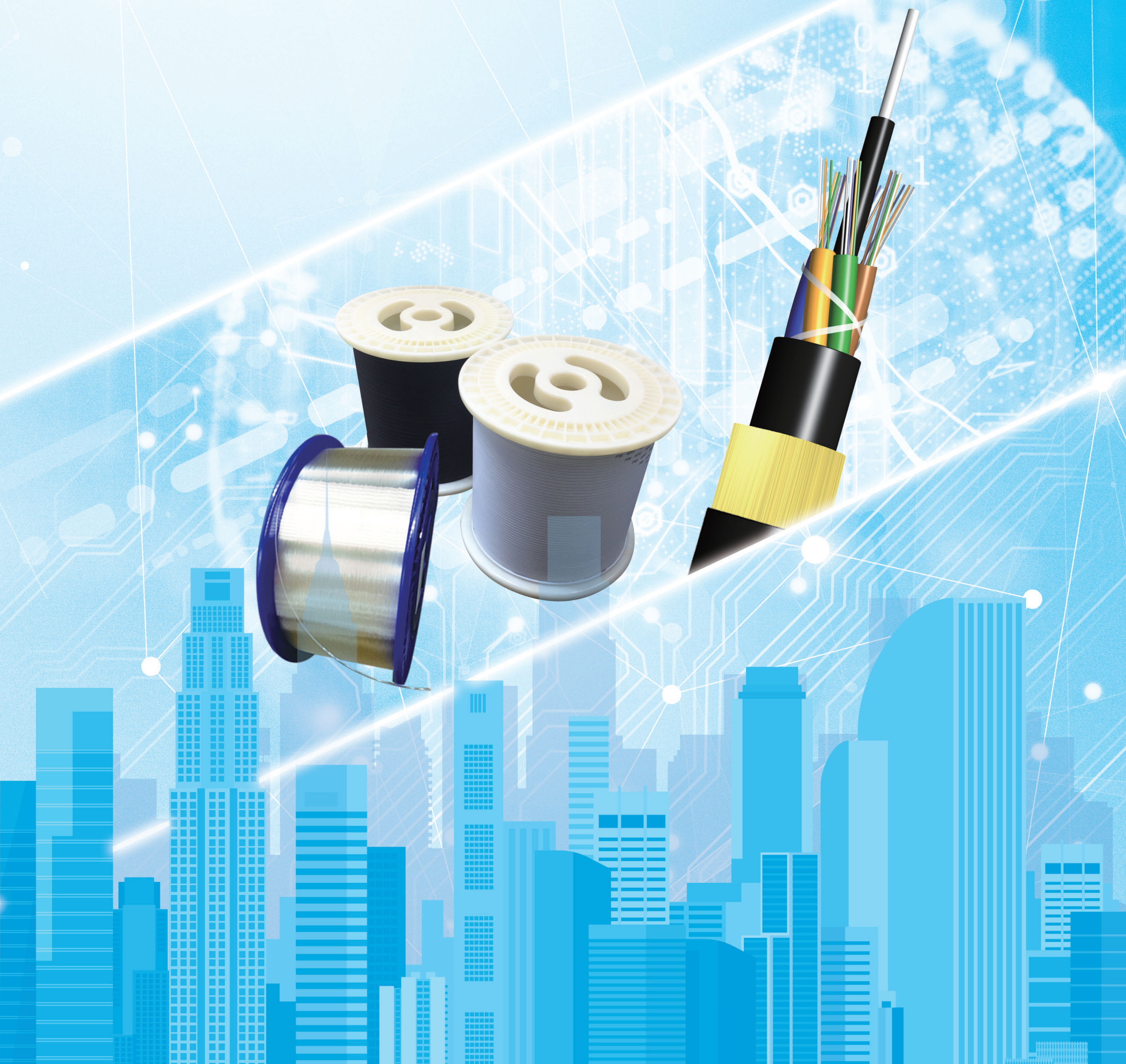
TRANSTECH OPTELECOM SCIENCE HOLDINGS LIMITED
高科橋光導科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8465

2018
ANNUAL REPORT



CHARACTERISTICS OF THE 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Guoqiang *(Chairman)*
Mr. He Xingfu *(Chief Executive Officer)*
Mr. Wei Guoqing (resigned with effect on 1 July 2018)
Mr. Yu Jiangping (appointed with effect on 1 July 2018)
Mr. Xu Muzhong
Mr. Pan Jinhua

Independent Non-executive Directors

Mr. Leong Chew Kuan
Mr. Lau Siu Hang
Mr. Li Wei

BOARD COMMITTEES

Audit Committee

Mr. Leong Chew Kuan *(Chairman)*
Mr. Lau Siu Hang
Mr. Li Wei

Remuneration Committee

Mr. Lau Siu Hang *(Chairman)*
Mr. He Xingfu
Mr. Wei Guoqing (resigned with effect on 1 July 2018)
Mr. Yu Jiangping (appointed with effect on 1 July 2018)
Mr. Leong Chew Kuan
Mr. Li Wei

Nomination Committee

Mr. Hu Guoqiang *(Chairman)*
Mr. Pan Jinhua
Mr. Leong Chew Kuan
Mr. Li Wei
Mr. Lau Siu Hang

AUTHORISED REPRESENTATIVES

Mr. He Xingfu
Mr. Ho Cheuk Wai *(CPA)*

COMPLIANCE OFFICER

Mr. He Xingfu

COMPANY SECRETARY

Mr. Ho Cheuk Wai *(CPA)*

REGISTERED OFFICE

PO Box 1350, Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTERS, HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

No. 3 Dai Kwai Street
Tai Po Industrial Estate
Tai Po
New Territories
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
2103B, 21/F, 148 Electric Road
North Point, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Estera Trust (Cayman) Limited
PO Box 1350, Clifton House, 75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Corporate Information

COMPLIANCE ADVISER
Innovax Capital Limited
Room 2002, 20/F
Chinachem Century Tower
178 Gloucester Road, Wan Chai
Hong Kong

AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway, Hong Kong

LEGAL ADVISER
Deacons
5th Floor, Alexandra House
18 Chater Road
Central, Hong Kong

PRINCIPAL BANKER
Industrial and Commercial Bank of China (Asia) Limited
33/F, ICBC Tower
3 Garden Road
Central
Hong Kong

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Hong Kong

STOCK CODE
8465

COMPANY'S WEBSITE
transtechoptel.com

Chairman's Statement

* *The first annual general meeting after Listing was held on 25 May 2018*

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Transtech Optelecom Science Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I have the pleasure to present to you the annual results of the Group for the year ended 31 December 2018.

REVIEW

In 2018, the macro-economy was under downward pressure brought about by the international commercial conflicts in the world and the economic uncertainties in the global market. The operating environment remained challenging. With its commitment to excellence and enterprising spirit, the Group has continued to promote its business development. Despite the extremely challenging business environment and competition, the Group maintained a flexible and tailored sales and marketing strategy to offer its customers with diversified and tailor-made products, which will in turn help the Group to reinforce its market position. During the year, the Group recorded the revenue and net profit in amount of HK$510.1 million and HK$79.6 million respectively, representing annual decline of approximately 8.3% and 23.8% respectively.

On 23 September 2018, Sir Charles Kuen Kao, passed away at the age of 84 years. Known for his groundbreaking achievements involving the transmission of light in fibres for optical communication, Sir Kao won a joint Nobel Prize in Physics in 2009, the Faraday Medal in 1989, and the Alexander Graham Bell Medal in 1985. The Company expresses its sadness and will not forget his great contribution to the establishment of Transtech.

Chairman's Statement

OUTLOOK

Looking ahead to 2019, the global economic environment likely remains challenging but our Group is prudently positive about the prospects of the optical fibre industry in Mainland China and ASEAN countries due to some favourable policies to be introduced in FY2019. More details are provided in the section "Management Discussion and Analysis". Our Group will continue to increase our marketing effort and enhance our production efficiency in order to maximise the long term returns to our shareholders. Our Group will also explore other potential investment opportunities in order to diversify the Group's business and create new source of revenue to the Group in the long run.

I would like to take this opportunity to express my sincere gratitude to our shareholders, customers, suppliers and business partners for their continuous support, and to our management and staff members for their diligence, dedication and contribution to the growth of our Group.

Hu Guoqiang
Chairman
Hong Kong, 28 March 2019

Management Discussion and Analysis

BUSINESS REVIEW

It is over one and a half year from the Listing date (i.e. July 2017) of the Group to the date of this report. The Company has started to use part of the net proceeds from the Global Offering for the expansion plan of construction of a new factory in Thailand (as disclosed in the "Future Plans and Use of Proceeds" section of the Prospectus) in July 2018.

Business Strategies

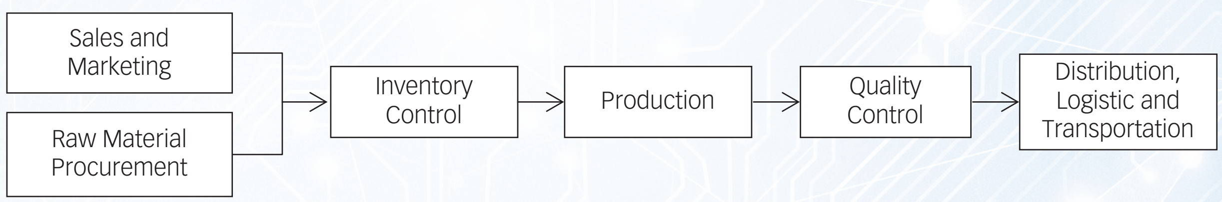
The Group intends to implement a business strategy with the following key aspects:

- implementing the expansion plan of our new production facility in Thailand, including the construction of a factory in Thailand with a view to further integrating the production of optical fibres and optical fibre cables within the Group;
- strengthening the Group's research and development capabilities and expanding the Group's range of products; and
- enhancing the relationship with existing customers and exploring new customers in Hong Kong and the ASEAN.

Business Model

The Group is principally engaged in manufacturing and sales of optical fibre cables with various standard specifications that are widely used in the telecommunications industry. The Group also designs and manufactures specialty optical fibre cables pursuant to requests from our customers, including rodent resistant optical fibre cable, flame-retardant optical fibre cable and non-metallic optical fibre cable. In addition, we manufacture optical fibres for our production of optical fibre cables, as well as for sale to third parties. Furthermore, we sell optical cable cores and other related products, including power cable and other auxiliary products. There are two major operating subsidiaries, namely, Transtech Optical Communication Company Limited ("Transtech") and Futong Group Communication Technology (Thailand) Company Limited ("Futong Thailand"). Transtech is principally engaged in the manufacturing and sales of optical fibres, and its production facilities are located in Hong Kong. Futong Thailand is principally engaged in the manufacturing and sales of optical fibre cables, optical cable cores and other related products, and its production facilities are located in Thailand.

The following flow chart depicts a simplified production flow of the Group:



Management Discussion and Analysis

Performance Analysis

For the year ended 31 December 2018, the Group reported its revenue of approximately HK$510.1 million (the year ended 31 December 2017: approximately HK$556.5 million), representing a decrease of approximately 8.3% as compared to that of the same period in 2017. The gross profit margin of the Group slightly decreased by approximately 0.3% to approximately 25.4% for the year ended 31 December 2018 as compared to a gross profit margin of 25.7% for the year ended 31 December 2017.

During the year ended 31 December 2018, the Group recorded a profit attributable to the owners of the Company of approximately HK$79.6 million (the year ended 31 December 2017: approximately HK$104.4 million). By excluding the effect of non-recurrent listing expenses of approximately HK$9.6 million during the year ended 31 December 2017, the profit attributable to the owners of the Company would decrease by approximately HK$34.4 million, representing a decline of 30.2% based on the adjusted profit for the year ended 31 December 2017.

(i) *Futong Thailand*

Futong Thailand is still the largest optical fibre cable provider in Thailand and the favorable government policies were persistently the main driving factors to the development of the optical fibre cable market in Thailand and other ASEAN markets during the reporting periods. Such policies will provide significant growth potential to our business in the long run.

Being the consequence of the temporary hold up of requests from some customers to extend the delivery date to cope with the postponement of their infrastructure projects, the sales revenue of optical fibre cables in Thailand reduced from HK$162.1 million during the year ended 31 December 2017 to HK$144.3 million during the year 2018. Conversely, there were increase of sales in the other ASEAN countries from HK$41.6 million during the year ended 31 December 2017 to HK$93.7 million during the year 2018 because of the enhanced sales effort.

To cope with the changing market demand, Futong Thailand has changed its sales strategy by increasing the proportion of optical fibre cables and reducing that of optical cable cores in the sales product mix. Consequently, the sales revenue of optical cable cores decreased from HK$159.2 million during the year ended 31 December 2017 to HK$97.1 million during the year 2018. It is expected that the local sales performance of optical fibre cables in Futong Thailand will not be greatly improved in the year of 2019 unless the customers resume their order requisition.

On the other hand, the gross profit margin of Futong Thailand decreased from approximately 14.2 % for the year ended 31 December 2017 to approximately 7.4 % for the year ended 31 December 2018. It is mainly attributable to the aggregate effect of (i) the decrease of the price of optical fibre cables in Thailand; (ii) the change of customers' demand for optical fibre cables with different specification; (iii) the more competitive markets in Thailand, and (iv) the marketing strategy implemented in the markets of the ASEAN countries other than Thailand.

(ii) *Transtech*

For the Group's business segment in Hong Kong, Transtech has reported its revenue and net profit in amount of approximately HK$303.3 million and HK$74.2 million respectively for the year ended 31 December 2018 (for the year ended 31 December 2017: approximately HK$267.0 million and HK$77.8 million respectively), representing increase of approximately 13.6% and decrease of 4.6% respectively. The continuous satisfactory performance is mainly attributable to the increase of quantity of optical fibre to Futong Thailand for the production of optical fibre cables and optical cable cores during the reporting period. While RMB depreciated during the year, Transtech has reported its foreign exchange loss of approximately HK$2.5 million for the year ended 31 December 2018 (for the year ended 31 December 2017: foreign exchange gain of approximately HK$7.6 million).

PROSPECTS

Facing the ongoing challenges of the conflict of international trade dispute and the upward trend of interest rate, the Group will keep close watch to the relevant risks. Therefore, the management of the Group adopts a conservative attitude towards the business environment both in Hong Kong and Thailand because of the unforeseeable impacts to the global economy in the year of 2019. On the other hand, some new policies implemented in Mainland China and ASEAN countries will be favorable to the sales activities in FY 2019.

The government of Mainland China has announced to start the initiation of 5G program and expedite its pace of urbanization in its communication networks in the second half of FY 2019, it is estimated the price of optical fibre in the global markets will also be increased as a result of the increasing demand in Mainland China because she is one of the largest optical fibre consumers in the world. Most ASEAN countries including Thailand are also expected to resume the upgrade project of their communication networks as well as to replace the telephone pole by the underground cable within FY 2019.

In the meantime, the performance of Futong Thailand will not be improved in the year of 2019 if the local customers do not resume their order requisition. Nevertheless, it will persistently ride on its raised profile and maintain its core business of operation and its existing branding strategy to increase market share in the ASEAN market. As a result of the increasing risk of the fluctuation of Renminbi ("RMB"), Transtech is expected to suffer more impact in the accounts receivable settlement in the year of 2019 as compared with the same period in 2018. With the existing client base garnered over the years, there is a superiority to leverage network in Hong Kong and Thailand. The internal optical fibre sales of Transtech to Futong Thailand will also be considered to increase providing that the demand of optical fibre cables and optical cable cores increase in Thailand and the other ASEAN countries.

The Group will continue to explore new sources of customers and will devote itself to quality control, cost reduction, risk management and personnel development in the course of expanding across the countries and regions and maintain its leading position in the industry, yielding better returns and goodwill in the long run. Indeed, Futong Thailand has already obtained the optical fibre cables product certification for telecommunications operators in Singapore and Indonesia and started to participate the tendering process in these two countries.

Principal Risks and Uncertainties

The Directors believe that the major risk factors relevant to the Group have been monitored and kept under control. Major risks and uncertainties are summarised below.

Independence

The Group's parent group (namely, Futong Group Co., Ltd. ("Futong China"), together with its subsidiaries, "Futong China Group" or "Parent Group") has business operations in the PRC and its customers include major PRC telecommunications operators. Leveraging on its extensive knowledge and experience in the industry, the Group has historically leveraged on the support from the Parent Group in a variety of areas, including the sales of optical fibres, technical support as well as the license of the premises for the Group's production facilities in Hong Kong and its use of the "Futong" trademark. After the Listing, the Group is still unable to eliminate its reliance on its Parent Group completely, in terms of leasing of the Hong Kong premises and selling of optical fibre cables under the "Futong" trademark. The Group's business and financial condition may be materially and adversely affected if the Group is unable to operate and develop its business completely independent of the Parent Group. For details relating to the transactions between the Group and the Parent Group, please refer to note 28 to the consolidated financial statements and the paragraph headed "Continuing Connected Transactions" of the Report of Directors section in this report.

During the year ended 31 December 2018, the Group has successfully managed its business independently with respect to the manufacturing production and sales strategy.

Management Discussion and Analysis

Trademark

The Group currently sells its optical fibre cables under the "Futong" trademark which were still licensed to it by the Parent Group after Listing. The Directors believe that "Futong" is a well-established brand name in the industry. The Group or the Parent Group may not be able to protect the "Futong" trademark and may need to defend against infringement claims, which could reduce the value of goodwill associated with the "Futong" trademark, resulting in the loss of competitive advantage and materially harming business and profitability of the Group.

If any third party that uses the "Futong" trademark to carry out similar business or sell similar products, or there are negative news in relation to the "Futong" brand or the Parent Group, the Group's reputation and brand recognition could be harmed, which, in turn, could have an adverse impact on its prospects.

The "Futong" trademark has been accepted by the Group's customers with high reputation throughout the year ended 31 December 2018. The Directors deeply believe the trademark is essential to develop the Group's products in the ASEAN markets.

Competition

The Parent Group supplies optical communication products to its customers. Pursuant to a deed of non-competition dated 13 October 2016 as amended by a supplemental deed dated 23 June 2017 (the "Deed of Non-Competition"), each of the controlling shareholders of the Company (the "Controlling Shareholders") has undertaken to the Company that, with respect to any proposed sales of such optical communication products to customers which are authorised distributors or trading agents or manufacturers, such controlling shareholders shall include a clause in the relevant contract with such customer to the effect that such customer shall not on-sell the relevant products to others in Hong Kong and the ASEAN. While such measures aim to ensure that the customers of the Parent Group will not compete with the Group by on-selling the optical communication products purchased from the Parent Group in Hong Kong and the ASEAN, there can be no assurance that such measures will effectively prevent competition. Any competition from such customers of the Parent Group may materially and adversely affect the Group's business, prospects, financial condition and results of operations. For details relating to the Deed of Non-Competition, please refer to the paragraph headed "Compliance of Non-Competition Undertakings" of the Report of Directors section in this report.

No violation of the Deed of Non-Competition was found during the year ended 31 December 2018.

Environmental Policies and Performance

The Group's production process is carried out with low emissions and low energy consumption, and it aims to minimize the amount of pollutants produced. The Group has been endeavouring to ensure that the production process is in compliance with relevant environmental rules and regulations.

For the year ended 31 December 2018, the Group has not been in material breach of any relevant environmental rules and regulations and has not been imposed any relevant penalty. It is expected that the future operational activities of the Group would not be affected by the current environmental policies in both Hong Kong and Thailand. The Group strives for energy conservation and consumption reduction. In reducing the operating costs, the Group also puts efforts in environmental protection.

Management Discussion and Analysis

Key Relationship with Employees, Customers and Suppliers

The total employee headcount (including Directors) of the Group was 251 as at 31 December 2018 (31 December 2017: 280). The Group adopts effective employee and emolument policies to comply with the local rules and regulations in relation to employment. Details of the policies are set out in the paragraph headed "Employee and Emolument Policies" in the Report of Directors section in this report.

The Group has developed solid and stable business relationship with leading raw material and equipment providers. In October 2008, the Group began cooperation with a supplier who has been providing the Group with its advanced technology and manufacturing equipment. Since then, the two companies maintain a stable and long-term relationship. In addition, since 2009, such supplier has been our Group's major optical fibre preform supplier. As a result, the Group's production cost can be well-managed. The stable supply of good quality optical fibre preforms from such supplier also enables the Group to produce high-quality optical fibres which are more competitive in the market.

The Group mainly sells optical fibre cables to larger well-known telecommunications operators with which the Group established long-term cooperative relationship. As more telecommunications companies are investing in Thailand and other ASEAN countries' telecommunications markets following their continuous growth, optical communication products manufacturers have become more popular in Thailand and other ASEAN markets. In view of the growth trend of the Thai market, the Directors believe that the Group is able to gain larger market share in such market. The Group maintains a leading edge in product technology and continuous expansion of customer channels, which enables the Group to build close and solid relationship with domestic and other ASEAN countries' telecommunication operators. As a result of the long-term relationship, the Group possesses reliable financial and credit status information of the major customers, which the Directors believe can greatly reduce the credit risk of the Group's accounts receivable.

Suppliers of the Group include trading companies and manufacturers of raw materials, optical fibre cables and optical cable cores. The Group has developed solid and steady relationships with many of its key suppliers.

Financial Key Performance Indexes

The production capacity utilization rate shows the capacity restriction of the Group, which in turn affects the ability of the Group to satisfy the demand from its customers and expand its business. Return on assets shows the efficiency of the Group in utilizing its asset to generate revenue. These two ratios are important indicators of the operating efficiency of the Group.

Management Discussion and Analysis

Production Capacity Utilization

For the year ended 31 December 2018, the Group sold approximately 4.9 million fkm of optical fibre and approximately 1.6 million fkm of optical fibre cable and approximately 1.0 million fkm of optical cable cores. The production capacity of optical fibre, optical fibre cable and optical cable cores were approximately 9.6 million fkm in both FY2017 and FY2018.

The utilization rate of optical fibre increased from 96.6% to 97.3% from FY2017 to FY2018, which has slightly increased and that of optical fibre cable and optical cable cores decreased from 60.9% to 51.7% from FY2017 to FY2018 because Futong Thailand has adjusted their production volume based on the sales order.

The above production capacity utilization rates show that Transtech has attained the full capacities for production. To overcome the capacity limitation, the Group has commenced construction of a new optical fibre factory in Thailand in 2018 to expand its production volume to meet the estimated increase of sales volume.

Return on Assets (Revenue/Total Asset)

The Group's revenue amounted to HK$556.5 million in FY2017 and HK$510.1 million in FY2018 while the Group's total assets amounted to HK$712.3 million and HK$718.4 million as of 31 December 2017 and 2018 respectively.

Hence, the Group's return on assets decreased from approximately 78.1% in FY2017 to 71.0% in FY2018. This was mainly because of the sales revenue reduced in FY2018. This ratio is expected to be changed significantly as a result of both the increase of revenue and total assets after the new Thailand factory started production.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and Thailand and the Company itself is listed on the Stock Exchange. The Group's operations accordingly shall comply with the relevant laws and regulations in Hong Kong and Thailand. During the year ended 31 December 2018 and up to the date of this report, to the best of the Directors' knowledge, the Group has complied with all the relevant laws and regulations in Hong Kong and Thailand in all material respects, and there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, total revenue of the Group decreased by about 8.3% to approximately HK$510.1 million as compared with the corresponding period in 2017.

The decrease in total revenue for the year ended 31 December 2018 was mainly due to the net effect of (i) increased sales volume of optical fibre cables as a result of our effort in expanding our optical fibre cables market to ASEAN countries other than Thailand; (ii) the decrease of average selling prices of optical fibre cables in Thailand and optical fibres; (iii) decreased sales volume of optical cable cores primarily due to the shift of proportion of product mix from optical cable cores to optical fibre cables, (iv) increased supply of optical fibres to Futong Thailand for the production of optical fibre cables and optical cable cores, which in turn reduced the sales volume of optical fibres to independent third party customers, and (v) some customers postponed their infrastructure projects in Thailand, resulting in the drop of sales quantity of optical fibre cables in Thailand. Nevertheless, we started to sell optical fibre cables directly to one of largest network service providers in Thailand during the fourth quarter, which partially offset the drop of sales quantity of optical fibre cables in Thailand mentioned above.

Cost of sales and gross profit

The key components of the Group's cost of sales comprised principally the (i) raw materials used for production of optical fibres, optical fibre cables, optical cable cores and other related products, (ii) direct and indirect labour costs, (iii) manufacturing overheads such as depreciation for plant and equipment, rent, consumables, utilities, and other expenses related to the manufacturing our products and (iv) change in inventories of finished goods and work in progress.

For the year ended 31 December 2018, the cost of sales of the Group decreased by about 8.1% to approximately HK$380.3 million as compared with the corresponding period in 2017.

Such decrease for the year ended 31 December 2018 was mainly attributable to the net effect of (i) the increase of sales volume of optical fibre cables in ASEAN countries other than Thailand during the said periods; (ii) decreased sales volume of optical cable cores and optical fibres to independent third party customers; (iii) average unit cost of optical fibre cables decreased mainly due to more sales of products with lower unit raw materials cost to meet customers' demand.

The gross profit of the Group decreased from approximately HK$142.9 million, for the year ended 31 December 2017 to approximately HK$129.8 million for the year ended 31 December 2018. The gross profit margin slightly decreased from approximately 25.7% for the year ended 31 December 2017 to approximately 25.4% for the year ended 31 December 2018.

Other gain and losses

The Group's foreign exchange gain was approximately HK$19.3 million for the year ended 31 December 2017 mainly due to the depreciation of United States Dollar ("US$") against Thai Baht ("THB") and the appreciation of Renminbi ("RMB") against Hong Kong Dollar ("HK$") during the year. While RMB against HK$ started to depreciate during the year ended 31 December 2018, the Group recognised foreign exchange loss of approximately HK$3.9 million during the said period.

Selling and distribution expenses

Selling and distribution expenses comprised mainly staff cost, sales commission expense, transportation expense, export cost and other selling and distribution expenses.

The Group's selling and distribution expenses increased from approximately HK$7.3 million for the year ended 31 December 2017 to approximately HK$8.0 million for the year ended 31 December 2018, representing an increase of approximately 9.6%.

The increase in the selling and distribution expenses for the year ended 31 December 2018 was mainly due to increase in export cost as there was increase in sales of optical fibre cables to ASEAN countries.

Administrative expenses

Administrative expenses primarily consist of (i) staff cost, (ii) office expense, which comprises the expense for office supplies, electricity and water expense, rental expense, security fee and repair and maintenance expense, (iii) depreciation, (iv) operation management fee, (v) transportation expense, which comprises travelling expense and motor vehicle expense, (vi) professional fee, which comprises audit fee and legal and professional expense, and (vii) other expense, which comprises bank charges and miscellaneous expense.

The Group's administrative expenses keep constant of approximately HK$28.3 million for the year ended 31 December 2017 and 31 December 2018.

Finance costs

Finance costs represent the interest expense on bank borrowings. The decrease for the year ended 31 December 2018 was mainly due to the decrease in the bank borrowings outstanding during the said periods as compared with the corresponding periods in 2017.

Listing expenses

The Company started preparation work for the Listing in the third quarter of 2016. Listing expenses was approximately HK$9.6 million for the year ended 31 December 2017 and completely settled in the year ended 31 December 2017.

Profit for the year

Profit attributable to owners of the Company for the year ended 31 December 2018 amounted to approximately HK$79.6 million (year ended 31 December 2017: approximately HK$104.4 million).

The decrease in profit attributable to owners of the Company for the year ended 31 December 2018 was mainly attributable to the net effects of (i) the decrease in gross profit; (ii) the change from foreign exchange gain to foreign exchange loss; (iii) no non-recurring Listing expenses incurred.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of funds are used to finance working capital, and the growth and expansion of the Group's operations and sales network. The Group's principal sources of funds are cash generated from operations and bank borrowings. The Group had cash and cash equivalents of approximately HK$187.0 million as at 31 December 2018 (31 December 2017: approximately HK$279.6 million). As at 31 December 2018, the Group had total bank borrowings of approximately HK$18.0 million (31 December 2017: approximately HK$0.9 million). Details of the bank borrowings are set out in note 21 to the consolidated financial statements.

GEARING RATIO

Gearing ratio is calculated as total borrowings (including payables not incurred in the ordinary course of business of the Group) divided by the total equity as at the respective reporting dates. As at 31 December 2018 and 31 December 2017, the gearing ratio were 2.9% and 0.2%, respectively.

CAPITAL STRUCTURE

As at 31 December 2018, the Company's issued share capital was HK$2,600,000 and the number of its issued ordinary shares was 260,000,000 of HK$0.01 each.

The Company's shares were successfully listed on GEM of the Stock Exchange on 20 July 2017. As a result of the issuance of 194,500,000 and 65,000,000 shares of the Company pursuant to the Capitalisation Issue and Global Offering, respectively, the total number of issued shares of the company increased to 260,000,000 as at the Listing Date. There has been no change in the capital structure of the Group since the Listing Date and up to the date of this report. The capital of the Company only comprises of ordinary shares.

TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year. To manage liquidity risk, the management closely monitors the Group's liquidity position and maintain sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to settle the payables of the Group.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities (31 December 2017: nil).

CHARGE OF ASSETS

As at 31 December 2018, the Group had pledged its land, buildings and machinery of approximately HK$79.0 million (31 December 2017: approximately HK$85.0 million) to secure the banking facilities granted to the Group. As at 31 December 2018, a charge was registered in the British Virgin Islands in relation to a bank facility with maximum limit of HK$50 million.

FOREIGN CURRENCY RISK

Our Group's foreign currency exposures arise mainly from the exchange rate movements of the US$ and RMB against Thai Baht ("THB"). Any depreciation of THB will reduce the amount of revenue we generate in Thailand in terms of our reporting currency and adversely impact our results of operations. Similarly, Transtech might also suffer exchange loss if RMB depreciates against HK$ because some of the sales revenue are fixed in the currency of RMB. However, our Group has established a foreign currency risk management policy to monitor and manage foreign currency risks.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group has capital commitments of approximately HK$56.1 million (31 December 2017: nil).

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 31 December 2018, the Group did not hold any significant investment in equity interest in any other company.

USE OF PROCEEDS

As the Listing took place on 20 July 2017, part of the net proceeds from the Global Offering has been received or utilised by the Company during the two years ended 31 December 2017 and 2018. The Company intends to utilise such net proceeds as disclosed in the "Future Plans and Use of Proceeds" section of the Prospectus.

Progress on achievement of business objective and Use of Proceeds

Business Strategies as Stated in the Prospectus	Proposed amount to be used (HK$million)	Actual amount utilized up to 31 December 2018 (HK$million)	Unused amount as at 31 December 2018 (HK$million)	Explanation
Approximately 80% of the net proceeds will be used for implementing the expansion plan of new production facility in Thailand, including the construction of a factory in Thailand.	73.4	0.2	73.2	The new factory expansion plan was kicked off in July 2018 but most of the time in the second half of FY2018 remained in contract negotiation stage, the unused amount will be expected to be fully utilized in FY2019 after the site construction commence in first half of FY2019.
Approximately 5% of the net proceeds will be used for strengthening the research and development capabilities and expanding the range of products.	4.6	0.3	4.3	The main reason for the delay in the use of proceeds for the research and development expenditure is that it depends on the change of market demand. For the period from the Listing Date to 31 December 2018, there are little change of customers' demand for new type of products. It is expected to utilize this proceeds over another two years to the end of FY2020.
Approximately 5% of the net proceeds will be used for enhancing the relationship with existing customers and exploring new customers in Hong Kong and the ASEAN.	4.6	1.5	3.1	In line of the business development in the ASEAN countries, it is estimated that most of the unused amount will be used in FY2019 and the remaining in first half of FY2020.
Approximately 10% of the net proceeds will be used as the general working capital and for general corporate purposes.	9.2	9.2	0	Fully utilized for factory rent and electricity fee in Hong Kong for the period from the Listing Date to 31 December 2017
Total	91.8	11.2	80.6	

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as the construction of the new factory in Thailand, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2018, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies except that the Company increased its share investment in Futong Thailand in amount of THB307,110,000 in December 2018.

Up to the date of this report, HK$9.2 million of the net proceeds from the Global offering has been utilised for settlement of payable for factory rent and utility fee in Hong Kong and HK$0.2 million for the new factory construction in Thailand. The unutilised net proceeds of approximately HK$24.1 million and HK$5.7 million are deposited in a licensed bank in Hong Kong and a licensed bank in Thailand.

MATERIAL ASSET IMPAIRMENTS AND PERFORMANCE GUARANTEES

During the year ended 31 December 2018, the Group did not have any material asset impairments and performance guarantee given to or received from a connected person or an independent party.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board is committed to establishing and ensuring high standards of corporate governance and adopt sound corporate governance practices. The Company's corporate governance practices are based on the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules. The Directors strongly believe that reasonable and sound corporate governance practices are essential for the growth of the Group and for safeguarding and enhancing shareholders' interests.

The Directors consider that throughout the year ended 31 December 2018 and up to the date of this report, the Company has complied with all the applicable code provisions set out in the CG Code. The Board is of the view that the present management structure is effective for the Group's operations and sufficient checks and balances are in place.

BOARD OF DIRECTORS

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the Board committees of the Company. Further details of the Board committees are set out below in this report.

The Board is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for day to day management of the Company which is delegated to the management. To this end, monthly financial and operational information are provided to the Board for assessing the performance of the Company and its subsidiaries. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The management is responsible for the day-to-day management and operation of the Group and to provide the Board with updates in a timely manner, giving an assessment of the Company's performance and position to enable the Board to discharge its duties.

The Board is responsible for, among others, performing the corporate governance duties as set out in the code provision D.3.1 of the CG Code, which include:

(a) to develop and review the Group's policies and practices on corporate governance and make recommendations;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and

(e) to review the Group's compliance with the CG Code and disclosure in the corporate governance report.

Corporate Governance Report

Board Composition

Up to the date of this report, the Board comprises eight Directors, five of whom are executive Directors and the other three are independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors

Mr. Hu Guoqiang *(Chairman)*	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and re-elected on 25 May 2018)
Mr. He Xingfu *(Chief Executive Officer)*	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and re-elected on 25 May 2018)
Mr. Yu Jiangping	(appointed as director on 1 July 2018)
Mr. Wei Guoqing	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and re-elected on 25 May 2018 and resigned on 1 July 2018)
Mr. Xu Muzhong	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and re-elected on 25 May 2018)
Mr. Pan Jinhua	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and re-elected on 25 May 2018)

Independent Non-executive Directors

Mr. Lau Siu Hang	(appointed on 23 June 2017 and re-elected on 25 May 2018)
Mr. Li Wei	(appointed on 23 June 2017 and re-elected on 25 May 2018)
Mr. Leong Chew Kuan	(appointed on 23 June 2017 and re-elected on 25 May 2018)

All Directors have appropriate professional qualification or substantive experience and industry knowledge. The Board as a whole has achieved an appropriate balance of skills and experience. The composition of the Board satisfies the requirements of Rules 5.05 and 5.05A of the GEM Listing Rules. There are three independent non-executive Directors and at least one of them has accounting professional qualification. With more than one-third of the members of the Board are independent non-executive Directors, the Board has a fairly strong independence element in terms of its composition.

The participation of independent non-executive Directors in the Board brings a diverse range of expertise, skills and independent judgment on issues relating to the Group's strategies, performance, conflicts of interests and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The details of Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 45 to 51 of this report. There are no family or other material relationships among members of the Board.

Number of Meetings and Directors' Attendance

The Board has established three committees, namely, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee"), on 23 June 2017 with delegated powers for overseeing particular aspects of the Company's affairs. Each of the committees of the Company has been established with written terms of reference.

The Board will conduct at least four regular meetings a year. 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"). The chairman of the Board also meets with the independent non-executive Directors at least once a year without the presence of the executive Directors. Notices and agendas of regular Board meetings are served to all Directors at least 14 days before convening the Board meeting. For all other Board and committee meetings, reasonable notice is generally given. All other schedules and the relevant information of each Board and committee meeting are generally made available to Directors or committee members at least three days in advance. The Board and each Director also have separate and independent access to the management whenever necessary.

During the year ended 31 December 2018, the Company held one Annual General Meeting, six Board meetings, six Audit Committee meetings, four Remuneration Committee meetings, three Nomination Committee meetings and one meeting between the Board Chairman and the independent non-executive directors. All minutes of the Board meetings and meetings of Board committees were recorded in sufficient detail the matters considered by the Board and the decisions reached. Details of the attendance of Directors are as follows:

	Attendance/Number of Meetings					
Name of Directors	Annual General Meeting	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Chairman and INED Meeting
Executive Directors:						
Mr. Hu Guoqiang	1/1	6/6	N/A	N/A	3/3	1/1
Mr. He Xingfu	1/1	6/6	N/A	4/4	N/A	N/A
Mr. Yu Jiangping (appointed on 1 July 2018)	N/A	3/6	N/A	2/4	N/A	N/A
Mr. Wei Guoqing (resigned on 1 July 2018)	1/1	3/6	N/A	2/4	N/A	N/A
Mr. Xu Muzhong	1/1	6/6	N/A	N/A	N/A	N/A
Mr. Pan Jinhua	1/1	6/6	N/A	N/A	3/3	N/A
Independent Non-executive Directors:						
Mr. Leong Chew Kuan	1/1	6/6	6/6	4/4	3/3	1/1
Mr. Lau Siu Hang	1/1	6/6	6/6	4/4	3/3	1/1
Mr. Li Wei	0/1	6/6	6/6	4/4	3/3	1/1

The company secretary of the Company ("Company Secretary") attended all the scheduled meetings as shown in the above table to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

Practice and Conduct of Meetings

Schedules and draft agenda of each meeting are normally made available to Directors in advance. At least 14 days' notice should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are generally given.

Minutes of all Board meetings recording sufficient details of matters considered and decisions reached are duly kept by the Company Secretary at the meetings and open for inspection by the Directors.

The Articles contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their close associates have a material interest.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or Audit Committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions.

Appointment and Re-election of Directors

The 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 by rotation at least once every three years.

Each of the independent non-executive Directors has entered into an appointment letter with the Company. The appointment letter of each of the independent non-executive Directors is for a term of three years commencing from the Listing Date, which may be terminated by not less than one month's notice in writing served by either party on the other. The aforesaid appointment letters are subject to termination provisions therein and the retirement and re-election provisions in the Articles.

Directors' Continuous Training and Professional Development

To assist Directors' continuing professional development, the Company recommends Directors to participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending training courses or reading relevant materials on the topics related to corporate governance and regulations. Records of the training received by the respective Directors are kept and updated by the Company Secretary.

Independent Non-executive Directors

Mr. Leong Chew Kuan, Mr. Lau Siu Hang and Mr. Li Wei were appointed as the independent non-executive Directors on 23 June 2017.

The independent non-executive Directors are experienced professionals with expertise in respective areas of accounting, finance, industry knowledge and expertise. With their professional knowledge and experience, the independent non-executive Directors serve an important function of advising the senior management on strategy development and ensure that the Board maintains high standards in financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interests of the shareholders and the Company as a whole; and independent non-executive Directors will participate in the Company's various committees including the Audit Committee, the Remuneration Committee and the Nomination Committee.

The Company has received from each of its independent non-executive Directors the written confirmation of his independence. The Company considers the independent non-executive Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules.

Chairman and Executive Directors

Mr. Hu Guoqiang, Mr. He Xingfu, Mr. Wei Guoqing, Mr. Xu Muzhong and Mr. Pan Jinhua were appointed as executive Directors of the Company on 6 September 2016. Mr. Wei Guoqing resigned as an executive Director and Mr. Yu Jiangping was appointed as an executive Director on 1 July 2018. Mr. Hu Guoqiang is the chairman of the Board and Mr. He Xingfu is the chief executive officer of the Company.

The chairman of the Board provides leadership to the Board and is also responsible for the effective functioning of the Board in accordance with good corporate governance practice and is responsible for the overall corporate management of the business development strategies of the Group. The chairman of the board will attend the annual general meeting. He will also invite the chairman of the audit, remuneration and nomination committees to attend. The executive Directors are responsible for the implementation of the business strategies, policies and objectives set out by the Board and is accountable to the Board for the overall operations of the Group. These functions and responsibilities are currently being shared by the management team.

BOARD COMMITTEE

Audit Committee

The Company established the Audit Committee on 23 June 2017 with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The full terms of reference setting out details of the authority, duties and responsibilities of the Audit Committee is available on both the GEM website and the Company's website.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Leong Chew Kuan, Mr. Lau Siu Hang and Mr. Li Wei. Mr. Leong Chew Kuan is the chairman of the Audit Committee.

The primary duties of the Audit Committee include (but without limitation); assisting the Board in reviewing the financial information, overseeing the financial reporting system, risk management and internal control systems, relationship with the auditors and arrangements employees of the Company and its subsidiaries can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The full terms of reference setting out details of duties of the Audit Committee is available on both the GEM website and the Company's website.

The Audit Committee is satisfied with their review of the auditors' remuneration, the independence of the auditors, Deloitte Touche Tohmatsu ("DTT"), and recommended the Board re-appoint DTT as the Company's auditors in the financial year ending 31 December 2019, which is subject to the approval of shareholders at the forthcoming AGM. The Audit Committee has reviewed the Group's quarterly report for the three months ended 31 March 2018, interim report for six months ended 30 June 2018, quarterly report for the nine months ended 30 September 2018 and the audited consolidated financial statements for the year ended 31 December 2018.

According to the current terms of reference, meetings of the Audit Committee shall be held at least twice a year whilst it changed to four times a year in January 2019. The external auditor may request a meeting if they consider that one is necessary.

Minutes drafted by the Company Secretary are circulated to members of the Audit Committee within a reasonable time after each meeting. Details of the number of Audit Committee meetings held and Directors' attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 20 in this report.

Remuneration Committee

The Company established the Remuneration Committee on 23 June 2017 in compliance with Appendix 15 to the GEM Listing Rules, which comprises, two executive Directors, namely Mr. He Xingfu and Mr. Wei Guoqing, and three independent non-executive Directors, namely Mr. Lau Siu Hang, Mr. Leong Chew Kuan and Mr. Li Wei, Mr. Lau Siu Hang is the chairman of the Remuneration Committee.

Mr. Wei Guoqing resigned and Mr. Yu Jiangping was appointed as a member of the Remuneration Committee on 1 July 2018.

The primary duties of the Remuneration Committee include (but without limitation): (a) making recommendations to the Board on the policy and structure for the remuneration of all the Directors and senior management of the Group and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to the Board on the remuneration packages of the Directors and senior management of the Group; and (c) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives. The full terms of reference setting out details of duties of the Remuneration Committee is available on both the GEM website and the Company's website.

During FY2018 the Remuneration Committee reviewed the Group's remuneration policy and the directors' remuneration package by reference to the benchmarking of the market. The Company also looks into individual Director's competence, duties, responsibilities, performance and the results of the Group in determining the exact level of remuneration for each Director.

Pursuant to the terms of reference of the Remuneration Committee, meeting shall be held at least once a year.

Details of the number of Remuneration Committee meeting held and Directors' attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 20 in this report.

The remuneration policy of the Group for the Directors and senior management 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.

The emoluments of the senior management were within the following bands:

	Year ended 31 December	
	2018 Number of employees	2017 Number of employees
Nil to HK$1,000,000	**3**	2
HK$1,000,001–HK$1,500,000	**–**	1
HK$1,500,001–HK$2,000,000	**–**	0
	3	3

During both years, no emoluments were paid by the Group to the senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

Details of the Directors' remuneration and the five highest paid individuals are set out in note 7 to the consolidated financial statements.

Nomination Committee

The Company established the Nomination Committee on 23 June 2017 which comprises two executive Directors, namely Mr. Hu Guoqiang and Mr. Pan Jinhua, and three independent non-executive Directors, namely Mr. Leong Chew Kuan, Mr. Li Wei and Mr. Lau Siu Hang. Mr. Hu Guoqiang is the chairman of the Nomination Committee.

The primary function of the Nomination Committee is to review the structure, size and composition of the Board at least once annually; identify individuals suitably qualified to become Directors; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The full terms of reference setting out details of the authority, duties and responsibilities of the Nomination Committee is available on both the GEM website and the Company's website.

Pursuant to the terms of reference of the Nomination Committee, meeting shall be held at least once a year.

The Nomination Committee has reviewed the structure, size and composition of the Board and the Board diversity policy as well as discussing matters regarding the retirement and re-election of Directors.

Details of the number of Nomination Committee meeting held and Directors' attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 20 in this report.

ACCOUNTABILITY AND AUDIT

Directors' and Auditor's Responsibilities for the Consolidated Financial Statements

All Directors understand and acknowledge their responsibility for ensuring that the Group's consolidated financial statements for each financial year are prepared to give a true and fair view of the state of affairs, the financial results and cash flows of the Group in accordance with the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Company Ordinance") and the applicable accounting standards. In preparing the consolidated financial statements for the year ended 31 December 2018, the Board has adopted appropriate and consistent accounting policies and made prudent, fair and reasonable judgments and estimates. The Directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy the state of affairs, operating results, cash flows and equity movement of the Group at any time. The Directors confirm that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

The Directors also confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they 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.

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 on pages 67 to 70 of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the remuneration for annual audit service, other non-audit services provided by the Company's auditor to the Group was as follows:

Services rendered	HK$'000
Annual audit service for the year ended 31 December 2018	1,000
Other non-audit services including the preparation of continuing connected transactions letter	20
Total	1,020

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, monitoring training and continuous professional development of the directors and senior management, reviewing and monitoring the issuer's policies and practices on compliance with legal and regulatory requirements and reviewing and monitoring the code of applicable to employees and directors.

The Directors review the Group's corporate governance policies and compliance with the CG Code each financial year and comply with the "comply or explain" principle in the corporate governance report which is or will be included in the annual reports of the Company.

BOARD DIVERSITY POLICY

The Company has adopted a Board diversity policy in accordance with the requirement as set out in the CG Code, which is summarised as below:

The Board diversity policy of the Company specifies that in designing the composition of the Board, Board diversity shall be considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge and length of service. 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 and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The Company discloses the composition of the Board in corporate governance report every year and the Nomination Committee oversees the implementation of the Board diversity policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct ("Code of Conduct") regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of all Directors, that all the Directors have complied with the Code of Conduct throughout the year ended 31 December 2018 and up to the date of this report.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going dialogue with the shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation.

The Company will ensure that there are separate resolutions for separate issues proposed at the general meetings. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the GEM Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting.

The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirements.

Constitutional Documents

Throughout the year ended 31 December 2018 and up to the date of this report, there has been no significant change in the constitutional documents of the Company. The Articles are available on the websites of the Stock Exchange and the Company.

General Meetings with Shareholders

The Company's annual general meeting will be held on 31 May 2019.

SHAREHOLDERS' RIGHTS

(a) Convening of an Extraordinary General Meeting on Requisition by Shareholders

Pursuant to Articles, extraordinary general meetings shall be convened on the requisition of 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. Such requisition shall be made in writing to the Board or the Company 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. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. Shareholders also have the right to propose a person for election as a Director, the procedures are available on the website of the Company.

(b) Procedures for Putting forward Proposals at Shareholders' Meetings

Shareholders are welcomed to put forward proposals relating to the operations and management of the Group to be discussed at shareholders' meetings. The proposals shall be sent to the Company Secretary by a written requisition. Shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures set out in "Convening of an extraordinary general meeting on requisition by shareholders" above.

(c) Enquiries to the Board

Shareholders may put forward enquiries to the Board to the extent such information is publicly available to the Company Secretary who is responsible for forwarding communications relating to matters within the Board's purview to the executive Directors of the Company, communications relating to matters within a Board committee's area of responsibility to the chairman of the appropriate committee, and communication relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the appropriate management of the Company, in writing to the principal place of business of the Company in Hong Kong.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public. The Company updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company (www.transtechoptel.com) has provided an effective communication platform to the public and the shareholders.

COMPANY SECRETARY

Mr. Ho Cheuk Wai, the Company Secretary, is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws are followed. Moreover, the Company Secretary is responsible for facilitating communications among Directors as well as with management.

A board meeting was held to discuss the selection and the appointment of company secretary. The board has approved the reappointment of Mr. Ho Cheuk Wai to be the company secretary. During the year ended 31 December 2018, the Company Secretary has undertaken more than 15 hours of relevant professional training in compliance with Rule 5.15 of the GEM Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group may be involved, from time to time, in legal proceedings arising from the ordinary course of its operations. As of Latest Practicable Date on 9 March 2019, the Group was not engaged in any litigation, arbitration or claim of material importance, and no litigation or arbitration is known to the Directors to be pending or threatened by or against the Group, that would have a material adverse effect on the Group's results of operations or financial conditions. As confirmed by the Directors, the Group had complied with all the applicable Hong Kong and Thailand laws and regulations in relation to their business and operations during the year ended 31 December 2018 in all material respects.

During the year ended 31 December 2018, the Group had not been penalised by national or local authorities for material violations of Hong Kong or Thailand laws and regulations. The Group has in place a set of internal control and risk management procedures to address various potential operational, financial and legal risks identified in relation to its operations, including but not limited to procurement management, customer and sales management, inventory management, fixed assets management, connected party transaction controls, information disclosure controls, human resources, IT management and other various financial control and monitor procedures. These risk management policies set forth procedures that may include the monitoring, identification and mitigation of various risks. The procedures also set forth the relevant reporting hierarchy of risks identified in the Group's operations. The Board is responsible for overseeing the overall risk management.

In particular, the Group has implemented certain internal control measures to monitor the trade receivables of Futong Thailand, including (i) performing monthly account checks with the customers, (ii) preparing monthly aging analysis of trade receivables, which is to be reviewed by the vice head of the finance department of Futong Thailand, (iii) assigning specified personnel to monitor its trade receivables and to collect its trade receivables that are past due. The assigned personnel may use various measures to collect the trade receivables that are past due, including through phone calls, emails or legal actions, to reduce any potential loss of the Company, (iv) performing customer credibility check before each delivery, including checking whether the customer's trade receivables (current delivery included) have exceeded the credit limit or credit term granted to such customer. If the credit limit or credit term is exceeded, the Company will pause delivery until the customer settles the outstanding amounts or approval from senior management is obtained, and (v) having regular management meetings to review the status of its trade receivables and keeping meeting records.

In the light of the foregoing, the Directors are of the view that the internal control measures are adequate and effective, for the purpose of Rule 6A.15(5) of the GEM Listing Rules.

The Group has set up an internal audit system to oversee its operation. Throughout the year ended 31 December 2018 and up to the date of this report, the Board, through the Audit Committee, has conducted review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate. Such review is conducted at least four times a year. In this respect, the Audit Committee communicates any material issues to the Board. The Directors opine that the risk management and internal control systems are effective and adequate.

The Board has overall responsibility for the risk management and internal control systems and for reviewing its effectiveness. An independent internal control consultant has been appointed to carry out a review of the implemented system and procedures of production management in Futong Thailand. The Directors were satisfied that effective internal control measures as appropriate to the Group for the year ended 31 December 2018 were implemented properly and that no significant areas of weaknesses came into attention.

LOOKING FORWARD

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the CG Code.

Environmental, Social and Governance Report

OVERVIEW

Transtech Optelecom Science Holdings Limited (the "Group" or "we") is delighted to present our Environmental, Social and Governance ("ESG") report (the "Report") to communicate our major policies and management measures for the environmental, social and governance matters during the year. The Report has been reviewed by the senior management and approved by the Board of the Directors (the "Board").

Reporting Framework and Scope

With reference to the ESG Reporting Guide set out in Appendix 20 to the GEM Listing Rules of The Stock Exchange of Hong Kong Limited, the Report covered the optical fibre, optical fibre cable and optical fibre core manufacturing business of the Group in Hong Kong and Thailand from 1 January 2018 to 31 December 2018 (the "FY2018" or the "Reporting Period").

ESG Governance

The Group is fully committed to incorporating sustainability into our daily operations and management. The Board leads the Group's ESG development by providing strategic guidance and delegates the power to the senior management to set the ESG goals and targets, develop and implement ESG policies as well as monitor the ESG activities from time to time. A designated working group who has sufficient ESG knowledge handled the ESG related activities and directly reported to the Board. The Board holds overall responsibility of the ESG issues and oversees the senior management to ensure the effectiveness of the ESG governance mechanism. Therefore, we have maintained regular communication between the Board and the senior management which enables both parties to discuss the Group's latest ESG practices and identify the potential enhancement of ESG management.

Sound and effective risk management and internal control systems have been established to identify and assess the key ESG risks to the Group and capture potential opportunities that create values to stakeholders and bring the Group to the next level of growth. The board has reviewed the annual risk management and internal auditing process to monitor the assessment activities and ensure the appropriateness and effectiveness of the mechanism. For details, please refer to the corresponding sections in "Corporate Governance Report".

Stakeholder Engagement

We recognise the importance of stakeholder participation which contributes to the long-term success of our business. The Group has established various communication channels during the Reporting Period to understand the stakeholders' concerns and opinions. We divided the stakeholders into 5 major categories including employees, customers, suppliers and sub-contractors, shareholders and other external parties and actively engaged these stakeholders through the communication methods as shown below.

Stakeholder Categories	Channels for Communication
Employees	• Intranet and Email Communication • Internal Meeting, Seminar and Briefing • Employee Training and Activities • Performance Appraisal
Customers	• Company Website • Customer Hotline and Mail • Marketing Promotion • Customer Survey and Feedback
Suppliers and Sub-contractors	• Quotation and Tendering • Site-visit and Supplier Evaluation • Supplier Conference • Industry Forums
Shareholders	• Press Releases • Annual Report and Interim Report • Announcements and Circulars • Shareholder's Meeting
Other External Parties (including government, NGOs, media and employees' family)	• Company Website • Donation and Community Investment • Volunteering Activities and Social Support • Consultation and Seminars • Daily Operation

ESG Materiality Assessment

A materiality assessment has been conducted to identify the key environmental, social and governance issues of the Group which in turn determines the level of disclosure of the issues in this Report.

We have reviewed the opinions gathered through the abovementioned stakeholder engagement channels so as to establish a list of potentially material ESG issues. The representatives of the internal and external stakeholders have been invited to prioritise the issues by taking into account their importance to the business and relevance to the stakeholders. The inputs of stakeholders have been consolidated and processed to identify material issues and relevant issues. Material issues were the key concerns and interests of our stakeholders and thus, more detailed disclosures are required; relevant issues were those given lower priority, and yet they were important to the business or relevant to stakeholders so they have been disclosed in the Report for the purpose of transparency. Subsequently, the list of material and relevant issues has been presented to and confirmed by the senior management.

Based on the materiality assessment in FY2018, 23 ESG issues from four major aspects were identified and categorised into material and relevant issues as follows.

Material Issues

- Occupational Health and Safety
- Development and Training
- Compensation and Benefits
- Recruitment and Promotion
- Product Quality Management
- Supply Chain Management and Sustainable Development
- Air Emissions
- Hazardous Waste

Relevant Issues

- Fair Treatment and Non-discrimination
- Anti-child Labour or Forced Labour
- Complaint and Aftersales Services
- Customer Information and Privacy
- Anti-bribery and Anti-corruption
- Intellectual Property Rights
- Sales Management
- Carbon Emissions and Climate Change
- Utilisation of Water
- Utilisation of Energy
- Sewage Emission
- Bio-diversity
- Non-hazardous Waste
- Use of Packaging Materials
- Social Investment

Environmental, Social and Governance Report

Sustainability Highlights in 2018

Our dedicated effort to environment, social and governance has been recognised and we are pleased to present our sustainability accomplishments and highlights of the year.

WE REPORTED

0

CASE OF **WORK-RELATED FATALITY**

COMPLAINT RELATED TO UNFAIRNESS OR DISCRIMINATION

CHILD LABOUR OR FORCED LABOUR

WE ACHIEVED

NO FRAUD, BRIBERY, MONEY LAUNDERING OR CORRUPTION

INCREASED CUSTOMER SATISFACTION

ALL MAJOR SUPPLIERS OBTAINED ISO14001

WE SUCCESSFULLY

INCREASED ENERGY AND WATER EFFICIENCY BY 27% ON AVERAGE[1]

REUSED HELIUM IN 800,000 LITRES

REDUCE CAR EMISSIONS BY 61% ON AVERAGE[2]

---

1 27% resulting from an average reduction of energy and water intensity.

2 61% resulting from an average reduction of nitrogen oxides, sulphur oxides and particulate matter generated from the car during the discharge of our business.

OUR PEOPLE

We treat our staff as the most valuable asset and believe that it is our responsibility to provide a fair, respectful, and caring work place where the staff can achieve self-development and explore all their potentials. The Group has established a set of employment policies that strive to promote the well-being of employees among the human resources processes and those employment policies have been communicated to the staff.

Occupational Health and Safety

As a responsible employer, the Group endeavours to create the highest standards of work safety for the staff and strictly comply with the Occupational Safety and Health Ordinance of Hong Kong, the Labour Protection Act of Thailand and other relevant laws and regulations in Hong Kong and Thailand to protect our employees in workplaces. The laws and regulations require employers to maintain a safe and healthy work environment by adopting workplace safety mechanism and procedures, providing safety instructions and training, maintaining safe access to and egress from the workplaces as well as acting in the best interests of the employees to prevent work accidents, ensure hygiene, and keep adequate first-aid resources in the premises. Therefore, we have implemented a series of workplace safety measures below. With our efforts, we did not have any significant non-compliance with occupational safety and health-related laws and regulations during the Reporting Period.

We have been following the "safety first and prevention-oriented" principle thoroughly and have established occupational health and safety management system in accordance with the OHSAS 18001 with a view to preventing and minimising security hazards and potential harm to employees' health in the course of production.

Occupational safety risk management mechanism has been established to identify occupational health and safety risks. We assess the risks based on their impact on the employees and the Group and the level of internal controls in place. Strategies and priorities of risk mitigation will be developed based on the risk assessment results. In addition, the Group has developed a workplace incident management mechanism to cope with emergent workplace incidents. In case of any incident, the Group will prioritise the treatment of the injured person and controlling safety hazards. Afterwards, the Group will form a task force to investigate such incidents and report to the safety committee of the Group.

In order to ensure that there are clear guidelines in place for each occupational safety management procedure, the Group has established a detailed set of safety management manuals including Occupational Health and Safety Signs Management Standards, Personal Protective Equipment Administrative Rules, Production Safety Inspection Rules, Operational Procedure for Management of Dangerous Chemicals and Rules for Safety Trainings. According to the policies, an organisational charts has been formulated to illustrate responsibilities of each position are placed in the workshops, thus facilitate the supervision and management of workplace safety. At each level of position, a person-in-charge is appointed to manage the use of safety equipment and production operations. Also, there are warning signs relating to occupational health and safety in noticeable places of the production areas so that workers can be well aware of potential dangers in different working areas and we can control safety hazards from various sources.

The Group also attaches great importance to the management of protective equipment. We distribute protective equipment according to the needs of the position, and also provide clear instructions to employees to ensure the proper use of equipment. In addition, production safety teams have been formed to patrol the production areas to ensure the implementation and effectiveness of workplace safety measures and make timely responses to any safety issues.

The Group organises training and seminars on safety and standard operations for employees on a regular basis to raise their awareness of workplace safety risks. On top of statutory requirements, the Group also arranges other training to enhance employees' occupational safety and health knowledge and skills, including but not limited to machine safety operations, safety supervisor training, toolbox lectures, fire drills, annual safety training, etc. Also, we modify the operating procedures based on the feedbacks and suggestions of employees obtained during the training.

Development and Training

To satisfy organisational needs and equip staff with solid skills, knowledge and safety awareness, we invest in building a sound training mechanism. We have established the Policy on Training and Development of the Board, Senior Management and Employees to provide clear guidance and govern the training management process. Based on the training mechanism, the Group formulates annual training plans for employees, arranges training courses and maintains their individual training records. Meanwhile, employees' feedbacks on the training are collected for a statistical analysis for the reference of the next annual training plan.

During the Reporting Period, we conducted a number of internal and external training programs to cater to job requirements in different positions, including production process training such as fibre drawing, proof-test, measurement & testing and technical training for new hires, ISO9001 training for internal auditors, management skills training, contract writing preparation and so on. Apart from training held by the Group, we also encourage employees to enrich their expertise and know-hows through other channels. Employees taking external training courses are entitled to financial grants and paid leave upon approval of the management.

Compensation and Benefits

We care about our employees and we strictly comply with the relevant employment laws and regulations such as the Employment Ordinance of Hong Kong and the Labour Protection Act of Thailand which set out a range of employment protection and benefits including payment of wages and granting of statutory holidays as well as providing rest days, paid annual leave, sickness allowance, severance payment, long service payment and other applicable benefits to the entitled employees. We have offered favourable remuneration packages to attract, retain, and motivate our staff and ensure strict adherence to legal requirements. During the Reporting Period, we did not identify any significant non-compliance with the employment-related laws and regulations.

The Remuneration Policy has been in place to determine the salary based on the principles of fairness, impartiality, competitiveness and cost effectiveness with reference to the prevailing market standard, supply and demand, operating profits of the Group, performance of the staff, etc. To attract competent talents, our remuneration package includes double pay, allowances for travel, meal and high temperature, festival benefits, attendance incentives, overtime payments as well as mandatory provident fund and so on, in light of the responsibilities and work environment of their respective positions. Moreover, the Group also grants discretionary annual bonuses to employees in accordance with their performance and financial results of the Group. The Group has also organised employee events with certain gifts to employees, such as hosting New Year dinners with lucky draws and sports day, as well as distributing mooncakes on Mid-Autumn Festival day, in return for the hard work of the employees.

Work-life balance is of paramount importance to employees, thus we provide paid leave such as annual leave, marital leave, training leave, compassionate leave and specify the duration of break time clearly in our Corporate Rules. If overtime work is necessary due to operational needs, we will obtain consent of the employees concerned in advance and will set overtime wages at rates higher than the regular wages.

Recruitment and Promotion

We recognise the importance of our staff to our long term success so we aim to recruit talents who share the same kind of beliefs and value with us to collaboratively bring out the best solutions in every aspect. We adopt a well-planned, equal and ethical approach to recruitment and promotion that match the knowledge, skills, competencies and experience of the candidates to the strategic objectives of the Group. Recruitment channels are opened via internet, recruitment agencies, and career fairs to attract any talents all around the world. A stringent recruitment policy has been established to define the roles and responsibilities of the relevant departments and standardise the process of recruitment assessment and interview.

We commit to providing equal advancement opportunities to our employees. A transparent and effective appraisal system is in place to regularly assess the performance of our employees. The evaluation criteria and key performance indicators have been established and the result of the assessment serves as an objective basis for salary increment and further promotion. It also gives opportunity for the employees and their supervisors to communicate, gather feedback, and co-develop a suitable career path for the employees to explore their full potential.

Fair Treatment and Non-discrimination

Dedicated to maintaining an equal and fair working environment, we have established Human Resources Management Policy to ensure that all employees and job applicants are treated fairly and in strict compliance with the Bill of Rights Ordinance of Hong Kong, the Gender Equality Act of Thailand and other relevant laws and regulations relating to anti-discrimination which require the employers to provide fair treatment for employees working in the same manner without discrimination. Therefore, our human resource-related decisions are made based on the work experience, qualifications, skills and other relevant factors of employees and job applicants regardless of gender, marital status, family status, pregnancy, degree of disability, age, race and religion. Moreover, when dismissal is inevitable, the procedure will be carried out on a fair and legal basis with reasonable notice period. If any form of discrimination is found, an investigation will be conducted and disciplinary action will be carried out, while investigation of cases will be handled in absolute confidentiality. Due to our integrated efforts on creating better work conditions, we did not have any significant non-compliance against the laws and regulations relating to anti-discrimination during the Reporting Period.

Ant-child Labour and Forced Labour

The Group strictly prohibits child and forced labour of any kind in accordance with the local labour laws, including but not limited to the Employment Ordinance of Hong Kong and the Labour Protection Act of Thailand which require the employers not to hire an employee aged under 15 and order an employee aged under 18 to work in prohibited jobs, locations or time period prescribed under the regulations. With our high degree of awareness and accountability at work, during the Reporting Period, the Group did not employ any child or forced labour and there was no non-compliance against child and forced labour related laws and regulations.

Anti-child labour and anti-forced labour principles have been incorporated in the Group's recruitment process to ensure that only qualified personnel with valid identification documents issued by local government agencies are employed, and that the selection process meets legal and professional standards. In addition, all subsidiaries within the Group must design recruitment process and prepare employment contracts in accordance with local regulations to safeguard rights and interests of employees. Furthermore, relevant contracts should be signed voluntarily and reviewed by the appropriate management personnel to prevent any child labour and forced labour.

OUR PRODUCT

To ensure customer satisfaction with products and services of the highest value in quality, reliability and performance, we unrelentingly pursuit quality excellence and always put our customer first. Our commitments to quality are turned into practice through a well-established quality management system which spreads dedication to quality across our operation portfolio.

Product Quality Management

We take responsibility of our product and strictly conform to the Consumer Goods Safety Ordinance of Hong Kong, the Industrial Products Standard of Thailand and other relevant laws and regulations relating to products quality. The regulations require the manufacturers to ensure that quality of their goods satisfies the product safety requirements and they should take the responsibility in the design, production, and storage processes and provide adequate instructions to avoid potential harm to the consumer. With our continuous effort to monitor product quality, during the Reporting Period, we did not have any significant non-compliance with the product quality-related laws and regulations.

The quality management processes of the factories in Hong Kong and Thailand are certified by ISO 9001 and the Thai Industrial Standards Association (TISI) respectively. Our procurement and production processes are in strict adherence to the abovementioned standards, with regular internal reviews, monitoring procedures as well as production data analysis. When abnormality is detected, we make prompt rectifications and reporting. The Group also encourages the management and the staff to continuously enhance the internal quality control procedures. We conduct satisfaction surveys among the customers, with a view to enabling our products consistently comply with the requirements of the customers and demonstrate our emphasis on our product quality.

Supply Chain Management and Sustainability Development

The Group values friendly cooperative relations with suppliers and understands the importance of advocating responsible and sustainable development in the whole supply chain. Standards for Selection and Management of Qualified Suppliers, Operational Procedure for Supplier Assessment and Review and other internal documents regarding the Group's specific requirements for the suppliers on their business license and certificates have been established and communicated with the relevant parties. The Group examines the product quality of the suppliers through sample checks and onsite inspections in accordance with the established standards and procedures to ensure the suppliers' compliance with the requirements of the Group in respect of their products. We have developed detailed evaluation criteria for suppliers in the areas of environmental management and social responsibilities and regular evaluations have been performed. If the supplier fails to meet our standards, we will consider to terminate the business relationship with them so as to avoid adverse effects on the products of the Group.

Moreover, suppliers with various ISO certificates and OHSAS18001 qualifications and other certificates relating to environment protection and social responsibilities are preferred so that we can select suppliers which can meet our requirements in respect of environment protection, production safety and product quality.

Sales Management

With our "customer first" principle, we place the customers' needs at our high priority and pay attention to building strong customer relationship. We have established The Management of Confirmation and Evaluation of Customer Requirement Policy to ensure appropriate communication and procedures have been carried out. We also require our staff to reply to customers' enquiries in a prompt and patient manner.

We also strictly abide by the requirement of the Sale of Goods Ordinance of Hong Kong, the Consumer Protection Act of Thailand and other relevant laws and regulations relating to the sales of goods. The regulations require the goods must be of satisfactory quality, fit for the customer's purpose and same as described to the customer. Hence, integrity, trustworthiness, and excellence are the core values in our sales management and we promise to provide the latest, correct, and accurate information for our customers. Any form of deceitful approach to mislead the customer in order to gain business advantage is strictly prohibited and results in disciplinary action. During the Reporting Period, we did not have any significant non-compliance with the sales-related laws and regulations.

Complaint and Aftersales Services

Comprehensive complaint handling mechanism and procedures have been established with the Customer Complaint Management Policy to standardise the compliant handling procedures. The designated sales personnel would respond to any complaint in a timely manner as well as coordinate with relevant departments to analyse the causes and take remedial actions to ensure all complaints are appropriately managed. In addition, all complaints from customers will be kept in file for further analysis and improvement of products and services.

Customer Information and Privacy

We believe respect for customer privacy is the essence of excellent customer relationship and is conducive to the Group's image and reputation. Therefore, we have implemented a range of information security measures such as password management policies, data protection system and measures. Access to customer data is restricted to authorised personnel and it is mandatory for all employees to strictly abide by the confidentiality rules of the Group in order to protect customer data and purchase records.

Intellectual Property Rights

We are dedicated to innovation and intellectual property right protection. We have registered patents and entered into non-disclosure agreement with our business partners to protect the intellectual properties. We also prohibit employees from processing unauthorised or unlicensed information or software which is protected by copyright, intellectual property rights or other similar restrictions in use.

Anti-bribery and Anti-corruption

In consistent adherence to the principle of integrity and honesty, the Group requires all staff to strictly observe the ethical conduct of being professional and honest as well as abide by the Prevention of Bribery Ordinance of Hong Kong, the Competition Ordinance of Hong Kong, the Act Supplementing the Constitution Relating to the Prevention and Suppression of Corruption of Thailand and other applicable laws and regulations. It is prohibited to offer or receive any form of bribe or inducement to affect a business decision and deploy any form of action to harm fair-competition in the market. During the Reporting Period, we did not identify any significant non-compliance with laws and regulations concerning bribery, extortion, fraud and money laundering.

On top of the regulations, we strictly forbid any form of bribery, blackmail, fraud, money laundering, malpractice and fraudulent conduct and prohibit the staff from any abuse of power, document forgery and misconduct to damage the interests of the Group as specified in its Corporate Rules and Employee Handbook. Our employees are not allowed to offer or accept advantages from another company or its employees, management or agents directly or indirectly when fulfilling duties, for avoidance of any undue influence on business decisions made by its employees or us. The Group fights against money laundering and terrorist financing closely in line with the relevant regulations of the local governments, and has implemented stringent internal control measures including background check on our customers, suppliers and public institutions so as to ward off relevant criminal incidents.

Meanwhile, the Group has provided training on anti-corruption for employees so as to raise their awareness of risks of collusion and money laundering. We also encourage our employees to report any corruption practices and have established an internal complaint reporting system, which serves as an effective channel to report any serious breach of rules of the Group. In order to protect the whistle-blower, confidentiality mechanism is adopted and the internal audit department which is independent of daily operation takes charge of in-depth case investigation.

OUR ENVIRONMENT

While pursuing economic development, we also give full consideration to environment protection. To this end, the Group has been continuously upgrading its production technologies and advocating energy conservation and emission reduction in line with the environmental development trend. Moreover, we strictly follow the Air Pollution Control Ordinance of Hong Kong, the Waste Disposal Ordinance of Hong Kong and the Enhancement and Conservation of the National Environmental Quality Act of Thailand as well as other relevant environment laws and regulations that require companies to minimise their environmental impact by preventing and controlling emissions and wastes. Hence, the Group has adopted the following environmental protection initiatives in our business. Given our proactive approaches to minimising pollution, during the Reporting Period, there were no significant non-compliance cases against environmental laws and regulations.

Environmental Risk Management

In order to comprehensively monitor the environmental risks associated with the Group's operations, we have established a sound and effective environmental management system in accordance with ISO14001 and formulated the Operational Procedure for Identifying and Assessing Environmental Factors. Besides, we have set up an environment committee which is responsible for implementing the risk assessment mechanism to evaluate environment-related risks based on the frequency of occurrence, detectability, environmental impacts and regenerative capacity of relevant natural resources. Corresponding mitigation action plans for those environment-related risks will also be developed. The environment committee is also responsible for the coordination and supervision of the implementation of such action plans. In addition, the Group assesses impacts of the products on the environment throughout the product lifecycle by taking various factors such as resources used, air pollution and discharges into water and land into account. Based on the impact assessment, we work out appropriate monitoring and control plans accordingly.

Air Emissions Management

The Group's major air emissions were derived from our private cars and light vehicles. In FY2018, nitrogen oxides, sulphur oxides and particulate matter generated from the operation of the Group amounted to 127.63 kg, 0.76 kg and 11.75 kg, respectively[3]. The Group gradually uses eco-friendly fuels and vehicles with better fuel efficiency so as to reduce air emissions of vehicles. Besides, we also map out reasonable driving routes to cut the driving time and fuel consumption. Furthermore, despite that the Group's production generates negligible air emissions, the Group has formulated the Operational Procedure for Management of Air Pollutants to continuously monitor the manufacturing process and maintain eco-friendly performance. On top of this, we have engaged independent third-party experts to measure and assess the amount and the impact of air pollutants.

Waste Recycling and Management

In accordance with the Operational Procedure for Waste Management, the Group carefully classifies and disposes of general waste, hazardous waste and recyclable resources arising from the production process. Measures have been taken to ensure proper handling of waste. We conduct staff training to ensure appropriate handling of waste and promote the sense of recycling. Moreover, the categories and amounts of waste disposed of are recorded in the waste disposal system for further analysis and audit trail. In FY2018, the major hazardous waste produced by the Group was waste oil including printing ink and engine oil which amounted to 0.1 tonnes, as well as lead-acid batteries which amounted to 0.4 tonnes. All of them were collected and handled according to the Waste Disposal Ordinance of Hong Kong and other relevant laws and requirements and were subsequently transported to qualified suppliers for disposal, thus preventing further pollution resulting from improper treatment.

In addition, the Group is committed to enhancing awareness of waste sorting and recycling among employees. Recycling bins have been placed in production and living areas to improve recycling rates of recyclable waste. Besides, offices and factories have been reminded to avoid printing single-sided paper for the purpose of paper utilisation.

In FY2018, the details of the non-hazardous waste management in the Group's factories in Hong Kong and Thailand are listed as follows:

Category of the non-hazardous wastes	Amount produced (tonnes)	Amount recycled (tonnes)	Recycling rate
Metal compounds	36.11	36.11	100%
Glass	6.45	6.03	93.49%
Paper	12.33	12.30	99.76%
Plastics and plastic compounds	68.83	67.33	97.82% (Note 1)
Scrapped optical fibres and optical fibre cables	39.30	30.40	77.35% (Note 1)
Wood	15.18	–	(Note 2)

Note 1: Given that there is lack of recycling service providers for plastic and scrapped optical fibres in Hong Kong, the Group has not been able to undertake any recycling of plastic and scrapped optical fibres in Hong Kong. However, we will devote effort to formulating recycling plans that are in line with the environment benefits.

Note 2: The Group has not been able to find out any qualified local wood recycling service providers so far and will continue to identify the capable recycling service providers so as to ensure proper treatment of the recycled wood.

[3] The calculation of the air emissions is based on "Reporting Guidance on Environmental KPIs" issued by the Stock Exchange of Hong Kong Limited.

Management of Carbon Emissions and Climate Change

Electricity and fuel for automobile substantially contribute to our Group's carbon emissions. The total carbon dioxide equivalent produced in FY2018 was 7,532.07 tonnes[4]. With the goal of scaling down carbon emissions, the Group has developed relevant resource usage policies and various measures to improve efficiency of energy consumption, which are described in the following sections.

Aside from carbon emissions directly from our operations, we are also making efforts on controlling the emissions throughout our supply chain. In FY2018, we have developed an advanced method of collection and reuse of helium and launched the Helium Reuse Scheme in Hong Kong. Under this scheme, we successfully reused around 800,000 litres of helium during our optical fibre cable production process and decreased the consumption of newly produced helium. This led to a significant reduction in our suppliers' carbon footprint arising from the helium production. With a view to achieving a more remarkable result, we continuously invest in the green production technology to control the carbon emissions from our operation as well as our supply chain and we anticipate an increasing amount of helium reuse in the coming years.

Utilisation of Energy and Water Consumption

With the view to managing resource usage efficiently, the Group has established the Operational Procedure for Maintenance of Resources and Energy to monitor the consumption of electricity, fuels and water. Regular monitoring and assessment of the use of resources in the course of production and operation have been conducted and the corresponding controls have been put in place on areas with high consumption rates. The consumption data during the Reporting Period were as follows:

Type of resources	Amount used	Intensity of resource usage
Purchased electricity	15,084,362 KWh	2.104 KWh per kilometre of fibre
Diesel	29,160 litres	0.004 litres per kilometre of fibre
Lead-free gasoline	19,624 litres	0.003 litres per kilometre of fibre
Purchased water	26,884 m^3	0.004 m^3 per kilometre of fibre

The Operational Procedure for Maintenance of Resources and Energy also provides guidelines on economising on electricity and water, which are summarised below:

- Ensure that machinery, air conditioning, and lighting are off during non-working hours;
- Perform regular maintenance of machinery and equipment to foster operational efficiency and avoid waste of electricity or water;
- Maintain optimal air conditioning temperature in office and keep air filters clean to increase efficiency and reduce electricity consumption;
- Report and repair malfunctioned equipment promptly to prevent any water leakage or waste of electricity.

4 The calculation of carbon emissions is based on the "Greenhouse Gas Protocol" published by World Business Council for Sustainable Development (WBCSD) and World Resource Institute (WRI), the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" created by the Hong Kong Environmental Protection Department, "CO_2 emission from energy consumption of the country" published by the Energy Policy and Planning Office, Ministry of Energy, Royal Thai Government, the "2017 Sustainable Development Report" of CLP and the "Reporting Guidance on Environmental KPIs" issued by the Stock Exchange of Hong Kong Limited.

Besides, the Group has adopted a variety of energy-saving equipment, including water-cooled chillers, multifunctional office equipment with energy labels, and lighting abatement technology and compact fluorescent lamps. Furthermore, the Group has also established the abnormality reporting system, which requires immediate reports on abnormal usage of electricity and water to relevant departments and timely rectification of the abnormality whereby resources can be utilised to the utmost extent.

Apart from the above, the Group takes an active role in standardisation of internal energy efficiency management to keep abreast with the standards among peers in terms of energy management. The environmental management system of our factory in Thailand has been approved by the Ministry of Industry of Thailand and has been accredited with the green industry certificate. Aside from energy efficiency, to maintain a stable water source and quality, the water consumed by the Group comes from municipal water supply system and no issue in sourcing water fit for purpose was noted during the Reporting Period.

Sewage Management

Due to our nature of business, we do not generate significant sewage in our manufacturing operations. However, we still take the initiatives to comply with relevant laws and regulations by actively monitoring and preventing the possibility of generating sewage. In case of occurrence of sewage discharge, we would report it immediately and deploy applicable treatment to minimise contaminants before discharge.

Bio-diversity

We located our manufacturing plants in the well-developed industrial clusters in Hong Kong and Thailand where we can reduce our negative impact to the environment and avoid bio-diversity damage. We have no plan for factory expansion currently which poses threat to natural habitat and bio-diversity. Also, we continuously invest in environmentally friendly manufacturing technologies and products with an aim of conserving natural environment.

Utilisation of Packaging Materials

With regard to the use of packaging materials, the Group consumed 71.48 tonnes of optical fibre trays, 65.24 tonnes of cardboard boxes and 905.68 tonnes of wooden planks in FY 2018. The use of biodegradable and recyclable packaging materials has demonstrated our commitment to minimising unnecessary packaging materials. We have actively cooperated with customers and recyclers regarding the recycling and treatment of packaging materials such as cardboard boxes and optical fibre trays. During the Reporting Period, we recycled 62.79 tonnes of optical fibre trays and 6.44 tonnes of paper boxes.

OUR SOCIETY

Social Investment

We have consolidated our resources for philanthropic activities, internal policies, personnel structure and established a community investment management team, which consists of members from the management, the human resources and administration department and the finance department. The team specialises in managing philanthropic activities and charitable donation projects, as well as evaluating both monetary and non-monetary donations, so as to improve the effectiveness of the philanthropic activities.

During the Reporting Period, our community investment focused on offering assistance to the underprivileged, as well as organising and participating in a variety of philanthropic activities in collaboration with different charity institutions. For instance, we cooperated with the Seeds of Art Charity Foundation in Hong Kong and donated solar heaters to primary schools in less developed regions in China. We also participated in the blood donation hosted by the Hong Kong Red Cross. In FY2018, our contribution to society was recognised and we received a Caring Certificate presented by Federation of Hong Kong Industries Corporate Social Responsibility (CSR) Recognition Scheme "Industry Cares" 2018.

Moreover, we are concerned to care the community where we are located. Through the Hong Kong Chinese Enterprises Association, we made a donation to victims of bus crash in Tai Po of Hong Kong in February 2018 so as to provide assistance for them to overcome the hardship.

Content Index for the ESG Reporting Guide of GEM Listing Rules to the Stock Exchange of Hong Kong

Aspect	Reference	Subject Area	Page
A. Environmental			
A1: Emissions	A1	Policies and compliance relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	40
	A1.1*	Emissions types and data	40
	A1.2*	Greenhouse gas emissions	41
	A1.3*	Total hazardous waste	40
	A1.4*	Total non-hazardous waste	40
	A1.5	Measures to mitigate emissions and results achieved	40–42
	A1.6	Measures to handle and reduce hazardous and non-hazardous wastes and results achieved	40, 42
A2: Use of Resources	A2	Policies on the efficient use of resources, including energy, water and other raw materials	41–42
	A2.1*	Direct and/or indirect energy consumption by type in total and intensity	41–42
	A2.2*	Water consumption by type in total and intensity	41–42
	A2.3	Energy use efficiency initiatives and results achieved	41–42
	A2.4	Water efficiency initiatives and results achieved	41–42
	A2.5*	Packing material used for finished products	42
A3: The Environment and Natural Resources	A3	Policies on minimising the issuer's significant impact on the environment and natural resources	39-40, 42
	A3.1	Significant impacts of activities on the environment and natural resources and the actions taken to manage them	39-40, 42
B. Social			
Employment and Labour Practices			
B1: Employment	B1	Policies and compliance relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	35–36
B2: Health and Safety	B2	Policies and compliance relating to providing a safe working environment and protecting employees from occupational hazards	34–35
B3: Development and Training	B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	35
B4: Labour Standards	B4	Policies and compliance relating to preventing child and forced labour	36
Operating Practices			
B5: Supply Chain Management	B5	Policies on managing environmental and social risks of the supply chain	37
B6: Product Responsibility	B6	Policies and compliance relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	37–38
B7: Anti-corruption	B7	Policies and compliance relating to bribery, extortion, fraud and money laundering	38–39
Community			
B8: Community Investment	B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	43

* We aspire to provide our stakeholders with exhaustive information about our ESG performance and keep our efforts in enhancing our ESG performance data disclosure and identifying any significant types of ESG performance data in our operations. If any significant type of ESG performance data is identified afterwards, we will disclose it in the future ESG reports.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Hu Guoqiang (胡國強), aged 55, is an executive Director and Chairman of the Board. Mr. Hu joined the Group in April 2003 as a director of Transtech and is responsible for devising development strategies and business strategies for the Group. After joining the Group, Mr. Hu is principally responsible for devising development strategies and business strategies for the Group, Mr. Hu is currently a director and deputy/standing president of Futong Group Co., Ltd. ("Futong China"). Mr. Hu's role in Futong China and its subsidiaries from time to time ("Futong China Group") is mainly to coordinate with the joint venture partners of Futong China Group. Please refer to the section headed "Relationship with Controlling Shareholders — Management Independence" in the Prospectus.

Mr. Hu obtained a professional certificate in economic management from Zhejiang University of Technology (浙江工業大學) in December 2000. Mr. Hu has approximately 15 years of experience in enterprise management and financial management. Between November 2015 and June 2017, Mr. Hu was a director of Zhejiang Futong Optical Fibre Technology Company Limited (浙江富通光纖技術有限公司) and was responsible for its corporate management. Zhejiang Futong Optical Fibre Technology Company Limited principally engages in research and development, production and sales of optical fibres preforms and optical fibres as well as technical support services.

Mr. He Xingfu (何興富), aged 59, is an executive Director and the chief executive officer of the Group. Mr. He joined the Group in April 2003 as a director and general manager of Transtech and is responsible for managing the daily operations and business development of our Group. Mr. He was the president of Futong Group (Hong Kong) Co., Ltd. ("Futong Group (Hong Kong)") and a director of Hong Kong Futong Optical Fibre Co., Ltd. ("Futong HK"), and he has resigned from such positions in these two companies upon Listing.

Mr. He obtained the qualification of Senior Engineer from Science and Technology Bureau of Guangdong Province (廣東省科學技術幹部局) in April 1994 and a bachelor degree in electronic material science from University of Electronic Science and Technology of China (電子科技大學) (formally known as Chengdu Institute of Radio Engineering (成都電訊工程學院）) in July 1982. Mr. He has approximately 34 years of experience in optical communication industry. Prior to joining Futong China Group in 2001, Mr. He was engineer of the research department of the No. 46 Research Institute of China Electronics Technology Group Corporation (中國電子科技集團公司第四十六研究所) (formally known as No. 46 Research Institute of Ministry of Machine Building and Electronics Industry (機械電子工業部第46研究所)) from August 1982 to April 1989, where he mainly engaged in the research on the production technologies for optical fibres preforms and the drawing technologies of optical fibres. From January 1989 to June 1997, Mr. He was the head (manager) of the optical fibre factory of Shenzhen Guangtong Development Company Limited (深圳光通發展有限公司) and mainly managed the day-to-day operations and production technology of the optical fibre factory. From July 1997 to December 1998, Mr. He was the person in charge of technology for the Shenzhen SDGI Optical Fibre Co. Ltd (深圳市特發信息光纖有限公司). Shenzhen SDGI Optical Fibre Co. Ltd is principally engaged in the manufacturing and sales of optical fibres. Subsequently from February 1999 to March 2001, Mr. He was the Area Sales Manager of Fiber Optic Product Line, Cables and Components Sector of Alcatel China Company Limited Shanghai Representative Office (阿爾卡特中國有限公司上海代表處) and was mainly responsible for overseeing the sales operations of optical fibre products in the PRC. Alcatel China Company Limited Shanghai Representative Office is principally engaged in providing optics, voice and data communication systems for enterprises to mobile terminals. Mr. He also acted as the director of the FTTH Council Asia Pacific from May 2012 to May 2016, and as the Vice President and director of the same organisation from May 2015 to May 2016 subsequently.

Biographical Details of Directors and Senior Management

Mr. Yu Jiangping (俞江平), aged 54, joined our Group in January 2018 as deputy general manager of Futong Group Communication Technology (Thailand) Company Limited, a subsidiary of our Group, and has been responsible for the daily operations and business development in Thailand and various countries in the Association of Southeast Asian Nations (ASEAN).

Mr. Yu obtained a master's degree in business administration from Zhejiang Gongshang University (浙江工商大學) in October 2012. Mr. Yu has approximately 16 years of experience in marketing, sales, customer development, after-sales service and corporate management. He received from Futong Group Co., Ltd. (together with its subsidiaries "Futong China Group") the "Futong Contribution Award" and "Entrepreneurship and Innovation Award" on Futong China Group's 20th anniversary year in September 2007 and 30th anniversary year in December 2017, respectively.

Between September 2002 and December 2003, Mr. Yu was an officer of the Fujian sales office of Futong China Group. From November 2008 to October 2010, Mr. Yu was an assistant general manager of the sales department of Futong China Group and assisted the general manager in marketing development and management of the sales office. From January 2013 to December 2015, Mr. Yu was the vice president of the sales department of Futong China Group and assisted the executive vice president in management. He was responsible for the daily operation and management of the sales office of optical communication product. From March 2014 to March 2016, Mr. Yu held a concurrent position as the section manager of the after-sales section of the marketing support department of Futong China Group. He was responsible for the day-to-day management of the after-sales section. From February 2015 to February 2017, Mr. Yu also concurrently held the position of general manager in the department of China Unicom sales in Futong China Group. He was responsible for managing sales operations to China Unicom of Futong Group.

Mr. Yu was appointed as an executive Director and a member of the remuneration committee of the Board on 1 July 2018.

Mr. Wei Guoqing (魏國慶), aged 46, is an executive Director. Mr. Wei joined the Group as general manager of Futong Thailand in February 2013 and is responsible for managing the daily operations and business development of Futong Thailand. Mr. Wei was the deputy president of Futong China and he has resigned from such position upon Listing.

Mr. Wei obtained a master's degree in business administration from Zhejiang Gongshang University (浙江工商大學) in June 2006. He obtained a Bachelor's degree in Mechatronics from the Mechanical Engineering Faculty of Beijing Mingyuan University (北京明園大學) in June 2004. Mr. Wei has over 20 years of experience in design, research and development as well as production of optical fibre cables, quality control and corporate costs control. Prior to joining the Group, Mr. Wei was head of technical department of Futong China Group from December 2012 to December 2015, primarily responsible for the optical communications technology management of Futong China Group and its associate companies and members. Mr. Wei joined Futong China Group in April 1996 as the vice supervisor of the optical fibre cable production unit. From December 2009 to December 2012, Mr. Wei was the general manager of Futong Sumitomo Special Optical Fibre Cable (Tianjin) Company Limited (富通住電特種光纜(天津)有限公司) and was mainly responsible for managing its day-to-day operations. Futong Sumitomo Special Optical Fibre Cable (Tianjin) Company Limited was a joint venture company of Futong China Group and a Japan-based Company and principally engaged in production and sales of optical fibres and related products.

Mr. Wei published a number of industry papers and invented certain patents registered in locations such as the PRC. In 2004, he was awarded a honorary certificate by the local government of Fuyang City, Zhejiang Province, as a technologically advanced individual during 2002 to 2003. In 2011, he was engaged as an expert in the cable industry amendment group by the Chinese Electrical Equipment Industry Association Wire Branch (中國電器工業協會電線電纜分會).

Mr. Wei resigned as an executive Director and ceased to be a member of the remuneration committee of the Board on 1 July 2018.

Biographical Details of Directors and Senior Management

Mr. Pan Jinhua (潘金華), aged 54, is an executive Director. Mr. Pan joined the Group in February 2007 and is responsible for managing the investment activities of the Group. Mr. Pan has been a director of the Futong Thailand since August 2010.

Mr. Pan obtained the qualification of middle-level economist from the Agricultural Bank of China (Hangzhou Branch) in June 1989 and passed the examination for the Party and Administrative Cadres Basic Course organised by Zhejiang Higher Education Self-Study Examination Direction Committee (浙江省高等教育自學考試指導委員會) in March 1989. Mr. Pan has approximately 27 years of experience in corporate investment and corporate governance matters. Prior to joining the Group, Mr. Pan has been taking up the positions of the secretary to the Futong China Chairman's Office since February 2006, the head of the investment management department of Futong China since February 2007 and the head of investment department of Futong China since December 2012. Mr. Pan has resigned from such positions in Futong China upon Listing.

Mr. Xu Muzhong (徐木忠), aged 52, is an executive Director. Mr. Xu joined the Group in May 2012 and is responsible for managing the production process, quality control, as well as production technologies and craftsmanship of the Group. Mr. Xu is also currently a director and the general manager of Futong Thailand, and is principally responsible for operational work, including but not limited to production and management.

Mr. Xu graduated from Party School of Zhejiang Provincial Committee of Communist Party of China (long-distance course) in June 2004. Mr. Xu has over 20 years of experience in production process management, quality control, maintenance, corporate management and operations. Prior to joining the Group, Mr. Xu took up the post of the supervisor of the special electric wire and cable production unit of Hangzhou Fuyang Post and Telecommunication Special Electric Wire and Cable Factory (杭州富陽郵電特種電線電纜廠) in March 1993. Between May 2005 and May 2007, Mr. Xu worked in Futong China as (i) assistant to the general manager of the cables business department and (ii) head of the communications cable production department. Mr. Xu was the vice general manager of Futong Cable Hangzhou Company Limited (杭州富通電線電纜有限公司) from April 2010 and April 2012 and was mainly responsible for production and manufacturing. Futong Cable Hangzhou Company Limited is principally engaged in production and sales of optical fibres and related products.

Biographical Details of Directors and Senior Management

Independent Non-Executive Directors

Mr. Leong Chew Kuan (梁昭坤), aged 42, was appointed as an independent non-executive Director on 23 June 2017.

Mr. Leong obtained his bachelor's degree in business administration from University of Technology, Sydney in July 2000 in Australia. He has been a member of Malaysian Institute of Accountants since August 2003 and a member of Hong Kong Institute of Certified Public Accountants since May 2014. Mr. Leong was admitted as a certified practising accountant of CPA Australia in February 2000, and was awarded a fellow membership in the CPA Australia in February 2014.

Mr. Leong has approximately 16 years of experiences in accounting, finance and enterprises management. From June 2004 to May 2006, Mr. Leong was employed by KPMG (Malaysia), a firm of certified public accountants, serving first as audit senior and then senior associate, in which he was responsible for performing audit works. Mr. Leong was then employed by KPMG (Hong Kong) in November 2006, and was a manager responsible for auditing and advisory works when leaving in January 2010. From May 2011 to February 2014, Mr. Leong worked as a senior manager in the risk advisory services department of BDO Financial Services Limited, a firm of certified public accountants in Hong Kong. He joined Clifford Investment Company Limited as financial controller from March 2014. Mr. Leong was appointed as an executive director of Clifford Modern Living Holdings Limited, a listed company on the Main Board of the Stock Exchange (stock code: 3686), in December 2015, and he resigned as an executive director in December 2018.

Mr. Lau Siu Hang (劉少恒), aged 63, was appointed as an independent non-executive Director on 23 June 2017.

Mr. Lau obtained his bachelor's degree in business administration from University of Western Sydney in April 2001 in Australia, and his master's degree in Chinese culture from The Hong Kong Polytechnic University in January 2013. Mr. Lau had served the Hong Kong government for approximately 30 years with his last position as Principal Immigration Officer prior to his retirement in 2010. During his tenure, he was responsible for handling human resources matters and was once seconded to Security Bureau to assume the position of Assistant Secretary for Security. Mr. Lau has been working as a principal consultant in Wise and Talent Consultancy providing training relation to recruitment interviews, risk management and services relation to financial and assets management since May 2013. Mr. Lau has been a financial consultant of Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited, and he became an insurance agent of The Prudential Assurance Company Limited in September 2010. He is currently a Chinese Certified Financial Planner of the Chinese Institute of Certified Financial Planner SAR. Mr. Lau served as an independent non-executive director of China Financial Leasing Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2312) for the period from June 2015 to September 2018.

Mr. Li Wei (李煒), aged 63, was appointed as an independent non-executive Director on 23 June 2017.

Mr. Li had his tertiary education in Beijing, Kiel and Perth where he had studied German, international trade theory and consumer behaviours. Mr. Li had working experience across a number of industries including education, trading, investment, and broadcasting industry. From 2002 to present, he has been serving as an independent non-executive director of VST Holdings Limited, a listed company on the Main Board of the Stock Exchange (stock code: 856). Also, he has become the independent non-executive directors of two listed companies on the Main Board of the Stock Exchange, namely Qianhai Health Holdings Limited (formerly known as Hang Fat Ginseng Holdings Company Limited) (stock code: 911) and Yantai North Audre Juice Co., Ltd. (stock code: 2218) on 17 May 2016 and 25 May 2016, respectively. Furthermore, he acted as a current affairs commenter in radio and television programmes and a columnist across different media.

Mr. Li was a director of the below companies incorporated in Hong Kong, which were dissolved by way of striking off or deregistration as these companies ceased to carry on business.

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Method of dissolution
China Equity International Limited	Hong Kong	Trading of mineral products	8 July 2005	Deregistration
Link Success International Development Limited	Hong Kong	Trading of mineral products	21 September 2001	Striking Off
Uni-Link International Limited	Hong Kong	Trading of mineral products	4 October 2013	Deregistration
Winform Development Limited	Hong Kong	Trading of imported equipment	30 July 2004	Deregistration
World Grace International Limited	Hong Kong	Trading of imported equipment	27 June 2008	Deregistration

Save as disclosed in this report, each of the Directors does not have any interest or short position in the Shares and underlying Shares (within the meaning of Part XV of the SFO).

Save as disclosed in this report, none of the Directors has any other directorships in listed companies during the three years immediately prior to the date of this report and there are no other matters in respect of each of the Directors that is required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and there is no other material matter relating to the Directors that need to be brought to the attention of the shareholders.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Ren Guodong (任國棟), aged 43, joined the Group in October 2003 and is currently the operations manager and a director of Transtech who is responsible for the day-to-day operation of Transtech.

Mr. Ren obtained a bachelor's degree in high voltage and equipment from Harbin University of Science and Technology (哈爾濱理工大學) in July 1998, and a master's degree in business administration from the Zhongnan University of Economics and Law (中南財經政法大學) in December 2010. Mr. Ren has over 15 years of experience in optical communication product manufacturing process quality control, equipment management and enterprise cost control. Prior to joining the Group, Mr. Ren has been the head of production department of Futong Cable Hangzhou Company Limited (杭州富通電線電纜有限公司) from December 2000 to December 2001.

Mr. Ho Cheuk Wai (何焯偉), aged 57, joined the Group and was appointed as our chief financial officer and company secretary in October 2016. Mr. Ho is responsible for overseeing the financial and accounting operations and carrying out company secretarial functions of the Group. He graduated with a degree of master of science in business information technology from Middlesex University in January 2003 and a degree of master of business administration from the University of Wales, Bangor in cooperation with the Manchester Business School (now known as the Bangor University) in July 1997, both of which were distance learning programmes. He has been admitted as an associate of the Hong Kong Society of Accountants since December 1994 and was admitted an associate of the Association of Chartered Certified Accountants of the United Kingdom since January 1995 and a fellow of the Association of Chartered Certified Accountants of the United Kingdom since January 2000.

Mr. Ho was an independent non-executive director of Tai Kam Holdings Limited, a company listed on GEM (stock code: 8321) from September 2016 to May 2018. Prior to joining the Group, he served as the financial controller and the company secretary of K. H. Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1557), from August 2014 and September 2015, respectively, which he resigned from such positions with effect from October 2016. From May 2013 to January 2014, he served as the financial controller and the company secretary of Ngai Shun Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1246). From May 2012 to May 2013, he also acted as the financial controller and the company secretary of South West Eco Development Limited, a company currently known as C&D International Investment Group Limited listed on the Main Board of the Stock Exchange (stock code: 1908). In addition, Mr. Ho served as the financial controller in other companies in Hong Kong, namely Cetec Limited, China Water Company Limited, Chung Fu Property Group Company Limited, Mission Hills Group Limited, and CBI Investment Limited during the period from January 2010 to April 2012, from September 2008 to January 2010, from January 1999 to March 2008, from April 1995 to November 1998, and from July 1990 to March 1995, respectively.

Biographical Details of Directors and Senior Management

Mr. Wang Yingzhong (王英忠), aged 58, joined the Group in January 2005 and is currently the assistant engineering department manager of Transtech, in charge of the engineering matters. Mr. Wang obtained a Bachelor's degree in Electronic Engineering from Zhejiang Radio and Television University (浙江廣播電視大學) in August 1983 and the qualification of Middle-level Engineer from Hangzhou Enterprise Middle-level Engineering Technician Assessment Committee (杭州市鄉鎮企業工程技術人員中級職務評審委員會) in the PRC in October 1999.

Mr. Wang has over 22 years of experience in electronic engineering industry. From April 1994 to December 2004, he joined Futong China as an electronic and electrical engineer. He then joined Transtech in which he first took up the position of the plant engineer from January 2005 to June 2011 and has subsequently been the assistant engineering department manager since July 2011.

Ms. Lee Yin Chun, Anthea (李妍臻), aged 39, joined the Group in August 2005 and is currently the human resources and administration manager of Transtech, responsible for human resources and administrative matters. Ms. Lee completed the Bachelor of Business (Management) Human Resource Management Specialization Degree program (long-distance course) offered by RMIT University in Australia in 2008 and a Professional Diploma in Human Resources Management from Hong Kong Management Association in March 2002.

Ms. Lee has approximately 19 years of experience in the human resources and administration field. From August 1997 to August 2002, she took up various positions including administration assistant, administration officer and human resources and administration officer in Standard Capital Brokerage Limited. She worked in Global Tech (Holdings) Limited as a human resources assistant and then human resources officer from October 2002 to August 2005. She then joined Transtech as a human resources & administration officer from August 2005 to December 2007 and subsequently promoted to human resources & administration manager in January 2008.

Report of Directors

The Directors are pleased to present their report together with the audited consolidated financial statements of the Company for the year ended 31 December 2018.

CORPORATE REORGANISATION AND SHARE OFFER

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 September 2016.

The Shares have been listed on the GEM of the Stock Exchange by way of the Global Offering since 20 July 2017.

In connection with the Listing, the companies comprising the Group underwent a reorganisation (the "Reorganisation"). Pursuant to the Reorganisation, the Company became the holding company of the other members of the Group on 7 October 2016. Further details of the Reorganisation are set out in the section headed "History and Development" of the Prospectus.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 31 to the consolidated financial statements. The Group is principally engaged in the manufacturing and sale of optical fibre in Hong Kong and optical fibre cable, optical cable cores and related products in Thailand.

RESULTS AND DIVIDENDS

The financial performance of the Group for the year ended 31 December 2018 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 71 to 76.

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2018.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five years is set out on page 132 of this report.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The significant investments of the Group is set out in page 16 and 17 of this annual report. Except for those included in the section headed "Future Plans and Use of Proceeds" in the Prospectus, the Group had no definite future plans for material investments and capital assets.

USE OF PROCEEDS AND COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Details of the use of proceeds and business objectives with actual progress are set out in the section headed "Management Discussion and Analysis" on page 16 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 13 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group at 31 December 2018 are set out in note 21 to the consolidated financial statements.

INTEREST CAPITALISED

The Group has not capitalised any interest during the year ended 31 December 2018.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2018 are set out in note 22 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves available for distribution to the shareholders, calculated in accordance with the Company Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to approximately HK$64.3 million comprising accumulated loss of approximately HK$31.2 million and the share premium of approximately HK$95.5 million (2017: approximately HK$68.9 million).

DIVIDEND POLICY

The Company adopted a dividend policy considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

The Board shall consider the following factors before declaring or recommending dividends:

- the Company's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors that the Board deems relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of Cayman Islands and the Company's Bye-laws. The Board will continually review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Directors confirm that during the year ended 31 December 2018, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase, cancel or sell any of such listed securities.

Report of Directors

DIRECTORS

The Directors of the Company during the year ended 31 December 2018 and up to the date of this report were as follows:

Executive Directors

Mr. Hu Guoqiang *(Chairman)*	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and re-elected on 25 May 2018)
Mr. He Xingfu *(Chief Executive Officer)*	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and re-elected on 25 May 2018)
Mr. Yu Jiangping	(appointed as director on 1 July 2018)
Mr. Wei Guoqing	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and re-elected on 25 May 2018 and resigned on 1 July 2018)
Mr. Xu Muzhong	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and re-elected on 25 May 2018)
Mr. Pan Jinhua	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and re-elected on 25 May 2018)

Independent Non-executive Directors

Mr. Leong Chew Kuan	(appointed on 23 June 2017 and re-elected on 25 May 2018)
Mr. Lau Siu Hang	(appointed on 23 June 2017 and re-elected on 25 May 2018)
Mr. Li Wei	(appointed on 23 June 2017 and re-elected on 25 May 2018)

Pursuant to article 108(a) of the Articles, 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 by rotation at least once every three years. A retiring Director shall be eligible for re-election.

Confirmation of Independence

Each independent non-executive Director has given the Company an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all the independent non- executive Directors are independent and meet the independent guidelines set out in Rule 5.09 of the GEM Listing Rules.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

(a) Executive Directors

Each of the executive Directors entered into a service contract with the Company for a term of three years commencing from 23 June 2017 while Mr. Yu Jiangping a term of the period from 1 July 2018 to 22 June 2020, which may be terminated by not less than three months' notice served by either party on the other. The term of service of a Director is subject to retirement by rotation of Directors as set out in the Articles.

(b) Independent Non-executive Directors

Each of the independent non-executive Directors signed a letter of appointment with the Company for a term of three years commencing from 23 June 2017, which may be terminated by not less than one month's notice served by either party on the other. The term of service of a Director is subject to the provisions on retirement by rotation of Directors as set out in the Articles.

Save as disclosed above, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the Company or its subsidiaries, as applicable within one year without payment of compensation other than statutory compensation).

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emolument of the Directors is recommended by the Remuneration Committee by reference to the benchmarking of the market. The Company also looks into individual Director's competence, duties, responsibilities, performance.

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 7 to the consolidated financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 45 to 51 of this report.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in "Disclosure of Directors' and Substantial Shareholders' interests" section of this report, none of the Directors or an entity connected with any of them had any material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries, parent company or subsidiaries of the parent company was a party and subsisting at any time during or at the end of the year ended 31 December 2018.

As at 31 December 2018, no contract of significance had been entered into between the Company, or any of its subsidiaries and the controlling shareholders of the Company or any of their subsidiaries.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed in this report, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its specified undertakings as defined in the Companies (Directors' Report) Regulation (Chapter 622 of the Laws of Hong Kong) or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

As at 31 December 2018, the Company did not enter into or have any management and/or administration contracts in respect of the whole or any principal business of the Company.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2018 and up to the date of this report, save as disclosed in the section headed "Relationship with Controlling Shareholders" in the Prospectus, none of the Directors, and the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

Each of the controlling shareholders of the Group (the "Controlling Shareholders"), namely Hong Kong Futong Optical Fiber Company Limited ("Futong HK"), Hangzhou Futong Optical Communication Investments Co., Ltd. ("Futong Optical Communication"), Futong Group Co., Ltd. ("Futong China"), Hangzhou Futong Investments Co., Ltd. ("Futong Investments") and Mr. Wang Jianyi ("Mr. Wang") entered into a deed of non-competition dated 13 October 2016 as amended by a supplemental deed dated 23 June 2017 ("Deed of Non-Competition") in favour of the Company (for itself and each of its subsidiaries), pursuant to which each of the Controlling Shareholders has, unconditionally and irrevocably, jointly and severally, undertaken to the Company (for itself and on behalf of other members of the Group) that save and except certain exceptional circumstances, he/it will not, and will procure that his/its close associates (except members of the Group) will not, from the Listing Date, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or company (except through any member of the Group), among other things, carry on, participate, invest or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee, or otherwise, and whether for profit, reward or otherwise) any of the following business ("Controlling Shareholders' Restricted Business"):

(i) sales or manufacturing of optical fibres, optical fibre cables, optical cable cores and other similar products (excluding optical fibre preforms) (the "Relevant Optical Communication Products") in Hong Kong and the ASEAN; and

(ii) any other business in Hong Kong and the ASEAN from time to time conducted, engaged in or invested in by any member of the Group or which the Company has otherwise published an announcement on the website of the Stock Exchange stating its intention to conduct, engage in or invest in.

In addition, each of the Controlling Shareholders has irrevocably and unconditionally, jointly and severally, provided the following undertakings to the Company under the Deed of Non-Competition:

(i) with respect to any proposed sales of the Relevant Optical Communication Products to (a) authorised distributors or trading agents (which include all companies which on-sell or trade the Relevant Optical Communication Products of the Controlling Shareholders) or (b) manufacturers of the Relevant Optical Communication Products, (together, the "Restricted Customers"), the Controlling Shareholder shall include a clause in the relevant contract to be entered into between the Controlling Shareholder and such Restricted Customer(s), pursuant to which such Restricted Customer(s) shall not on-sell the Relevant Optical Communication Products purchased from the Controlling Shareholder, with or without further processing, to other customers in Hong Kong and ASEAN; and

(ii) if prior to the sale of the Relevant Optical Communication Products to the Restricted Customer(s), the Controlling Shareholder has been informed by the Restricted Customer(s) or is aware that such Restricted Customer(s) intend(s) to on-sell the Relevant Optical Communication Products purchased from the Controlling Shareholder, with or without further processing, to other customers in Hong Kong and/or ASEAN, the Controlling Shareholder shall not engage in such sale and shall refer such new business opportunity to the Group.

Further, each of the Controlling Shareholders has irrevocably and unconditionally, jointly and severally, undertaken to the Company (for itself and on behalf of other members of the Group) that he/it will procure any new business investment or other business opportunity relating to the Controlling Shareholders' Restricted Business identified by or offered or made available to him/it and/or his/its close associates to be first referred to the Company.

For further details of the Deed of Non-Competition, please refer to the section headed "Relationship with Controlling Shareholders — Non-Competition Undertaking" in the Prospectus.

The following corporate governance measures have been adopted by the Group to monitor the compliance of the Deed of Non-competition for the year ended 31 December 2018:

(i) Futong China has issued an internal memorandum to the relevant sales and marketing teams of Futong China Group to remind them of the restrictions in undertaking the Controlling Shareholders' Restricted Business, pursuant to which (among other things) each of the members of the Futong China Group shall not directly or indirectly sell or manufacture the relevant products or otherwise conduct the relevant business in Hong Kong or the ASEAN in breach of the non-competition undertakings given by the Controlling Shareholders under the Deed of Non-Competition;

(ii) Futong China has appointed a designated senior officer to monitor the compliance by the Futong Group with such undertaking under the Deed of Non-Competition from time to time after the Listing, whose duties and powers will include, among other things, reviewing all relevant sales records of the members of the Futong China Group;

(iii) each of the Controlling Shareholders has provided all information requested by the Company, including but not limited to the following:

(a) a full list of customers of the Controlling Shareholder for the Relevant Optical Communication Products;

(b) details of the relevant sales of Relevant Optical Communication Products to the Controlling Shareholder's customers; and

(c) samples of contracts entered into between the Controlling Shareholder and the Restricted Customers.

Each of the Controlling Shareholders has provided a declaration to the Company of his/its compliance with the Deed of Non-Competition from the period from the year ended 31 December 2018 up to the date of this report. The Controlling Shareholders also stated in the declaration that they are willing to abide by the Deed of Non-Competition in the future. The independent non-executive Directors have reviewed the relevant information and the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied by each of the Controlling Shareholders from the period from the year ended 31 December 2018 to the date of this report.

DISCLOSURE OF DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

(a) Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

As the period from the year ended 31 December 2018 and up to the date of this report, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO 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 short positions which were taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules.

(b) Substantial Shareholders' Interest in Shares or Underlying Shares of the Company

So far as is known to the Directors, as the period from the year ended 31 December 2018 and up to the date of this report, the following persons, other than a Director or a chief executive of the Company, had interest or short position in the shares and/or the underlying shares which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Number of shares held[1]	Approximate shareholding percentage
Mr. Wang Jianyi ("Mr. Wang")[2]	Interest in a controlled corporation	195,000,000 (L)	75%
Futong Investments[3]	Interest in a controlled corporation	195,000,000 (L)	75%
Futong China[4]	Interest in a controlled corporation	195,000,000 (L)	75%
Hangzhou Futong Optical Communication Investments Co., Ltd. ("Futong Optical Communication")[5]	Interest in a controlled corporation	195,000,000 (L)	75%
Futong HK	Beneficial interest	195,000,000 (L)	75%

Notes:

(1) The letter "L" denotes a person's "long position" in such shares.

(2) Our Company is directly owned as to 75% by Futong HK. Futong HK is owned as to 100% by Futong Optical Communication which is in turn owned as to 100% by Futong China. Futong China is owned as to 80% by Futong Investments. As Futong Investments is owned as to 100% by Mr. Wang, Mr. Wang is deemed to be interested in the same number of shares of the Company held by Futong HK under the SFO.

(3) Our Company is directly owned as to 75% by Futong HK. Futong HK is owned as to 100% by Futong Optical Communication which is in turn owned as to 100% by Futong China. As Futong China is owned as to 80% by Futong Investments, Futong Investments is deemed to be interested in the same number of shares of the Company held by Futong HK under the SFO.

(4) Our Company is directly owned as to 75% by Futong HK. Futong HK is owned as to 100% by Futong Optical Communication which is in turn owned as to 100% by Futong China. Therefore, Futong China is deemed to be interested in the same number of shares of the Company held by Futong HK under the SFO.

(5) Our Company is directly owned as to 75% by Futong HK. By virtue of Futong Optical Communication's 100% shareholding in Futong HK, Futong Optical Communication is deemed to be interested in the same number of shares of the Company held by Futong HK under the SFO.

Save as disclosed above, as the period from the year ended 31 December 2018 and up to the date of this report, the Directors were not aware of any other persons or companies who had any interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO. None of the substantial shareholders have pledged all or part of their interest in the Company's Shares for the year ended 31 December 2018.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2018 are set out in note 28 to the Consolidated Financial Statements. Certain of these transactions (as set out below) also constitute connected transactions/continuing connected transactions under Chapter 20 of the GEM Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Group has entered into certain continuing connected transactions ("Continuing Connected Transactions") with the connected persons (as defined in the GEM Listing Rules) of the Company. The Directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules. One non-exempt continuing connected transaction ("Non-exempt Continuing Connected Transaction"), one non-fully exempt continuing connected transaction ("Non-fully Exempt Continuing Connected Transaction", and one exempt continuing connected transaction "Exempt Continuing Connected Transaction"), constitute Continuing Connected Transactions of the Group during the two years ended 31 December 2017 and 31 December 2018. Details of the Non-exempt Continuing Connected Transaction and the Non-fully Exempt Continuing Connected Transaction are shown as follows:

(1) Non-Exempt Continuing Connected Transaction

Sales of Optical Fibres to Futong China Group

During the two years ended 31 December 2017 and 31 December 2018, Transtech sold optical fibres to Futong China Group. Futong China is one of the controlling shareholders of the Company and Futong China Group means Futong China and its subsidiaries from time to time. Futong China Group mainly procured optical fibres from the Group for on-selling, with or without further processing, to customers in the PRC. The actual sales amount during the two years ended 31 December 2017 and 31 December 2018 and the annual cap for each of FY2017 and FY2018 as set out in the written agreement entered into between Transtech and Futong China on 16 June 2017 (the "Optical Fibre Framework Sales Agreement") in relation to the sales of optical fibres to Futong China Group are set out below.

Actual Sales Amount

	FY2017 (HK$ million)	**FY2018 (HK$ million)**
Optical fibre	36.6	**37.4**

Annual Caps

	For the year ending 31 December		
	2017 (HK$ million)	2018 (HK$ million)	**2019 (HK$ million)**
Optical fibre	40.0	38.0	**18.0**

The actual sales amount for FY2017 and FY2018 did not exceed the annual cap.

GEM Listing Rules Implications

As certain applicable percentage ratios (other than profits ratio) in respect of the transactions under the Optical Fibre Framework Sales Agreement are, on an annual basis, expected to be more than 5% and the annual consideration is more than HK$10 million, the transactions contemplated under the Optical Fibre Framework Sales Agreement constitute a Non-exempt Continuing Connected Transaction of the Company and are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Application for Waivers

Pursuant to Rule 20.103 of the GEM Listing Rules, the Directors have applied for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Rules 20.33 and 20.34 of the GEM Listing Rules respectively, in respect of such Non-exempt Continuing Connected Transaction, subject to the aggregate amount of the Non-exempt Continuing Connected Transaction for each financial year not exceeding the relevant annual caps as stated above. The waiver was expired at 31 December 2018.

Since the existing Optical Fibre Framework Sales Agreement expired on 31 December 2018, in order to continue the transactions, Transtech and Hangzhou Futong, a subsidiary of Futong China, entered into a New Optical Fibre Framework Sales Agreement on 18 March 2019, pursuant to which Transtech has agreed to sell, and Hangzhou Futong (for itself and on behalf of its subsidiaries) has agreed to purchase, optical fibres within the FY2019 annual cap at HK$18 million, subject to the terms of the New Optical Fibre Framework Sales Agreement.

Given that the highest applicable percentage ratios in respect of the FY2019 annual cap for purpose of the New Optical Fibre Framework Sales Agreement is more than 0.1% and less than 5%, the transactions contemplated thereunder shall constitute partially-exempt continuing connected transactions under Rule 20.74(2) of the GEM Listing Rules and are subject to the annual review and disclosure requirements but are exempt from circular and Shareholders' approval requirement under Chapter 20 of the GEM Listing Rules. Reference could be made to the announcement published on 18 March 2019.

(2) Non-fully Exempt Continuing Connected Transaction

Licensing of Premises from Futong Group International Limited ("Futong Group International")

During the two years ended 31 December 2017 and 31 December 2018, Transtech operated from the premises located at 3 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong (the "Premises") which was leased by Futong Group International from Hong Kong Science and Technology Parks Corporation ("HKSTP"). Futong Group International was owned by Mr. Wang, the Controlling Shareholder, and Mr. He Xingfu ("Mr. He"), one of the executive Directors, as to 90% and 10%, respectively. On 9 March 2018, Mr. He transferred all his shares to Mr. Wang, and Mr. Wang became the sole shareholder of Futong Group International at the same date. Therefore, Futong Group International is a connected person of the Group.

On 20 October 2016, a licence agreement was entered into between Transtech and Futong Group International in relation to the Premises ("Licence Agreement"). According to the Licence Agreement, Futong Group International has agreed to grant a licence to Transtech to use the Premises at the Licence Fee as set out in the paragraphs headed "Annual Caps" below. The term of the licence is five years, from 1 July 2016 to 30 June 2021. The Licence Agreement is terminable at Transtech's discretion unilaterally at any time by serving on Futong Group International not less than six months' prior notice in writing. Controlling Shareholders of the Company have provided indemnity in relation to the costs and losses that may be incurred by the Group in relation to relocation in the event that Transtech is required to move out of the Premises.

Actual Transaction Value

For FY2017 and FY2018, Transtech has paid a sum of approximately HK$10.8 million and HK$11.9 million respectively to Futong Group International, for its use of the Premises.

Annual Caps

The Group intends to continue to use the premises after the Listing. The Group will pay licence fee (inclusive of the management and maintenance charge (if any) payable under the head lease between HKSTP and Futong Group International (the "Head Lease") but exclusive of the government rent, government rates and other outgoings) in relation to the Premises ("Licence Fee") to Futong Group International for licensing the Premises. The annual cap of the Licence Fee for each of the five years ending 31 December 2021 in relation to the licensing of the Premises are set out below.

	For the year ending 31 December				
	2017 (HK$ million)	**2018 (HK$ million)**	2019 (HK$ million)	2020 (HK$ million)	2021 (HK$ million)
Licence Fee	10.8	**11.9**	11.9	11.9	13.1

GEM Listing Rules Implications

As certain applicable percentage ratios (other than profits ratio) in respect of the transaction under the Licence Agreement is, on an annual basis, expected to be less than 5% and the annual consideration is more than HK$3 million, the transaction contemplated under the Licence Agreement constitutes a Non-fully Exempt Continuing Connected Transaction of the Company subject to the reporting, announcement and annual review requirements, but are exempt from the circular and independent shareholders' approval requirements, pursuant to Rule 20.74(2) of the GEM Listing Rules.

Application for Waivers

Pursuant to Rule 20.103 of the GEM Listing Rules, our Directors have applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with the announcement requirement under Rule 20.33 of the GEM Listing Rules in respect of such Non-fully Exempt Continuing Connected Transaction, subject to the aggregate amount of each of the Non-fully Exempt Continuing Connected Transaction for each financial year not exceeding the relevant annual caps as stated above.

Annual Review

The independent non-executive Directors have reviewed the Continuing Connected Transactions conducted for the year ended 31 December 2018 and confirmed that such Continuing Connected Transactions were carried out in the ordinary and usual course of business of the Group, were on normal commercial terms and were in accordance with the relevant agreement on terms that are fair and reasonable and in the interests of the shareholders as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transactions entered into by the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on the results of the work performed, the auditor has issued a letter containing an unmodified conclusions in respect of the Continuing Connected Transactions in accordance with Chapter 20 of the GEM Listing Rules in confirming that:

a. Nothing has come to their attention that causes them to believe that the Continuing Connected Transactions have not been approved by the Board;

b. Nothing has come to their attention that causes them to believe that the Non-exempt Continuing Connected Transactions were not, in all material respects, in accordance with the pricing policies of the Group;

c. Nothing has come to their attention that causes them to believe that the Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreement governing the transaction; and

d. Nothing has come to their attention that causes them to believe that the aggregate amount of each of the Continuing Connected Transaction has exceeded the relevant annual cap disclosed in the Prospectus in respect of the Continuing Connected Transactions.

A letter of Independent Assurance Report from auditor on Continuing Connected Transactions was provided to the Stock Exchange on 7 March 2019.

The Company confirmed that the disclosure requirements for the Continuing Connected Transactions have been complied with in accordance with Chapter 20 of the GEM Listing Rules.

The Audit Committee has reviewed the Continuing Connected Transactions conducted for the year ended 31 December 2018 and the letter from the auditor with conclusions in respect of the Continuing Connected Transactions set out above. On such basis, the Audit Committee was of the view that the Continuing Connected Transactions were carried out in compliance with Chapter 20 of the GEM Listing Rules.

DIVIDENDS

The Board did not recommend a payment of any final dividend for the year ended 31 December 2018 (year ended 31 December 2017: nil).

SHARE OPTION SCHEME

The Company has no share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Directors confirm that during the period from the Listing Date to 31 December 2018, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase, cancel or sell any of such listed securities.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct from the Listing Date up to the date of this report.

COMPETING INTERESTS

As at 31 December 2018, save as disclosed in "Relationship with Controlling Shareholders" section of the Prospectus, none of the Directors, and the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregate amount of revenue attributed to the Group's largest and the five largest customers accounted for approximately 14% and 56% (2017: 47% and 88%) of the total revenue of the Group, respectively. For the year ended 31 December 2018, the Group's purchase from the largest and the five largest suppliers accounted for approximately 52% and 85% (2017: 34% and 88%) of the total purchases of the Group, respectively. At no time during the year ended 31 December 2018 did the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) have any interest in the Group's major customers or suppliers as disclosed above.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float as required under the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive or similar rights under the laws of Caymans Islands or the Articles which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

PERMITTED INDEMNITY PROVISION

Subject to the Companies Ordinance, every Director is entitled under the Articles to be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as he or she shall incur or sustain through their own fraud or dishonesty.

The Company has maintained a directors and officers liability insurance for the year ended 31 December 2018. To the extent as permitted by the Companies Ordinance, a directors' liability insurance is currently in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

RELATIONSHIP WITH STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its key stakeholders, including its employees, customers and suppliers, to meet its immediate and long-term business goals. During the year ended 31 December 2018, there were no material and significant disputes between the Group and its employees, customers and suppliers.

The Group recognises employees as one of its valuable assets and strictly complies with the labour laws and regulations and reviews regularly the existing staff benefits for improvement. Apart from the reasonable remuneration packages, the Group also offers other employee benefits. The Group provides good quality services to its customers and keeps a database for direct communications with recurring customers for developing a long-term trusted relationship. The Group also maintains effective communication and develops a long-term business relationship with the suppliers.

BUSINESS REVIEW

A fair review of the business of the Company as well as a discussion and analysis of the Group's performance during the year ended 31 December 2018 and the material factors underlying its results and financial position can be found in the management discussion and analysis set out on pages 7 to 8 of this report. These discussions form part of this report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report, which forms part of this report, is set out on pages 30 to 44 of this report.

DONATION

During FY2018, the Group made donation for charitable purposes in the aggregate amount of HK$22,000 (2017: HK$22,818).

ANNUAL GENERAL MEETING

The second annual general meeting ("AGM") of the Company will be held on 31 May 2019, the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain entitlements to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from 28 May 2019 to 31 May 2019, both days inclusive, during which period no transfer of Shares will be registered.

Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, not later than 4:30 p.m. on 27 May 2019.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in pages 59 and 60 in this report that Transtech and Hangzhou Futong, a subsidiary of Futong China, entered into a New Optical Fibre Framework Sales Agreement on 18 March 2019, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2018 and up to the date of approval of this report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by Deloitte Touche Tohmatsu, who is also the auditor of Transtech for the four years ended 31 December 2018 and shall retire at the forthcoming annual general meeting and, being eligible, offered themselves for re-appointment.

EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2018, the Group had totally 251 headcounts including 72 and 179 employees in Hong Kong and Thailand respectively (2017: totally 280 headcounts including 77 and 203 employees in Hong Kong and Thailand respectively). The total staff costs, including directors' emoluments, amounted to approximately HK$41.5 million during the year ended 31 December 2018 (year ended 31 December 2017: approximately HK$39.6 million). The Group recruits and promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff and to enable smooth operations within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis. The emoluments of the Directors and senior management are reviewed and approved by the Board of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement.

INTERESTS OF THE COMPLIANCE ADVISER

As at 31 December 2018, neither Innovax Capital Limited, the compliance adviser of the Company, nor any of its directors, employees or associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with the written terms of reference in compliance with the GEM Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Leong Chew Kuan, who has the appropriate accounting and financial related management expertise and serves as the chairman of the audit committee, Mr. Lau Siu Hang and Mr. Li Wei.

The primary functions of the Audit Committee are to assist the Board in reviewing the financial information, overseeing the financial reporting system, risk management, internal control systems and relationship with external auditor, and arrangements to enable employees of the Company to raise concerns under the protection of confidentiality about possible improprieties in financial reporting, internal control or other matters of the Company.

The Group's audited consolidated annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee pursuant to the relevant provisions contained in the Corporate Governance Code (the "CG Code") and was of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosure has been made in respect thereof.

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

The Company is committed to maintaining a high standard of corporate governance and believes that a good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the transparency of the Company; (iii) enhance risk management and internal control of the Company; and (iv) safeguard the interests of the shareholders of the Company and the Company as a whole.

The Company has adopted the CG Code as set out in Appendix 15 of the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code for the year ended 31 December 2018 and up to the date of this annual report and confirmed no events of (i) financial assistance and guarantees to the Company's affiliated companies under rule 17.18; (ii) breach of loan agreement under 17.21 and (iii) pledge of the Company's shares under rule 17.43 during the reporting period.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

By Order of the Board
Transtech Optelecom Science Holdings Limited
Hu Guoqiang
Chairman

Hong Kong, 28 March 2019

Deloitte. 德勤

To the Shareholders of Transtech Optelecom Science Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Transtech Optelecom Science Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 71 to 131, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 ("HKSAs") 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.

Key audit matter	How our audit addressed the key audit matter
Valuation of trade receivables	
We identified the valuation of trade receivables as a key audit matter due to the use of judgement and estimates by the management in the evaluation of the recoverability of trade receivables. As set out in notes 4 and 27 to the consolidated financial statements, loss allowance for trade receivables are determined based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, aging of overdue trade receivables, customers' repayment history and customers financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgment. As at 31 December 2018, the carrying amount of trade receivables is HK$237,004,000 with loss allowance for trade receivables of HK$135,000 was recognised in profit or loss for the year.	Our procedures in relation to the recoverability of trade receivables included: • Obtaining an understanding of the Group's trade receivables impairment policy and the controls govern credit control, debt collection and estimate of expected credit losses; • Testing the accuracy of the Group's trade receivables ageing analysis, on a sample basis, to sales invoices; and • Assessing the reasonableness of the loss allowance estimated by management with reference to the credit history of its customers, including default or delay in payments and settlement records, subsequent settlements and ageing analysis of trade receivables, and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Yu Kin Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December 2018 HK$'000	2017 HK$'000
Revenue	5	**510,083**	556,539
Cost of sales		**(380,308)**	(413,626)
Gross profit		**129,775**	142,913
Other income	6	**5,269**	2,775
Other gains and losses	6	**(3,896)**	19,305
Loss allowance for trade receivables		**(135)**	–
Selling and distribution expenses		**(8,010)**	(7,255)
Administrative expenses		**(28,316)**	(28,303)
Finance costs	8	**(997)**	(1,283)
Listing expenses		**–**	(9,553)
Profit before taxation	9	**93,690**	118,599
Income tax expense	10	**(14,132)**	(14,249)
Profit for the year		**79,558**	104,350
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**1,185**	19,943
Total comprehensive income for the year		**80,743**	124,293
Earnings per share	12		
Basic (HK cents)		**30.60**	46.51

Consolidated Statement of Financial Position

	Notes	The Group As at 31 December 2018 HK$'000	 2017 HK$'000
Non-current assets			
Property, plant and equipment	13	**120,088**	136,785
Deposits for acquisition of property, plant and equipment	16	**73,747**	–
Deposits	16	**101**	15
Deferred tax assets	23	**6**	–
		193,942	136,800
Current assets			
Inventories	14	**97,566**	134,769
Trade receivables	15	**237,004**	158,063
Deposits, prepayments and other receivables	16	**2,868**	3,142
Bank balances and cash	17	**187,014**	279,551
		524,452	575,525
Current liabilities			
Trade and bills payables	18	**53,926**	140,621
Other payables and accrued charges	19	**7,635**	9,061
Contract liabilities	20	**285**	–
Bank borrowings	21	**18,035**	900
Tax payable		**3,707**	6,012
		83,588	156,594
Net current assets		**440,864**	418,931
Total assets less current liabilities		**634,806**	555,731
Non-current liability			
Deferred tax liabilities	23	**3,811**	4,550
		3,811	4,550
Net assets		**630,995**	551,181

Consolidated Statement of Financial Position

	Notes	The Group As at 31 December 2018 HK$'000	 2017 HK$'000
Capital and reserves			
Issued share capital	22	**2,600**	2,600
Reserves		**628,395**	548,581
Total Equity		**630,995**	551,181

The consolidated financial statements on pages 71 to 131 were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

Mr. Hu Guoqiang
Director

Mr. He Xingfu
Director

Consolidated Statement of Changes in Equity

	Issued share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 (Note)	Foreign exchange reserve HK$'000	Accumulated profits HK$'000	Equity attributable to the owners of the Company HK$'000
At 1 January 2017	5	–	289,031	(21,245)	60,968	328,759
Profit for the year	–	–	–	–	104,350	104,350
Other comprehensive income	–	–	–	19,943	–	19,943
Total comprehensive income for the year	–	–	–	19,943	104,350	124,293
Issue of shares pursuant to Capitalisation Issue	1,945	(1,945)	–	–	–	–
Issue of shares under the Global Offering	650	108,550	–	–	–	109,200
Transaction costs incurred in connection with the Issue of shares	–	(11,071)	–	–	–	(11,071)
At 31 December 2017	2,600	95,534	289,031	(1,302)	165,318	551,181
Adjustment (see note 2)	–	–	–	–	(929)	(929)
At 1 January 2018 (restated)	**2,600**	**95,534**	**289,031**	**(1,302)**	**164,389**	**550,252**
Profit for the year	**–**	**–**	**–**	**–**	**79,558**	**79,558**
Other comprehensive income	**–**	**–**	**–**	**1,185**	**–**	**1,185**
Total comprehensive income for the year	**–**	**–**	**–**	**1,185**	**79,558**	**80,743**
At 31 December 2018	**2,600**	**95,534**	**289,031**	**(117)**	**243,947**	**630,995**

Note: Other reserve represents (i) the contribution made by Futong Group Co., Ltd. ("Futong China", the Group's parent company not forming part of the Group) to the Group; (ii) the change in proportionate share of the carrying amount of the net assets of Transtech Optical Communication Company Limited ("Transtech") upon change in ownership interest without gaining or losing control; and (iii) share capital and share premium of Transtech and Futong Group Communication Technology (Thailand) Co. Limited ("Futong Thailand").

Consolidated Statement of Cash Flows

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**93,690**	118,599
Adjustments for:		
Depreciation of property, plant and equipment	**17,738**	18,181
Interest income	**(2,449)**	(853)
Interest expenses	**997**	1,283
Loss on disposals of property, plant and equipment	**7**	4
Loss allowance for trade receivables	**135**	–
Operating cash flows before movements in working capital	**110,118**	137,214
Decrease/(increase) in inventories	**37,823**	(47,902)
(Increase)/decrease in trade receivables	**(80,069)**	110,291
(Increase)/decrease in other receivables, deposits and prepayments	**(514)**	3,495
Decrease in trade and bills payables	**(87,629)**	(7,809)
Increase in other payables and accrued charges	**145**	409
Decrease in contract liabilities	**(1,300)**	–
Cash (used in)/generated from operations	**(21,426)**	195,698
Hong Kong Profits Tax paid	**(17,179)**	(10,310)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(38,605)**	185,388
INVESTING ACTIVITIES		
Interest received	**2,603**	627
Deposits paid for acquisition of property, plant and equipment	**(73,747)**	–
Purchases of property, plant and equipment	**(613)**	(4,142)
NET CASH USED IN INVESTING ACTIVITIES	**(71,757)**	(3,515)

Consolidated Statement of Cash Flows

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
FINANCING ACTIVITIES		
Proceeds from issue of shares	**–**	109,200
Transaction costs attributable to issue of shares	**–**	(11,071)
Repayment to an intermediate holding company	**–**	(915)
New bank loans raised	**85,200**	68,352
Repayments of bank borrowings	**(67,933)**	(128,232)
Interest paid	**(997)**	(1,283)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**16,270**	36,051
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(94,092)**	217,924
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**279,551**	58,574
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,555**	3,053
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**187,014**	279,551

1. GENERAL

The Company was incorporated as an exempted company in the Cayman Islands with limited liability on 6 September 2016. The Company's shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of global offering on 20 July 2017 (the "Global offering"). Its immediate holding company is Hong Kong Futong Optical Fiber Company Limited ("Futong HK"), a company incorporated in Hong Kong, and ultimate holding company is Hangzhou Futong Investment Co., Ltd, a company incorporated in the People's Republic of China ("PRC"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in this annual report.

The Company is an investment holding company. Details of the principal activities of its subsidiaries are set out in note 31.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of optical fibre cables, optical cable cores and other related products
- Sales of optical fibres

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	Carrying amounts under HKFRS 15 at 1 January 2018 HK$'000
Current liabilities				
Other payables and accrued charges	(a)	9,061	(1,585)	7,476
Contract liabilities	(a)	–	1,585	1,585

Note:

(a) As at 1 January 2018, deposits received from customers of approximately HK$1,585,000 in respect of sales contracts previously included in other payables and accrued charges were reclassified to contract liabilities.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Note	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Current liabilities				
Other payables and accrued charges	(a)	7,635	285	7,920
Contract liabilities	(a)	285	(285)	–

Impact on the consolidated statement of cash flows

	Note	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Operating activities				
Increase/(decrease) in other payables and accrued charges	(a)	145	(1,300)	(1,155)
Decrease in contract liabilities	(a)	(1,300)	1,300	–

Note:

(a) Without the application of HKFRS 15, deposits received from customers for the sale of goods would have been included in other payables and accrued charges.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	Financial assets at amortised cost (previously classified as loans and receivables) HK$'000	Financial liabilities at amortised cost HK$'000	Deferred tax assets HK$'000	Accumulated profits HK$'000
Closing balance at 31 December 2017 — HKAS 39		438,988	142,332	–	165,318
Effect arising from initial application of HKFRS 9:					
Remeasurement					
Impairment under ECL model	(a)	(932)	–	3	(929)
Opening balance at 1 January 2018		438,056	142,332	3	164,389

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.2 HKFRS 9 Financial Instruments (Continued)

(a) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables are grouped based on shared credit risk characteristics.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including bank balances, and deposits and other receivables, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of HK$932,000 has been recognised against accumulated profits. The additional loss allowance is charged against the respective asset. The deferred tax assets as at 1 January 2018 also increased by approximately HK$3,000.

All loss allowances, including trade receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables HK$'000
As 31 December 2017 — HKAS 39	–
Amounts remeasured through opening accumulated profits	(932)
At 1 January 2018	(932)

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and amendments to HKFRSs in issue but not yet effective (Continued)

HKFRS 16 Leases (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$6,703,000 as disclosed in note 24. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$121,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on a historical basis at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

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

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

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

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

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

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a goods (or a bundle of goods) that is distinct or a series of distinct goods that are substantially the same.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; 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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good.

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

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For contracts where the Group transferred the associated goods before payments from customers in which the Group adjusts for the promised amount of consideration for significant financing components, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The Group recognises interest income during the period between the payment from customers and the transfer of the associated goods.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principal versus agent

When another party is involved in providing goods to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods itself (i.e. the Group is a principal) or to arrange for those goods to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified goods before that goods is transferred to a customer as in its sales of optical fibre cables, optical cable cores and other related products and optical fibres.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns.

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is carried at cost, less any recognised impairment loss. Costs include professional fees capitalised in accordance with the Group's accounting policy.

Depreciation is recognised so as to write off the cost of assets other than freehold land and properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposits and other receivables and bank balances.) The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on trade receivables are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL (Continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables) are each assessed as a separate group;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

Objective evidence of impairment could include:

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

Objective evidence of impairment for individual trade receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments, observable changes in national or local economic conditions that correlate with default on trade receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities

The Group's financial liabilities including trade and bills payables, other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit costs

Payments to defined contribution retirement benefits plans are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period that related services is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Short-term employee benefits

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

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

Leases

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

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

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

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

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

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.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign exchange reserve (attributed to non-controlling interests as appropriate).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 27.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Depreciation

The Group depreciates its property, plant and equipment on a straight-line basis over their estimated useful lives as set out in note 13 commencing from the dates the items of property, plant and equipment are put into their intended use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the property, plant and equipment. The Group assesses the residual value and useful lives of the property, plant and equipment on a regular basis and if the expectation differs from the original estimate, such difference will affect the depreciation charge in the year in which such estimate has been changed.

During the year ended 31 December 2018, the Group determined that there is no change to the estimated useful lives of the property, plant and equipment is approximately HK$120,088,000 as at 31 December 2018 (2017: HK$136,785,000).

5. REVENUE AND SEGMENTAL INFORMATION

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

For the year ended 31 December 2018

Segments	Optical fibres HK$'000	Optical fibre cables, optical cable cores, and other related products HK$'000	Total HK$'000
Types of goods			
Sales of goods — recognised at a point in time			
Optical fibre cables	–	237,990	237,990
Optical fibres	174,958	–	174,958
Optical cable cores	–	97,135	97,135
Total	**174,958**	**335,125**	**510,083**

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

A. For the year ended 31 December 2018 (Continued)

(i) Disaggregation of revenue from contracts with customers (Continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the year ended 31 December 2018				
	Optical fibre cables, optical cable cores and other products HK$'000	Optical fibres HK$'000	Total segment revenue HK$'000	Elimination HK$'000	Consolidated HK$'000
Sales of optical fibre cables	237,990	–	237,990	–	237,990
Sales of optical fibre	–	303,288	303,288	(128,330)	174,958
Sales of optical cable cores	97,135	–	97,135	–	97,135
Segment revenue	335,125	303,288	638,413	(128,330)	510,083

(ii) Performance obligations for contracts with customers

The Group manufactures and sells the optical fibre cables, optical fibres, optical cable cores and other related products to customers.

For manufacturing and sales of the optical fibre cables, optical fibre, optical cable cores and other related products to the customers, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customers' specific location ("delivery").

Following the delivery, the customers have full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 0 to 720 days upon delivery.

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year from continuing operations is as follows:

	Year ended 31 December 2017 HK$'000
Sales of optical fibre cables	203,654
Sales of optical fibre	191,594
Sales of optical cable cores	159,188
Sales of other related products	2,103
	556,539

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

The Group determines its operating segments based on the reports reviewed by Mr. Hu Guoqiang, the chief operating decision maker ("CODM") that are used to make strategic decisions. Information reported to the CODM is based on the business lines operated by the Group.

The Group's operating and reporting segments are (i) Optical fibre cables, optical cable cores and other related products, which is located in Thailand; and (ii) Optical fibres, which is located in Hong Kong.

Segment revenue and results

Year ended 31 December 2018

	Optical fibre cables, optical cable cores and other related products HK$'000	Optical fibres HK$'000	sub-total HK$'000	Elimination HK$'000	Total HK$'000
Revenue					
External sales	335,125	174,958	510,083	–	510,083
Inter-segment sales	–	128,330	128,330	(128,330)	–
Segment revenue	335,125	303,288	638,413	(128,330)	510,083
Segment profit	7,928	88,346	96,274	2,900	99,174
Interest income					502
Unallocated corporate expenses					(4,989)
Finance costs					(997)
Profit before taxation					93,690

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Segment revenue and results (Continued)

Year ended 31 December 2017

	Optical fibre cables, optical cable cores and other related products HK$'000	Optical fibres HK$'000	Sub-total HK$'000	Elimination HK$'000	Total HK$'000
Revenue					
External sales	364,945	191,594	556,539	–	556,539
Inter-segment sales	–	75,388	75,338	(75,388)	–
Segment revenue	364,945	266,982	631,927	(75,388)	556,539
Segment profit	46,177	91,778	137,955	(3,772)	134,183
Interest income					128
Unallocated corporate expenses					(4,876)
Finance costs					(1,283)
Listing expenses					(9,553)
Profit before taxation					118,599

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of bank interest income, corporate expenses, finance costs, listing expenses and income tax expense.

Inter-segment sales are charged at prevailing market rates.

Furthermore, other than other segment information disclosed, the assets and liabilities for operating segments are not provided to the Company's CODM for the purposes of resources allocation and performance assessment, and therefore no segment assets and liabilities information is presented.

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Other information

Year ended 31 December 2018

	Optical fibre cables, optical cable cores and other related products HK$'000	Optical fibres HK$'000	Total HK$'000
Other segment information (included in the measure of segment profit or loss or regularly provided to CODM)			
Additions to non-current assets (Note)	**292**	**321**	**613**
Depreciation	**12,526**	**5,212**	**17,738**
Loss on disposals of property, plant and equipment	**–**	**7**	**7**
Loss allowance for trade receivables	**95**	**40**	**135**

Year ended 31 December 2017

	Optical fibre cables, optical cable cores and other related products HK$'000	Optical fibres HK$'000	Total HK$'000
Other segment information (included in the measure of segment profit or loss or regularly provided to CODM)			
Additions to non-current assets (Note)	1,838	512	2,350
Depreciation	12,993	5,188	18,181
Loss on disposals of property, plant and equipment	–	4	4

Note: Non-current assets excluded financial instruments, deposits for acquisition of property, plant and equipment and deferred tax assets.

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Geographical information

The Group's operations are located in Hong Kong and Thailand.

Information about the Group's revenue from external customers is presented based on the customers' geographical location, which is based on billing address, as below:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
PRC (excluding Hong Kong)	**37,354**	36,601
Hong Kong	**154,203**	309,739
Thailand	**144,263**	164,195
Vietnam	**2,644**	15,537
Singapore	**84,088**	8,897
Laos	**9,836**	–
The Philippines	**4,767**	7,298
Burma	**67,828**	6,579
Others	**5,100**	7,693
	510,083	556,539

Information about the Group's non-current assets is presented based on the geographical location of the assets as bellow:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Hong Kong	**34,175**	35,061
Thailand	**159,767**	101,739
	193,942	136,800

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Information about major customers

Revenue attributed from customers that accounted for 10% or more of the Group's total revenue for the respective year is as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Customer A	**67,229**	87,196
Customer B	**73,905**	N/A*
Customer C	**N/A***	70,043
Customer D	**61,774**	N/A*
Customer E	**N/A***	263,853

* Revenue from relevant customer was less than 10% of the Group's total revenue for the respective year.

Note: Customers A, C and D are customers of the segment of optical fibre cables, optical cable cores and other related products. Customer B is customer of the segment of optical fibres. Customer E is customer of both segments.

6. OTHER INCOME, GAINS AND LOSSES

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Other income:		
Income from sales of scrap products	**797**	745
Bank interest income	**2,449**	853
Others	**2,023**	1,177
	5,269	2,775
Other gains and losses:		
Foreign exchange (losses)/gains	**(3,889)**	19,309
Loss on disposals of property, plant and equipment	**(7)**	(4)
	(3,896)	19,305

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to the directors and chief-executive of the Company (including emoluments for their services as employee/directors of subsidiaries prior to becoming the directors of the Company) by entities comprising the Group during the year are as follows:

	Hu Guoqiang HK$'000 (Note iii)	He Xingfu HK$'000 (Note i)	Yu Jiangping HK$'000 (Note iv)	Wei Guoqing HK$'000 (Note v)	Pan Jinhua HK$'000 (Note iii)	Xu Muzhong HK$'000	Li Wei HK$'000	Leong Chew Kuan HK$'000	Lau Siu Hang HK$'000	Total HK$'000
Year ended 31 December 2018										
Fees	600	360	–	–	560	–	240	240	240	2,240
Other emoluments										
Salaries and other benefits	–	1,362	400	257	–	672	–	–	–	2,691
Retirement benefit scheme contributions	–	18	–	–	–	–	–	–	–	18
Total emoluments	600	1,740	400	257	560	672	240	240	240	4,949

	Hu Guoqiang HK$'000 (Note iii)	He Xingfu HK$'000 (Note i)	Wei Guoqing HK$'000	Pan Jinhua HK$'000 (Note iii)	Xu Muzhong HK$'000	Li Wei HK$'000	Leong Chew Kuan HK$'000	Lau Siu Hang HK$'000	Total HK$'000
Year ended 31 December 2017									
Fees	300	180	–	280	–	108	108	108	1,084
Other emoluments									
Salaries and other benefits	–	1,519	673	–	552	–	–	–	2,744
Retirement benefit scheme contributions	–	18	–	–	–	–	–	–	18
Total emoluments	300	1,717	673	280	552	108	108	108	3,846

Notes:

(i) Mr. He Xingfu acts as chief executive officer of the Group. Emoluments for acting as chief executive officer of the Group has been included in his director's emoluments as disclosed above.

(ii) The directors' emoluments shown above were for their services in connection with the management of the affairs of the Group.

(iii) Emoluments for the six months ended 30 June 2017 were borne by Futong China for their services in connection with the management of the affairs of the Group and certain fellow subsidiaries. The directors consider that there is no reasonable basis to allocate such emoluments to the Group. Starting from July 2017, their emoluments are borne by the Group.

(iv) Mr. Yu Jiangping was appointed as an Executive Director with effect from 1 July 2018.

(v) Mr. Wei Guoqing resigned as an Executive Director with effect from 1 July 2018.

During both years, no remuneration was paid by the Group to any director of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. Each of the directors has not waived any remuneration during both years.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees' emoluments

The five highest paid individuals of the Group during the year included two directors (2017: two directors) whose emoluments are included in the disclosures in (a) above. The emoluments of the remaining three (2017: three) individuals who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Salaries and other benefits	**1,990**	2,059
Discretionary bonus	**146**	241
Retirement benefit scheme contributions	**54**	36
	2,190	2,336

The emoluments of the highest paid individuals were within the following bands:

	Year ended 31 December 2018 Number of individuals	2017 Number of individuals
Nil to HK$1,000,000	**4**	3
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**1**	1
	5	5

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

8. FINANCE COSTS

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Interest on bank loans	**997**	1,283

9. PROFIT BEFORE TAXATION

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	**1,000**	900
Depreciation of property, plant and equipment	**17,738**	18,181
Less: amount capitalised in inventories	**(14,207)**	(14,250)
	3,531	3,931
Directors' remuneration (Note 7)	**4,949**	3,846
Other staff costs		
Salaries and other benefits	**35,783**	35,074
Retirement benefits scheme contributions	**801**	719
Total staff costs	**41,533**	39,639
Less: amount capitalised in inventories	**(24,092)**	(23,688)
	17,441	15,951
Minimum lease payments under operating leases in respect of land and buildings	**12,551**	11,469
Cost of inventories recognised as cost of sales	**380,308**	413,626

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Hong Kong Profits Tax		
Current Tax	**14,764**	14,835
Under(over)provision in prior years	**82**	(13)
	14,846	14,822
Thailand withholding tax	**28**	–
Deferred tax (Note 23)	**(742)**	(573)
	14,132	14,249

10. INCOME TAX EXPENSE (CONTINUED)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Futong Thailand has been granted preferential tax treatments by the Board of Investment in Thailand relating to manufacturing of cables by virtue of the provisions of the Industrial Investment Promotion Act B.E. 2520 of Thailand. The preferential tax treatments granted include the exemption from payment of corporate income tax on net profit of the promoted business of the manufacturing of cables for a period of eight years from the date on which the income is first derived from such operations (the "Exemption Period"). As both years fall within the Exemption Period and therefore no income tax has been provided for both years.

The tax charge for both years can be reconciled to the profit before taxation as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Profit before taxation	**93,690**	118,599
Tax at the applicable income tax rate	**15,459**	19,569
Tax effect of income not taxable for tax purpose	**(406)**	(851)
Under(over)provision in prior years	**82**	(13)
Tax effect of expenses not deductible for tax purpose	**934**	2,379
Effect of tax exemption granted	**(1,635)**	(6,848)
Withholding income tax for profit to be distributed from the subsidiary in Thailand	**28**	–
Tax effect of two-tiered tax rate regime	**(330)**	–
Others	**–**	13
Tax charge for the year	**14,132**	14,249

11. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company for 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

12. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	2018 **HK$'000**	2017 HK$'000
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**79,558**	104,350

	2018 **'000**	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**260,000**	224,384

No diluted earnings per share for both years 2018 and 2017 were presented as there were no potential ordinary shares in issue for both years 2018 and 2017.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Building HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST									
At 1 January 2017	25,678	40,437	51,164	107,534	4,092	1,745	2,938	–	233,588
Additions	–	–	271	623	1,402	54	–	–	2,350
Disposals	–	–	–	(11)	(3)	(11)	–	–	(25)
Exchange realignment	2,813	4,430	2,217	5,272	466	104	247	–	15,549
At 31 December 2017	28,491	44,867	53,652	113,418	5,957	1,892	3,185	–	251,462
Additions	–	–	–	190	358	25	–	40	613
Disposals	–	–	–	(24)	(4)	(19)	–	–	(47)
Exchange realignment	95	150	75	180	16	3	8	–	527
At 31 December 2018	**28,586**	**45,017**	**53,727**	**113,764**	**6,327**	**1,901**	**3,193**	**40**	**252,555**
DEPRECIATION									
At 1 January 2017	–	6,635	42,168	37,358	2,701	733	2,097	–	91,692
Provided for the year	–	2,153	4,495	10,025	835	288	385	–	18,181
Eliminated on disposals	–	–	–	(11)	(3)	(7)	–	–	(21)
Exchange realignment	–	818	1,570	1,940	294	31	172	–	4,825
At 31 December 2017	–	9,606	48,233	49,312	3,827	1,045	2,654	–	114,677
Provided for the year	–	2,269	3,931	10,321	718	292	207	–	17,738
Eliminated on disposals	–	–	–	(17)	(4)	(19)	–	–	(40)
Exchange realignment	–	14	33	34	6	–	5	–	92
At 31 December 2018	**–**	**11,889**	**52,197**	**59,650**	**4,547**	**1,318**	**2,866**	**–**	**132,467**
CARRYING AMOUNTS									
At 31 December 2018	**28,586**	**33,128**	**1,530**	**54,114**	**1,780**	**583**	**327**	**40**	**120,088**
At 31 December 2017	28,491	35,261	5,419	64,106	2,130	847	531	–	136,785

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Buildings on freehold land	20 years
Leasehold improvements	3 to 10 years or over the lease term
Machinery	10 years
Furniture and fixtures	5 years
Office equipment	5 years
Motor vehicles	5 years

No depreciation is provided on freehold land.

The Group's land with buildings and machinery with aggregate carrying amounts of HK$78,992,000 as at 31 December 2018 (2017: HK$85,043,000) were mortgaged as collateral to secure bank loans as set out in note 21.

Notes to Consolidated Financial Statements

14. INVENTORIES

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Raw materials and consumables	**58,888**	69,276
Work in progress	**9,814**	10,948
Finished goods	**19,960**	41,218
Goods-in-transit	**8,904**	13,327
Total	**97,566**	134,769

15. TRADE RECEIVABLES

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Trade receivables		
— sales of goods	**238,074**	158,063
Less: Loss allowance	**(1,070)**	–
Total trade receivables	**237,004**	158,063

The Group grants credit terms of 0–720 days to its customers from the date of invoice. The following is an aged analysis of the trade receivables, net of allowance for credit losses presented based on invoice date at the end of the reporting period.

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
0 – 180 days	**152,965**	128,491
181 – 270 days	**61,168**	29,375
Over 270 days	**22,871**	197
	237,004	158,063

15. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$96,551,000 which are past due as at the reporting date. Out of the past due balances, HK$1,577,000 has been past due 270 days or more and is not considered as in default. The Group does not hold any collateral over these balances.

As at 31 December 2017, 66% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group, which is based on the evaluation of collectability and aging analysis of accounts and on management's judgment including the creditworthiness and the past collection history of each client.

As at 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$53,417,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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

	31 December 2017 HK$'000
1–30 days overdue	7,258
31–60 days overdue	10,160
61–90 days overdue	6,702
over 90 days overdue	29,297
Total	53,417

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in note 27.

16. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Electricity deposits	**785**	785
Other deposits	**170**	148
Prepayments	**908**	937
Other receivable	**180**	441
Value-added tax receivables	**926**	846
Deposits for acquisition of property, plant and equipment	**73,747**	–
Total	**76,716**	3,157
Presented as non-current assets	**73,848**	15
Presented as current assets	**2,868**	3,142
Total	**76,716**	3,157

17. BANK BALANCES AND CASH

Bank balances carry interest at market interest rates ranging from 0.01% to 2.1% per annum as at 31 December 2018 (2017: 0.01% to 0.305%).

For the year ended 31 December 2018, the Group performed impairment assessment on bank balances and concluded that the credit risks on the bank balances are limited because the counterparties are banks with higher credit ratings assigned by international credit rating agencies.

18. TRADE AND BILLS PAYABLES

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Bills payables	**25,409**	29,950
Trade payables	**28,517**	110,671
	53,926	140,621

18. TRADE AND BILLS PAYABLES (CONTINUED)

The credit period on purchases of raw materials is 30 to 180 days. The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Trade and bills payables:		
0 – 30 days	**10,767**	36,465
31 – 60 days	**18,329**	32,266
61 – 90 days	**18,024**	18,470
91 – 180 days	**6,623**	53,238
Over 180 days	**183**	182
	53,926	140,621

19. OTHER PAYABLES AND ACCRUED CHARGES

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Accrued charges	**5,198**	6,442
Other payables	**2,437**	2,619
	7,635	9,061

20. CONTRACT LIABILITIES

	31 December 2018 HK$'000	1 January 2018* HK$'000
Sales of optical fibre cables	**285**	1,585

* The amount in this column is after the adjustments from the application of HKFRS 15.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	Sales of optical fibre cables HK$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	1,585

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives a 20%–50% deposit depends on the contract terms.

21. BANK BORROWINGS

	As at 31 December			
	2018		2017	
	Effective interest rate	**HK$'000**	Effective interest rates	HK$'000
Secured and unguaranteed:				
Promissory notes	**4.58%–4.76%**	**18,035**	–	–
Bank loans	**–**	**–**	5.25%	900
		18,035		900
Less: Amounts due within one year shown under current liabilities		**(18,035)**		(900)
Amounts shown under non-current liabilities		**–**		–

21. BANK BORROWINGS (CONTINUED)

The carrying amounts of the above borrowings are repayable*:

	As at 31 December 2018 HK$'000	2017 HK$'000
Within one year	**18,035**	900

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

Promissory notes amounting to US$2,296,000 (equivalent to HK$18,035,000) as at 31 December 2018 were interest bearing at US$3-month LIBOR plus 3% per annum.

A long-term loan amounting to THB3,750,000 (equivalent to HK$900,000) as at 31 December 2017 was interest bearing at a rate of Minimum Lending Rate of Thailand minus 1% per annum with instalments repayable based on scheduled repayment dates. The loan has been fully repaid during the year ended 31 December 2018.

The Group's bank borrowings of HK$18,035,000 and HK$900,000 were secured by land, buildings and machinery of approximately HK$78,992,000 and HK$85,043,000 in aggregate as at 31 December 2018 and 2017 respectively.

The Group's borrowings that are denominated in currency other than the functional currency of the relevant group entity are set out below:

	US$ HK$'000
As at 31 December 2018	**18,035**
As at 31 December 2017	–

22. ISSUED SHARE CAPITAL

	Number of shares	HK$'000
Authorised		
At 1 January 2017 — ordinary shares of HK$0.01 each (Note i)	39,000,000	390
At 23 June 2017, 31 December 2017 and 31 December 2018 — ordinary shares of HK$0.01 each (Note i)	1,000,000,000	10,000
Issued and fully paid		
At 1 January 2017	500,000	5
Issue of share under Capitalisation Issue (Note ii)	194,500,000	1,945
Issue of shares under Global Offering (Note ii)	65,000,000	650
At 31 December 2017 and 31 December 2018	**260,000,000**	**2,600**

Notes:

i. The Company was incorporated in the Cayman Islands on 6 September 2016 with an authorised share capital of US$50,000 divided into 5,000,000 shares of US$0.01 each. On 7 October 2016, the currency denomination of the shares of the Company was changed from US$ into HK$ resulting in an authorised share capital of HK$390,000 divided into 39,000,000 shares of HK$0.01 each, and the number of shares in issue was changed from 100 shares of US$0.01 each to 780 shares of HK$0.01 each. On 7 October 2016, through the Group reorganisation 499,220 shares were allotted, issued, credited as fully paid to Futong HK. On 23 June 2017, written resolutions of the shareholders of the Company were passed and resolved that the authorised share capital of the Company be increased to HK$10,000,000 by the creation of 961,000,000 new shares of HK$0.01 each.

ii. The shares of the Company have been listed on GEM of the Stock Exchange by way of Global Offering on 20 July 2017. 65,000,000 shares of the Company of HK$0.01 each were issued at a price of HK$1.68 per share. On the same date, 194,500,000 shares of the Company were issued through capitalisation of HK$1,945,000 standing to the credit of the share premium account of the Company (the "Capitalisation Issue").

23. DEFERRED TAXATION

The following are the major deferred tax assets and (liabilities) recognised and movements thereon during the years:

Deferred tax

	ECL provision HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1 January 2017	–	(5,123)	(5,123)
Credit to profit or loss	–	573	573
At 31 December 2017	–	(4,550)	(4,550)
Adjustment (Note 2)	3	–	3
At 1 January 2018 (Restated)	3	(4,550)	(4,547)
Credit to profit or loss	3	739	742
At 31 December 2018	**6**	**(3,811)**	**(3,805)**

The above deferred tax asset and liabilities within the same tax jurisdiction have been offset for presentation purpose in the consolidated statement of financial position. The following is the analysis of the deferred taxation:

	As at 31 December	
	2018 **HK$'000**	2017 HK$'000
Deferred tax assets	**6**	–
Deferred tax liabilities	**(3,811)**	(4,550)
	(3,805)	(4,550)

24. OPERATION LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases with a related company and independent third parties, which fall due as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Within one year	**6,459**	6,314
In the second to fifth year inclusive	**244**	90
	6,703	6,404

The above operating lease payments represent rental payable by the Group for office premises and plant for the year. Leases and rentals are negotiated and fixed for a term of 1 to 5 years and rentals are fixed for the period.

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases with a related company, Futong Group International Limited ("Futong Group International"), within one year is HK$5,940,000 (2017: HK$5,940,000).

25. CAPITAL COMMITMENT

	2018	2017
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**56,129**	–

26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt and equity of the Group, comprising issued share capital and other reserves.

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through issuance of new shares and the raise of borrowings.

27. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Financial assets		
Financial assets at amortised cost	**425,153**	N/A
Loans and receivables (including cash and cash equivalents)	**N/A**	438,988
Financial liabilities		
Amortised cost	**73,298**	142,332

Financial risk management objectives and policies

The Group's financial instruments include trade receivables, deposits and other receivables, bank balances and cash, trade and bills payables, other payables, and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

27. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk

Foreign currency risk

The Group's foreign currency exposures arise mainly from the exchange rate movements of the US$, and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy to hedge its exposure to foreign currency risk. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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

Assets

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
RMB	**158,339**	204,792
US$	**78,821**	24,408

Liabilities

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
RMB	**15,164**	41,712
US$	**50,860**	93,006

27. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk (Continued)

Sensitivity analysis

Included in the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities are US$ denominated amounts held by Transtech. As HK$ is pegged to US$, Transtech's foreign currency risk related to US$ is insignificant and the sensitivity analysis is not presented.

The following table details the Group's other sensitivity to a 5% (2017: 5%) increase and decrease in the relevant foreign currencies against the functional currency of the entity (i.e. HKD and THB) to which they relate. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, including inter-company balances, and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the relevant foreign currencies strengthen 5% (2017: 5%) against HK$. For a 5% (2017: 5%) weakening of the relevant foreign currencies against HK$, there would be an equal and opposite impact and the numbers below would be negative.

	RMB Impact Year ended 31 December		US$ Impact Year ended 31 December	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Profit after tax	**6,724**	7,036	**775**	(4,394)

Interest rate risk

The Group is exposed to cash flow interest rate risk relating to the variable rate bank balances and bank borrowings. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and LIBOR arising from the Group's United States Dollar denominated borrowings.

The Group is also exposed to fair value interest rate risk in relation to the certain bank balances which are interest bearing at fixed interest rate as at 31 December 2018.

The Group currently does not have interest rate hedging policy. However, management will consider hedging significant interest rate exposure should the need arise.

27. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to variable interest rates for bank borrowings at the end of the reporting period. The analysis is prepared assuming the bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For the year ended 31 December 2018, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately HK$180,000 (2017: decrease/increase by HK$9,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's cash flow interest rate risk relates to bank balances is insignificant due to low interest rates.

Credit risk and impairment assessment

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other financial assets

The Group considers the counterparties with good credit worthiness based on their past repayment history and subsequent settlement. In the opinion of the directors of the Company, the risk of default by these counterparties is not significant and the Group measured loss allowance at 12m ECL on deposit and other receivables and assessed that the ECL on these balances are insignificant and thus no loss allowance provision was recognised for the year.

The credit risks on bank balances are limited because the counterparties are banks with higher credit ratings assigned by international credit rating agencies.

27. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group has concentration of credit risk with exposure limited to certain customers. Trade receivables from top three customers amounting to HK$139,835,000 (2017: HK$112,383,000), in aggregate, comprised approximately 59% (2017: 71%) of the Group's trade receivables as at 31 December 2018. The management closely monitors the subsequent settlement of the customers. In this regard, the management considers that the Group's credit risk is significantly reduced.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL — not credit-impaired	12m ECL
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

27. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK'000
Financial assets at amortised cost					
Trade receivables	15	N/A	Low risk	Lifetime ECL	27,809
			Watch list	Lifetime ECL	210,265
Deposits and other receivables	16	N/A	(Note 2)	12-month ECL	1,135*
Bank balances	17	BAA–AA	N/A	12-month ECL	187,014

* The gross carrying amounts disclosed above include the relevant interest receivables which presented in other receivables.

Notes:

1. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

2. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due HK$'000	Not past due/ No fixed repayment terms HK$'000	Total HK$'000
Deposits and other receivables	–	1,135	1,135

Provision matrix — internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its sales of optical fibre cables, optical cable cores and other related products and optical fibres. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired).

27. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Gross carrying amount

Internal credit rating	Average loss rate	Trade receivables HK$'000
Low risk	0.25%	27,809
Watch list	0.48%	210,265
		238,074

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided loss allowance for trade receivables of HK$135,000, based on the provision matrix.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit impaired) HK$'000
As at 31 December 2017 under HKAS 39	–
Adjustment upon application of HKFRS 9	932
As at 1 January 2018 — As restated	932
Changes due to financial instruments recognised as at 1 January:	
— impairment losses recognised	135
Exchange adjustments	3
As at 31 December 2018	1,070

27. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate yield curve at the end of the reporting period.

	Weighted average effective interest rate %	Within 1 year or on demand HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
As at 31 December 2018				
Trade and bills payables	**–**	**53,926**	**53,926**	**53,926**
Other payables	**–**	**1,337**	**1,337**	**1,337**
Bank borrowings	**4.67**	**18,217**	**18,217**	**18,035**
		73,480	**73,480**	**73,298**
As at 31 December 2017				
Trade and bills payables	–	140,621	140,621	140,621
Other payables	–	811	811	811
Bank borrowings	5.25	906	906	900
		142,338	142,338	142,332

As at 31 December 2018 and 2017, there are no bank borrowings with a repayment on demand clause.

Fair value measurement of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

28. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with the following related parties during the year:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Intermediate holding company		
Futong China		
Sales#	**–**	36,601
Maintenance expense	**–**	80
Fellow subsidiaries		
Hangzhou Futong Communication Technology Co., Ltd. ("Hangzhou Futong")		
Sales#	**37,354**	–
Related company^		
Futong Group International		
Rental expense#	**11,880**	10,800

The related party transactions are also defined as continuing connected transactions under the Listing Rules.

^ Controlled by a shareholder of Hangzhou Futong Investment Co., Ltd., ultimate holding company of the Company.

The sales, maintenance expense and rental expense are all at the terms agreed with the relevant parties.

(b) Trade receivables:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Futong China	**–**	12,587
Hangzhou Futong	**8,160**	–
	8,160	12,587

(c) Trade and bills payables:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Hangzhou Futong	**161**	170
	161	170

28. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Compensation of key management personnel

The remuneration of key management personnel who are the directors during the year is set out in note 7, which is determined with reference to the performance of individual and market trends.

The remuneration of key management personnel during the year was as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Short-term benefits	**4,211**	3,504
Post-employment benefits	**18**	18
	4,229	3,522

29. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows financing activities.

	Amount due to an intermediate holding company	Bank borrowings	Total
		Note 21	
	HK$'000	HK$'000	HK$'000
At 1 January 2017	915	58,462	59,377
Financing cash flows	(915)	(61,163)	(62,078)
Interest expenses	–	1,283	1,283
Foreign exchange realignment	–	2,318	2,318
At 31 December 2017	–	900	900
Financing cash flows	–	16,270	16,270
Interest expenses	–	997	997
Foreign exchange realignment	–	(132)	(132)
At 31 December 2018	–	18,035	18,035

30. RETIREMENT BENEFIT SCHEMES

The Group participates a MPF Scheme for all its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules.

The only obligation of the Group with respect to the MPF Scheme is to make the required contributions. Except for voluntary contribution, no forfeited contribution under the MPF Scheme is available to reduce the contribution payable in future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions paid or payable to the fund by the Group at rates specified in the rules of the scheme.

The Group registers its employees in Thailand with Workmen's Compensation Fund and Social Security Fund as required by laws in Thailand. The Group is required to make annual contributions to the Workmen's Compensation Fund and monthly contributions to the Social Security Fund, and the only obligation of the Group with respect to these funds is to make the required contributions.

The contributions paid and payable to the schemes by the Group are disclosed in note 9.

31. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by the Company as at 31 December		Principal activities
				2018 %	2017 %	
Transtech	BVI	Hong Kong	US$430	**100**	100	Manufacturing and sales of optical fibres
Futong Thailand	Thailand	Thailand	THB807,110,000 (2017: THB500,000,000)	**100**	100	Manufacturing and sales of optical fibre cables, optical cable cores and other related products
Great Sign	BVI	Hong Kong	US$1,000	**100**	100	Investment holding
Pan South	BVI	Hong Kong	US$1,000	**100**	100	Investment holding

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

32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Investments in subsidiaries	**394,018**	320,543
Current assets		
Deposits,prepayments and other receivables	**209**	141
Bank balances and cash	**24,141**	100,046
	24,350	100,187
Current liabilities		
Other payables and accrued charges	**1,103**	2,065
Amounts due to subsidiaries	**29,753**	26,687
Tax payable	**28**	–
	30,884	28,752
Net current (liabilities) assets	**(6,534)**	71,435
Total assets less current liabilities	**387,484**	391,978
Net assets	**387,484**	391,978
Capital and reserves		
Issued share capital	**2,600**	2,600
Reserves	**384,884**	389,378
Total equity	**387,484**	391,978

32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movement in Company's reserves

	Share premium HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	–	320,522	(11,709)	308,813
Issue of shares pursuant to Capitalisation Issue	(1,945)	–	–	(1,945)
Issue of shares under the Global Offering	108,550	–	–	108,550
Transaction costs incurred in connection with the issue of shares	(11,071)	–	–	(11,071)
Loss and other comprehensive expense for the year	–	–	(14,969)	(14,969)
At 31 December 2017	95,534	320,522	(26,678)	389,378
At 1 January 2018	**95,534**	**320,522**	**(26,678)**	**389,378**
Loss and other comprehensive expense for the year	**–**	**–**	**(4,494)**	**(4,494)**
At 31 December 2018	**95,534**	**320,522**	**(31,172)**	**384,884**

Financial Summary

RESULT

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**510,083**	556,539	599,772	395,515	252,677
Cost of sales	**(380,308)**	(413,626)	(490,699)	(358,471)	(232,169)
Gross profit	**129,775**	142,913	109,073	37,044	20,508
Profit/(loss) for the year	**79,558**	104,350	67,233	(2,925)	(4,509)

ASSETS AND LIABILITIES

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**193,942**	136,800	142,035	151,986	137,395
Current assets	**524,452**	575,525	397,578	341,068	237,607
Non-current liabilities	**3,811**	4,550	5,934	3,495	6,785
Current liabilities	**83,588**	156,594	204,920	227,203	90,524
Net current assets	**440,864**	418,931	192,658	113,865	147,083
Net assets	**630,995**	551,181	328,759	262,356	277,693

The summary above does not form part of the audited consolidated financial statements.

The financial information for the years ended 31 December 2014, 2015 and 2016 were extracted from the Prospectus of the Company dated 30 June 2017. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years.