000</u> | <u>35,071</u> | <u>4,514</u> | <u>69,558</u> | <u>(7)</u> | <u>69,551</u> |
| At 1 January 2022 | 2,000 | 24,973 | 3,000 | 35,071 | 4,514 | 69,558 | (7) | 69,551 |
| Profit/(loss) and total comprehensive income/(expense) for the year | - | - | - | 16,805 | (4,544) | 12,261 | (7) | 12,254 |
| At 31 December 2022 | <u>2,000</u> | <u>24,973</u> | <u>3,000</u> | <u>51,876</u> | <u>(30)</u> | <u>81,819</u> | <u>(14)</u> | <u>81,805</u> |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Cash flows from operating activities | | |
| Profit before tax | 21,009 | 12,996 |
| Adjustments for: | | |
| Depreciation | 4,839 | 4,049 |
| Interest income | (87) | (8) |
| Finance costs | 2,910 | 1,940 |
| (Gain)/Loss on disposal of property, plant and equipment | (47) | 29 |
| Fair value gain on investments at fair value through profit or loss | (1,904) | – |
| Loss allowance provision for trade receivables | 49 | 116 |
| Operating profit before working capital changes | 26,769 | 19,122 |
| Change in inventories | (22,572) | (15,487) |
| Change in trade and other receivables and prepayments | (23,027) | (25,726) |
| Change in trade and other payables and accruals | 33,213 | 15,122 |
| Change in contract liabilities | 9,671 | 510 |
| Change in amount due to a related party | (3,809) | 1,312 |
| Income tax paid | (2,609) | – |
| Net cash generated from/(used in) operating activities | 17,636 | (5,147) |
| Cash flows from investing activities | | |
| Interest received | 87 | 8 |
| Acquisition of property, plant and equipment | (4,413) | (4,004) |
| Proceeds from disposal of property, plant and equipment | 183 | 432 |
| Placement of pledged bank deposits | (71) | (4,498) |
| Purchases of investments at fair value through profit or loss | (66,053) | – |
| Proceeds from settlements of investments at fair value through profit or loss | 66,157 | – |
| Net cash used in investing activities | (4,110) | (8,062) |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Cash flows from financing activities | | |
| New borrowings raised | 209,749 | 187,670 |
| Repayment of bank borrowings | (200,084) | (173,208) |
| Repayment of lease liabilities | (2,044) | (1,949) |
| Lease interests paid | (158) | (224) |
| Interest paid | (2,752) | (1,716) |
| | <hr/> | <hr/> |
| Net cash generated from financing activities | 4,711 | 10,573 |
| | <hr/> | <hr/> |
| Net increase/(decrease) in cash and cash equivalents | 18,237 | (2,636) |
| Effect of foreign exchange rate changes | (3,608) | 383 |
| Cash and cash equivalents at beginning of year | 4,704 | 6,957 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of year | 19,333 | 4,704 |
| | <hr/> | <hr/> |
| Analysis of cash and cash equivalents | | |
| Bank and cash balances | 19,333 | 4,704 |
| | <hr/> | <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 sale of transformers, switching mode power supplies, electronic parts and components and electric healthcare products. Details of the principal activities of its subsidiaries are set out in note 34 to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2022, 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 2022. 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.

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 HKFRS 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 2022

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 and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments which carried at their fair values.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key estimates. It also requires the directors of the Company to exercise its judgments 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 2022

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.

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 2022

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.

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 useful lives 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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

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.

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal useful lives are as follows:

| | |
|-----------|---|
| Buildings | Over the lease term of 2 years to 3 years |
|-----------|---|

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US\$5,000.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's health products development is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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 under the following categories:

- Financial assets at amortised cost; and
- Investments at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial assets – continued

(a) *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.

(b) *Investments at fair value through profit or loss*

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognized in profit or loss. The fair value with any gains or losses recognized in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 consolidated 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 2022

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Trade and other payables

Trade and other payables are initially recognised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Other revenue

Interest income is recognised using the effective interest method.

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 People’s Republic of China (“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 2022

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 2022

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.

Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Segment reporting – continued

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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 2022

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 investments, 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 2022

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 judgments 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 2022

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price 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\$, 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 | |
|------|------------------|------------------|------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 | 2022 HK\$'000 | 2021 HK\$'000 |
| HK\$ | 161 | 264 | 10,463 | 6,577 |

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 2022

5. FINANCIAL RISK MANAGEMENT – continued

(b) Price risk

The Group's investments at fair value through profit or loss are measured at fair value at the end of each of reporting period. Therefore, the Group is exposed to equity security price risk. The directors of the Company manage this exposure by maintaining a portfolio of investments with different risk profiles.

At 31 December 2022, if the fair value of investments at fair value through profit or loss increase/decrease by 5%, profit or loss for the year would have been HKD90,000 (2021: nil) higher/lower.

(c) Credit risk

The carrying amount of the pledged bank deposits, bank and cash balances, trade and other receivables and investments 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 credit risk on investments is limited because the counterparty is a well-established securities broker firm in the PRC.

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2022 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 2022

5. FINANCIAL RISK MANAGEMENT – continued

(c) 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; and
- 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.

The Group uses two categories for non-trade loan receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

| Category | Definition | Loss provision |
|-----------------|--|--------------------------|
| Performing | Low risk of default and strong capacity to pay | 12 month expected losses |
| Non-performing | Significant increase in credit risk | Lifetime expected losses |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. FINANCIAL RISK MANAGEMENT – continued

(d) 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.

The maturity analysis, based on undiscounted cash flows, of the Group's financial liabilities is as follows:

| | Less than 1 year | Between 1 and 2 years | Total |
|---------------------------------------|-----------------------------|----------------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 31 December 2022 | | | |
| Trade and other payables and accruals | 86,898 | – | 86,898 |
| Bank loans and overdrafts | 55,137 | – | 55,137 |
| Amount due to a related party | 972 | – | 972 |
| Lease liabilities | 2,095 | – | 2,095 |
| | <u>145,102</u> | <u>–</u> | <u>145,102</u> |
| At 31 December 2021 | | | |
| Trade and other payables and accruals | 53,540 | – | 53,540 |
| Bank loans and overdrafts | 44,245 | – | 44,245 |
| Amount due to a related party | 4,781 | – | 4,781 |
| Lease liabilities | 2,203 | 1,983 | 4,186 |
| | <u>104,769</u> | <u>1,983</u> | <u>106,752</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. FINANCIAL RISK MANAGEMENT – continued

(e) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to the pledged bank deposits, bank balances and bank loans and overdrafts. 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 loans and overdrafts.

At 31 December 2022, if interest rates at that date had been 10 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been approximately HK\$53,000 (2021: HK\$138,000) higher, arising mainly as a result of lower interest expense on bank loans and overdrafts. If interest rates had been 10 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been HK\$53,000 (2021: HK\$138,000) lower, arising mainly as a result of higher interest expense on bank loans and overdrafts.

(f) Categories of financial instruments

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Financial assets: | | |
| Investments at fair value through profit or loss | | |
| – Mandatorily measured | 1,800 | – |
| Financial assets at amortised cost (including cash and cash equivalents) | <u>104,144</u> | <u>72,210</u> |
| Financial liabilities: | | |
| Financial liabilities at amortised cost | <u>140,404</u> | <u>101,190</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December:

| | Fair value measurements using: 2022 Level 1 HK\$'000 |
|--|---|
| Description | |
| Recurring fair value measurements: | |
| Investments at fair value through profit or loss | |
| – Copper option contract – put option | <u>1,800</u> |
| Total recurring fair value measurements | <u>1,800</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

7. REVENUE AND SEGMENT INFORMATION

The Group's operation is derived from the manufacture and sale of transformers, switching mode power supply, electronic parts and components and electric healthcare products 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 Group's revenue from its major products is as follows:

| | 2022 HK\$'000 | 2021 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Sales of transformers | 219,390 | 133,907 |
| Sales of switching mode power supply | 2,645 | 3,919 |
| Sales of electronic parts and components | 171,260 | 128,763 |
| Sales of electric healthcare products | 1,572 | 679 |
| Revenue from contracts with customers | 394,867 | 267,268 |

Disaggregation of revenue from contracts with customers:

Geographical information

The Group's operation is located in the PRC. 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 2022

7. REVENUE AND SEGMENT INFORMATION – continued

Geographical information – continued

| | Revenue from external customers | | Non-current assets | |
|---------------|------------------------------------|------------------|--------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 | 2022 HK\$'000 | 2021 HK\$'000 |
| Hong Kong | 28,691 | 28,101 | 560 | 1,071 |
| PRC | 48,939 | 53,725 | 14,465 | 15,452 |
| Europe | 148,225 | 94,503 | – | – |
| United States | 31,373 | 37,768 | – | – |
| India | 124,512 | 46,413 | – | – |
| Others | 13,127 | 6,758 | – | – |
| | 394,867 | 267,268 | 15,025 | 16,523 |

All timing of revenue recognition is at a point of time for the years ended 31 December 2022 and 2021.

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

| | 2022 HK\$'000 | 2021 HK\$'000 |
|---|------------------|------------------|
| Customer A (sales of transformers) | 41,584 | 13,579* |
| Customer B (sales of electronic parts and other products) | 124,512 | 51,112 |
| Customer C (sales of transformers) | 106,115 | 46,297 |
| Customer D (sales of transformers) | 14,947* | 43,807 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

7. REVENUE AND SEGMENT INFORMATION – continued

Sales of transformers, switching mode power supply, electronic parts and components and electric healthcare products

The Group manufactures and sells transformers, switching mode power supply, electronic parts and components and electric healthcare products. 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.

8. OTHER INCOME

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|--------------------------|-------------------------|-------------------------|
| Sales of scrap materials | 1,157 | 552 |
| Government incentive | 504 | 460 |
| Others | 314 | – |
| | 1,975 | 1,012 |

9. OTHER GAINS/(LOSSES)

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Fair value gain on investments at fair value through profit or loss | 1,904 | – |
| Net exchange gain/(loss) | 1,423 | (28) |
| | 3,327 | (28) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

10. FINANCE COSTS

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|----------------------------------|-------------------------|-------------------------|
| Leases interests | 158 | 224 |
| Interest on loans and overdrafts | <u>2,752</u> | <u>1,716</u> |
| | <u>2,910</u> | <u>1,940</u> |

11. INCOME TAX EXPENSE

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Current tax – Hong Kong Profits Tax | | |
| Provision for the year | 1,429 | 400 |
| Current tax – PRC enterprise income tax | | |
| Provision for the year | <u>2,782</u> | <u>376</u> |
| | <u>4,211</u> | <u>776</u> |

Hong Kong Profits Tax has been provided at the rate of 8.25% on assessable profits up to HK\$2,000,000 and 16.5% on any part of assessable profits over HK\$2,000,000 for the years end 31 December 2022 and 2021.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%, for the years ended 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

11. INCOME TAX EXPENSE – continued

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

| | 2022 HK\$'000 | 2021 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Profit before tax | 21,009 | 12,996 |
| Tax at Hong Kong Profits tax rate | 3,466 | 2,144 |
| Tax effect of income not taxable and expenses not deductible | (319) | (264) |
| Effect of different tax rates of subsidiaries | 787 | 113 |
| Tax effect of temporary differences not recognised | 72 | 70 |
| Tax effect of utilisation of tax losses not previously recognised | – | (1,535) |
| Tax effect of tax loss not recognised | 205 | 248 |
| Income tax expense | 4,211 | 776 |

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 2022, the Group has no unused tax losses (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

12. PROFIT FOR THE YEAR

The Group's profit for the year has been arrived at after (crediting)/charging the following:

| | 2022 | 2021 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Auditor's remuneration | 443 | 440 |
| Cost of inventories sold (including depreciation and direct labor costs) | 336,371 | 224,823 |
| Depreciation of property, plant and equipment | 2,787 | 2,025 |
| Depreciation of right-of-use assets | 2,052 | 2,024 |
| (Gain)/loss on disposals of property, plant and equipment | (47) | 29 |
| Loss allowance provision for trade receivables | 49 | 116 |
| Research and development expenses | 11,744 | 3,099 |
| Directors' remuneration (Note 13) | 1,603 | 1,411 |
| Staff costs (not including directors' emoluments) | | |
| Salaries, bonus and allowances | 41,908 | 37,903 |
| Retirement benefits scheme contributions | 4,136 | 3,740 |
| Total staff costs (including directors' emoluments) | 47,647 | 43,054 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. 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> |
|--|-------------------------|---|---|--------------------------|
| For the year ended | | | | |
| 31 December 2022 | | | | |
| Executive directors | | | | |
| Mr. Chung Chi Hang, Larry | - | 222 | 11 | 233 |
| Mr. Chung Tin Shing | - | 680 | 18 | 698 |
| Mr. Wong Shek Fai, Johnson | - | 510 | 18 | 528 |
| | - | 1,412 | 47 | 1,459 |
| Independent non-executive directors | | | | |
| Mr. Cheung Yee Tak, Jonathan | 48 | - | - | 48 |
| Mr. Li Chung Pong, Stephen | 48 | - | - | 48 |
| Mr. Lam Chon Loi | 48 | - | - | 48 |
| | 144 | - | - | 144 |
| | 144 | 1,412 | 47 | 1,603 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. 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 2021 | | | | |
| Executive directors | | | | |
| Mr. Chung Chi Hang, Larry | – | 222 | 11 | 233 |
| Mr. Chung Tin Shing | – | 520 | 18 | 538 |
| Mr. Wong Shek Fai, Johnson | – | 478 | 18 | 496 |
| | – | 1,220 | 47 | 1,267 |
| Independent non-executive directors | | | | |
| Mr. Cheung Yee Tak, Jonathan | 48 | – | – | 48 |
| Mr. Li Chung Pong, Stephen | 48 | – | – | 48 |
| Mr. Lam Chon Loi | 48 | – | – | 48 |
| | 144 | – | – | 144 |
| | 144 | 1,220 | 47 | 1,411 |

Notes:

- (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 2022

13. 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 (2021: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2021: two) individuals are set out below:

| | 2022 HK\$'000 | 2021 <i>HK\$'000</i> |
|-----------------------------------|--------------------------------|-------------------------|
| Basic salaries and allowances | 906 | 850 |
| Retirement benefits contributions | 34 | 34 |
| | 940 | 884 |

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.

14. DIVIDENDS

The directors of the Company did not recommend the payment of any dividend for the years ended 31 December 2022 and 2021.

15. EARNINGS PER SHARE

| | 2022 HK\$'000 | 2021 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Earnings: | | |
| Profit for the year attributable to owners of the Company for the purpose of calculating basic earnings per share | 16,805 | 12,233 |
| | '000 | '000 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 200,000 | 200,000 |

No diluted earnings 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 2022

16. 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> |
|---|--|---|--|--------------------------------------|--------------------------|
| COST | | | | | |
| At 1 January 2021 | 2,084 | 19,922 | 1,659 | 3,322 | 26,987 |
| Additions | 539 | 3,438 | 27 | – | 4,004 |
| Disposals | – | (472) | (8) | – | (480) |
| Exchange differences | 63 | 519 | 34 | 254 | 870 |
| At 31 December 2021 and 1 January 2022 | 2,686 | 23,407 | 1,712 | 3,576 | 31,381 |
| Additions | 529 | 3,867 | 17 | – | 4,413 |
| Disposals | – | (589) | – | (904) | (1,493) |
| Exchange differences | (190) | (1,383) | (194) | (552) | (2,319) |
| At 31 December 2022 | 3,025 | 25,302 | 1,535 | 2,120 | 31,982 |
| ACCUMULATED DEPRECIATION | | | | | |
| At 1 January 2021 | 1,222 | 11,066 | 1,197 | 2,767 | 16,252 |
| Charge for the year | 566 | 1,244 | 44 | 171 | 2,025 |
| Eliminated on disposals | – | (5) | (7) | (7) | (19) |
| Exchange differences | 69 | 317 | 33 | 217 | 636 |
| At 31 December 2021 and 1 January 2022 | 1,857 | 12,622 | 1,267 | 3,148 | 18,894 |
| Charge for the year | 800 | 1,852 | 72 | 63 | 2,787 |
| Eliminated on disposals | – | (498) | – | (859) | (1,357) |
| Exchange differences | (152) | (897) | (26) | (308) | (1,383) |
| At 31 December 2022 | 2,505 | 13,079 | 1,313 | 2,044 | 18,941 |
| CARRYING AMOUNTS | | | | | |
| At 31 December 2022 | 520 | 12,223 | 222 | 76 | 13,041 |
| At 31 December 2021 | 829 | 10,785 | 445 | 428 | 12,487 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

17. RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| At 31 December: | | |
| Right-of-use assets | | |
| – Buildings | 1,984 | 4,036 |
| The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows: | | |
| – Less than 1 year | 2,095 | 2,203 |
| – Between 1 and 2 years | – | 1,983 |
| | 2,095 | 4,186 |
| Year ended 31 December: | | |
| Depreciation charge of right-of-use assets | | |
| – Buildings | 2,052 | 2,024 |
| Lease interests | 158 | 224 |
| Total cash outflow for leases | 2,202 | 2,173 |
| Additions to right-of-use assets | – | 5,746 |

The Group leases various buildings. Lease agreements are typically made for fixed periods of 2 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

18. INVENTORIES

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|------------------|-------------------------|-------------------------|
| Raw materials | 37,381 | 19,838 |
| Work in progress | 56,314 | 57,010 |
| Finished goods | 10,411 | 4,686 |
| | 104,106 | 81,534 |

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Trade receivables | 74,290 | 58,802 |
| Less: allowance for doubtful receivables | (4,533) | (4,484) |
| | 69,757 | 54,318 |
| Deposits | 1,343 | 378 |
| Prepayments | 8,048 | 5,327 |
| Other tax recoverable | 3,756 | 1,698 |
| Other receivables | 3,219 | 1,424 |
| | 86,123 | 63,145 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS – continued

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 24). The carrying amount of the trade receivables at 31 December 2022 that have been transferred but have not been derecognised amounted to HK\$3,006,000 (31 December 2021: HK\$5,076,000) and the carrying amount of the associated liability is HK\$1,938,000 (31 December 2021: HK\$3,885,000).

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:

| | 2022 HK\$'000 | 2021 <i>HK\$'000</i> |
|-----------------|--------------------------------|-------------------------|
| 0 to 90 days | 68,902 | 53,202 |
| 91 to 180 days | 163 | 62 |
| 181 to 365 days | – | 311 |
| Over 1 year | 692 | 743 |
| | 69,757 | 54,318 |

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\$7,104,000 as at 31 December 2022 (31 December 2021: HK\$5,943,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS – continued

Reconciliation of allowance for trade receivables

| | 2022 HK\$'000 | 2021 HK\$'000 |
|---------------------------------------|------------------|------------------|
| At the beginning of the year | 4,484 | 4,368 |
| Loss allowance provision for the year | 49 | 116 |
| At the end of the year | 4,533 | 4,484 |

Allowances for doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. Included in the allowance for doubtful debts are individually impaired trade debtors with an aggregate balance of HK\$4,533,000 as at 31 December 2022 (31 December 2021: HK\$4,484,000) which have been in severe financial difficulties.

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.

| | 1-30 days past due | 31-60 days past due | 61-120 days past due | 121 days- 1 year past due | Over 1 year past due | Total |
|-------------------------------------|--------------------------|---------------------------|----------------------------|---------------------------------|----------------------------|--------|
| At 31 December 2022 | | | | | | |
| Weighted average expected loss rate | 0% | 1% | 4% | 5% | 0% | 87% |
| Receivable amount (HK'000) | 62,675 | 6,249 | 71 | 93 | – | 74,290 |
| Loss allowance (HK'000) | – | 15 | 3 | 5 | – | 4,533 |
| At 31 December 2021 | | | | | | |
| Weighted average expected loss rate | 0% | 1% | 4% | 2% | 1% | 86% |
| Receivable amount (HK'000) | 48,398 | 4,825 | 26 | 41 | 311 | 58,802 |
| Loss allowance (HK'000) | – | 19 | 1 | 1 | 2 | 4,484 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

20. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Included in current assets | | |
| – Copper option contract – put option | 1,800 | – |

21. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. At 31 December 2022, the pledged bank deposits carry prevailing market interest rate from 0.15% to 4.2% (2021: 0.12% to 6.5%) per annum. At 31 December 2022, bank balances of the Group carry interest at market rates from 0.11% to 0.63% (2021: 0.15% to 0.25%) per annum.

As at 31 December 2022, the bank and cash balances of the Group denominated in RMB amounted to approximately HK\$12,763,000 (2021: HK\$946,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

22. TRADE AND OTHER PAYABLES AND ACCRUALS

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|--------------------|-------------------------|-------------------------|
| Trade payables | 79,021 | 48,917 |
| Accrued expenses | 7,877 | 4,623 |
| Other tax payables | 182 | 327 |
| | 87,080 | 53,867 |

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

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|-----------------|-------------------------|-------------------------|
| 0 to 90 days | 77,681 | 47,625 |
| 91 to 180 days | 792 | 650 |
| 181 to 365 days | 130 | 219 |
| Over 1 year | 418 | 423 |
| | 79,021 | 48,917 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23. CONTRACT LIABILITIES

Disclosures of revenue-related items:

| | As at 31 December | | As at 1 January |
|----------------------|-------------------|----------|-----------------|
| | 2022 | 2021 | 2021 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Contract liabilities | 11,377 | 1,706 | 1,196 |

| | As at 31 December | | As at 1 January |
|---|-------------------|----------|-----------------|
| | 2022 | 2021 | 2021 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Contract receivables (included in trade receivables) | 69,757 | 54,318 | 33,232 |

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

| | 2022 | 2021 |
|-------|---------------|----------|
| | HK\$'000 | HK\$'000 |
| -2022 | N/A | 1,706 |
| -2023 | 11,377 | - |
| | 11,377 | 1,706 |
| | 2022 | 2021 |
| | HK\$'000 | HK\$'000 |

| | | |
|--|--------------|-------|
| Revenue recognised in the year that was included in contract liabilities at beginning of year | 1,706 | 1,196 |
|--|--------------|-------|

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23. CONTRACT LIABILITIES – continued

Significant changes in contract liabilities during the year

| | 2022 HK\$'000 | 2021 HK\$'000 |
|---|------------------|------------------|
| Increase due to operations in the year | 11,377 | 1,706 |
| Transfer of contract liabilities to revenue | 1,706 | 1,196 |

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.

24. BANK LOANS AND OVERDRAFTS

| | 2022 HK\$'000 | 2021 HK\$'000 |
|---|------------------|------------------|
| Bank loans | 32,182 | 21,143 |
| Trust receipt loans | 17,804 | 15,749 |
| Factoring loans (<i>note 19</i>) | 1,938 | 3,885 |
| Bank overdrafts | 610 | 2,092 |
| Total bank loans and overdrafts | 52,534 | 42,869 |
| Bank loans, trust receipt loans, factoring loans and bank overdrafts which are secured by assets held by the Group (<i>note 30</i>) | 22,997 | 23,726 |
| Bank loans which are secured by assets held by a related party (<i>note 33</i>) | 28,249 | 12,240 |
| Unsecured bank loans | 1,288 | 6,903 |
| | 52,534 | 42,869 |
| The bank loans and overdrafts are guaranteed by the Company, directors and a related party (<i>note 33</i>) | | |
| The borrowings are repayable as follows: | | |
| On demand or within one year | 52,534 | 42,869 |
| | 52,534 | 42,869 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | (52,534) | (42,869) |
| Amount due for settlement after 12 months | – | – |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

24. BANK LOANS AND OVERDRAFTS – continued

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

| | 2022 HK\$'000 | 2021 HK\$'000 |
|------|--------------------------------|-------------------------|
| HK\$ | <u>–</u> | <u>12,490</u> |

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans and overdrafts as at 31 December 2022 and 2021, respectively, are as follows:

| | 2022 | 2021 |
|---------------------------------------|------------------------------|-----------------------|
| Effective interest rates (per annum): | | |
| Variable interest rates | <u>2.50% to 7.41%</u> | <u>2.30% to 4.12%</u> |

25. AMOUNT DUE TO A RELATED PARTY

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

26. LEASE LIABILITIES

| | Lease payments | | Present value of lease payments | |
|--|--------------------------------|-------------------------|--|-------------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 | 2022 HK\$'000 | 2021 HK\$'000 |
| Within one year | 2,095 | 2,203 | 2,076 | 2,168 |
| In the second to fifth years, inclusive | <u>–</u> | <u>1,983</u> | <u>–</u> | <u>1,952</u> |
| | 2,095 | 4,186 | | |
| Less: Future finance charges | <u>(19)</u> | <u>(66)</u> | | |
| Present value of lease liabilities | <u>2,076</u> | <u>4,120</u> | 2,076 | 4,120 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | <u>(2,076)</u> | <u>(2,168)</u> |
| Amount due for settlement after 12 months | | | <u>–</u> | <u>1,952</u> |

At 31 December 2022, the average effective borrowing rate was 5.0% (2021: 5.0%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

27. SHARE CAPITAL

| | Number of shares | Share capital HK\$ |
|---|----------------------|--------------------------|
| Authorised: | | |
| Ordinary shares of HK\$0.01 (2021: HK\$0.01) each | | |
| At 1 January 2021, 31 December 2021 | | |
| 1 January 2022 and 31 December 2022 | <u>1,000,000,000</u> | <u>10,000,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.01 (2021: HK\$0.01) each | | |
| At 1 January 2021, 31 December 2021 | | |
| 1 January 2022 and 31 December 2022 | <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 24 and 25, and equity of the Group, comprising issued share capital and reserves.

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

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2022, 30% (2021: 30%) of the shares were in public hands.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|-----------------------------------|-------------------------|-------------------------|
| Non-current assets | | |
| Investment in subsidiaries | <u>1</u> | <u>1</u> |
| Current assets | | |
| Other receivables and prepayments | 127 | 100 |
| Amounts due from subsidiaries | 5,741 | 6,959 |
| Bank and cash balances | <u>22</u> | <u>24</u> |
| | <u>5,890</u> | <u>7,083</u> |
| Current liabilities | | |
| Other payables | <u>787</u> | <u>736</u> |
| | <u>787</u> | <u>736</u> |
| Net current assets | <u>5,103</u> | <u>6,347</u> |
| NET ASSETS | <u>5,104</u> | <u>6,348</u> |
| Capital and reserves | | |
| Share capital | 2,000 | 2,000 |
| Reserves | <u>3,104</u> | <u>4,348</u> |
| TOTAL EQUITY | <u>5,104</u> | <u>6,348</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. 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 2021 | 24,973 | (19,262) | 5,711 |
| Loss and total comprehensive expense for the year | – | (1,363) | (1,363) |
| At 31 December 2021 and 1 January 2022 | 24,973 | (20,625) | 4,348 |
| Loss and total comprehensive expense for the year | – | (1,244) | (1,244) |
| At 31 December 2022 | 24,973 | (21,869) | 3,104 |

30. 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:

| | 2022 <i>HK\$'000</i> | 2021 <i>HK\$'000</i> |
|-----------------------|-------------------------|-------------------------|
| Pledged bank deposits | 11,835 | 11,764 |
| Trade receivables | 3,006 | 5,076 |
| | 14,841 | 16,840 |

31. CAPITAL COMMITMENTS

The Group did not have any capital commitments as at 31 December 2022 and 2021.

32. CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

33. RELATED-PARTY TRANSACTIONS

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

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--|------------------|------------------|
|--|------------------|------------------|

Amount due to a related company:

| | | |
|---|------------|--------------|
| T-Lab Electronics & Plastics (He Yuan) Co., Ltd.* | <u>972</u> | <u>4,781</u> |
|---|------------|--------------|

* The beneficial owner of the related company is Mr. Chung Chi Hang, Larry, a director of the Company.

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

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--|------------------|------------------|
|--|------------------|------------------|

Rental paid to a related party

| | | |
|---|--------------|--------------|
| T-Lab Electronics & Plastics (He Yuan) Co., Ltd | <u>1,681</u> | <u>1,821</u> |
|---|--------------|--------------|

- (c) The Group's bank loans has been guaranteed and secured by a related company at the end of the reporting period:

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--|------------------|------------------|
|--|------------------|------------------|

Amount of bank loans guaranteed and secured by a related company:

| | | |
|---|---------------|---------------|
| T-Lab Electronics & Plastics (He Yuan) Co., Ltd | <u>28,249</u> | <u>12,240</u> |
|---|---------------|---------------|

- (d) **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 certain directors of the Company and other key management of the Group. The key management personnel compensations are as follows:

| | 2022 HK\$'000 | 2021 HK\$'000 |
|--|------------------|------------------|
|--|------------------|------------------|

| | | |
|-------------------------------|-------|-------|
| Basic salaries and allowances | 2,482 | 2,227 |
|-------------------------------|-------|-------|

| | | |
|----------------------------------|-----------|-----------|
| Retirement benefit contributions | <u>93</u> | <u>91</u> |
|----------------------------------|-----------|-----------|

| | | |
|--|--------------|--------------|
| | <u>2,575</u> | <u>2,318</u> |
|--|--------------|--------------|

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

34. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2022 and 2021 are set out below:

| Name of subsidiaries | Date and place of incorporation/ establishment/ kind of legal entity | Issued and fully paid-up share capital/ registered capital | Equity interest attributable to the Group | | Principal activities |
|---|--|--|---|------------|--|
| | | | Directly | Indirectly | |
| Keen Ocean Electronics Co., Ltd. (Note b) | 5 December 2014 BVI Limited liabilities company | US\$100 | 100% | – | Investment holding |
| Keen Ocean Industrial Limited (Note b) | 17 May 2000 Hong Kong Limited liabilities company | 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 a, b) | 24 November 2010 The PRC Limited liabilities company | US\$3,500,000 | – | 100% | Manufacture and sale of transformers, switching mode power supply, electronic parts and components, and electric healthcare products |
| T-Lab Industrial (Holdings) Ltd. (Note b) | 18 February 2011 Hong Kong Limited liabilities company | HK\$6 | – | 100% | Inactive |
| KOS Technology Company Limited (Note b) | 17 September 2017 Hong Kong Limited liabilities company | US\$4,000 | – | 55% | Trading of electronic parts and components |

Notes:

- a) He Yuan Sky Wealth is a wholly foreign owned enterprise with limited liability. The English translation name is for identification only.
- b) The place of business for Keen Ocean Electronics Co. Ltd., Keen Ocean Industrial Limited, T-Lab Industrial (Holdings) Ltd. and KOS Technology Company Limited is in Hong Kong and He Yuan Sky Wealth is in the PRC.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

35. 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.

36. 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:

| | Interest payable (included in other payables) HK\$'000 | Lease liabilities HK\$'000 | Bank loans and overdrafts HK\$'000 | Total liabilities from financing activities HK\$'000 |
|---|--|-------------------------------|---------------------------------------|---|
| At 1 January 2021 | – | 323 | 28,407 | 28,730 |
| Changes in cash flows | (1,716) | (2,173) | 14,462 | 10,573 |
| Non-cash changes | | | | |
| – additions | – | 5,746 | – | 5,746 |
| – interest charged | 1,716 | 224 | – | 1,940 |
| At 31 December 2021 and 1 January 2022 | – | 4,120 | 42,869 | 46,989 |
| Changes in cash flows | (2,752) | (2,202) | 9,665 | 4,711 |
| Non-cash changes | | | | |
| – interest charged | 2,752 | 158 | – | 2,910 |
| At 31 December 2022 | – | 2,076 | 52,534 | 54,610 |

37. EVENT AFTER BALANCE SHEET DATE

Subsequent to the end of the reporting period the Group acquired leasehold land and buildings at a total consideration of HK\$21,680,000, details of transaction please refer to the Company's announcement date 24 February 2023.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 14 March 2023.