

# 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

ANNUAL REPORT

# 2019



5G



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

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Hu Guoqiang (*Chairman*)  
Mr. He Xingfu (*Chief Executive Officer*)  
Mr. Yu Jiangping  
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. Yu Jiangping  
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

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

# CORPORATE INFORMATION

## COMPLIANCE ADVISER

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Chinachem Century Tower  
178 Gloucester Road, Wan Chai  
Hong Kong

## AUDITOR

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*Certified Public Accountants*  
35th Floor, One Pacific Place  
88 Queensway, Hong Kong

## LEGAL ADVISER

Eric Chow & Co.  
in Association with Commerce & Finance Law Offices  
29th Floor  
238 Des Voeux 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](http://transtechoptel.com)

# CHAIRMAN'S STATEMENT



\* The second annual general meeting after Listing was held on 31 May 2019

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 am pleased to present the audited consolidated results of the Group for the year ended 31 December 2019.

## REVIEW

The global economy was affected by the escalation of the Sino-US trade conflict which was reflected the macro-policy and capital market in 2019. As most of the PRC major domestic telecommunication operators prepared for the 5G network construction in 2020, the growth of communications industry has slowed down and competition amongst peers intensified because of the excessive supply of products and weak demand both in the markets of Hong Kong and ASEAN countries in 2019.

The Group experienced hardship in 2019 due to the downstream markets and recorded a decrease of revenue of approximately HK\$139.3 million for the year 31 December 2019 (2018: approximately HK\$46.5 million).

During the year ended 31 December 2019, the gross profit of the Group was approximately HK\$84.7 million (2018: approximately HK\$129.8 million).

During the year ended 31 December 2019, the Group reported total comprehensive income for the year attributable to owners of the Group by approximately HK\$60.5 million (2018: approximately HK\$80.7 million).

During the year ended 31 December 2019, the Group's basic earning per share was approximately HK\$0.14 (2018: approximately HK\$0.31).

# CHAIRMAN'S STATEMENT

## OUTLOOK

2020 is a year of opportunities and challenges for optical fibre and optical cable manufacturers.

With the promotion of accelerating information infrastructure investment at the PRC national policy level, and the construction of 5G network, the scale of investment in the communications industry will be gradually increased and the development of the communications industry will be gradually promoted. The Group will continue to strengthen its business relationship with the operators and major equipment manufacturers.

With regard to the optical communication networks, as the PRC government has promoted the telecommunication strategy and speed up to upgrade the infrastructure project, great achievements have been made in PRC's broadband network construction. The deployment of the fibre-to-the-home network has laid the foundation for steady growth of the Group's fibre optic cable products.

On the other hand, the impact of outbreak of pneumonia illness by new coronavirus on the PRC economy will be tremendous that will inevitably reduce the national GDP in 2020. As a result of the weakness of the overall economy, it is expected the communication infrastructure will be one of the industries to be affected adversely and hence the demand of optical fibre and optical cable will be reduced as a result of the general decline of the market.

In 2020, the Group will continue to implement its capacity expansion plan to improve its production efficiency. Focusing on the communication industry, in particular the product demand of 5G network, the Group will have a substantial access to the new hardware production industry necessary for the construction of 5G network, further expand the ASEAN countries other than Thailand markets to establish a stable overseas sales network and explore the opportunity to set foot in the basic telecommunication operator, so as to grasp the growth potential of the communication industry and to enhance its competitiveness in the market and market share.

Lastly, on behalf of the Board, I would like to extend my sincere gratitude to our shareholders for their support to the Group. With the business performance this year, the management team and staff of the Group will be dedicated to future business growth and optimize return to our shareholders.

**Hu Guoqiang**

*Chairman*

Hong Kong, 27 March 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The growth of the market demand of optical fibre and optical cable in 2019 slowed down compared with that in 2018. The change of the supply and demand relationship resulted in a declined average price. Although the Group continued to strengthen its competitive advantages in optical fibre, optical cable cores and optical fibre cables segments and maintained its leading position in the local telecommunication market, the Group reported both decrease of sales revenue and net profit in 2019 compared with last year 2018. Due to the fierce competition, the published average selling price for 2019 decreased significantly compared that in 2018.

With the overall economic development and breakthroughs in mobile communication technology in recent years, mobile network has become a necessity in daily life. Following years of development, the mobile communication networks technology in PRC is currently at a stage where the 4G mobile communication technology has reached the end of the product life cycle and enjoyed a fast growth of research and development of the 5G mobile communication technology. During the year 2019, the 5G base stations and the core network equipment has reached the pre-commercial level, marking a new milestone for 5G scale commercialization. As the 5G construction continues to flourish infrastructure construction will become an important force of the Group.

Basic earnings per share was HK\$0.14 per share (2018: HK\$0.31 per share) which was calculated based on the weighted average number of shares issued, further details of which are set out in note 12 to the audited consolidated financial statement as set out in the annual report.

On the other hand, the Company maintained an ongoing sales and manufacturing of optical products with both old and new customers to explore the new sources of revenue. As a result, we have managed to generate positive cash flows from operating activities, further details of which are explained in the "Consolidated Statement of Cash Flows" of the Independent Auditor's Report.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Performance Analysis

For the year ended 31 December 2019, the Group reported its revenue of approximately HK\$370.8 million (year ended 31 December 2018: approximately HK\$510.1 million), representing a decrease of approximately 27.3% as compared to that of the same period in 2018. The gross profit margin of the Group decreased by approximately 2.6% to approximately 22.8% for the year ended 31 December 2019 as compared to a gross profit margin of 25.4% for the year ended 31 December 2018.

During the year ended 31 December 2019, the Group recorded a profit attributable to the owners of the Company of approximately HK\$35.8 million (year ended 31 December 2018: approximately HK\$79.6 million). By excluding the effect of non-recurring expenses related to the transfer of listing of equity securities from GEM to the Main Board of approximately HK\$7.2 million during the year ended 31 December 2019, the profit attributable to the owners of the Company for the year ended 31 December 2019 would decrease by approximately HK\$36.6 million, representing an decrease of 46.0% based on the profit for the year ended 31 December 2018.

### (i) *Futong Thailand*

Futong Thailand is one of the leading optical fibre cable providers in Thailand, its performance was badly affected by the general weak market in the telecommunication in 2019. The sales revenue of optical fibre cables in Thailand reduced from approximately HK\$144.3 million during the year ended 31 December 2018 to approximately HK\$88.2 million during the year ended 31 December 2019. There were also decrease of sales in the other ASEAN countries from approximately HK\$93.7 million during the year ended 31 December 2018 to approximately HK\$16.7 million during the year ended 31 December 2019.

As a result of the change of sales strategy, Futong Thailand has increased the proportion of optical cable cores and reduced that of optical fibre cables in the sales product mix. The sales revenue of optical cable cores increased from approximately HK\$97.1million during the year ended 31 December 2018 to approximately HK\$100.2 million during the year ended 31 December 2019.

On the other hand, the gross profit margin of Futong Thailand increased from approximately 7.4% for the year ended 30 December 2018 to approximately 14.4% for the year ended 31 December 2019. It is mainly attributable to the aggregate effect of (i) the decrease of the price of optical fibre; (ii) the change of customers' demand for optical fibre cables and cable cores with different specification; (iii) general weak market in the telecommunication industry.

### (ii) *Transtech*

In respect of the manufacturing and sales of optical fibre and other related products in Hong Kong, Transtech has reported its revenue and net profit in amount of approximately HK\$232.9 million and HK\$31.9 million respectively for the year ended 31 December 2019 (for the year ended 31 December 2018: revenue approximately HK\$303.3 million and net profit HK\$74.2 million respectively), representing decrease of approximately 23.2% and 57.0% respectively. The main reasons for the worsen performance is mainly attributable to the fall of demand from the FTTx and 4G projects and limited orders from the 5G infrastructure projects in PRC during the year. As a result of the reduction of demand in PRC which is the largest optical consumer in the world, Hong Kong market was vulnerable under this adverse circumstances. To cope with the weak demand, the management of Transtech successfully reduced the number of workers and rescheduled the production to minimize the manufacturing costs during the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

In 2020, severe competition and the outbreak of pneumonia illness by new coronavirus will enable the market becoming more complicated. The growth rate of the demand from the customers would slow down before the mass construction of 5G infrastructure. However, attracted by the high profitability of the potential 5G related demand in the future, the suppliers are expected to expand their capacity resulting in a change of supply and demand relationship. Nevertheless, the outbreak of pneumonia illness by new coronavirus will bring a huge negative effect to the communication infrastructure industry in PRC. The impact of this illness is still not certain in term of its timeliness and scope at the date of this report.

The PRC government plans to commercialize the 5G network in 2020. 5G technology can greatly improve network functions and transmission efficiency in comparison with 4G and bring a new era for internet and new market demand. The new development in 5G technology will definitely drive new demands for networking construction. The fact that the government attaches great importance on 5G development and implements policy on information consumption upgrade will provide a good environment for the 5G industry. In addition, due to the increase in rate and frequency, the transmission distance of the 5G signals is much shorter than that of the 4G signal. Therefore, communication operators need to deploy 5G stations more densely.

In light of the characteristics of large bandwidth and multi-connection of the future 5G network, the bandwidth and power of the massive multi-input and multi-output antenna will fold increase as compared with that of 4G, and the unit price of the Group's corresponding products relating to 5G base station will fold increase accordingly. The increasing demand for communication network infrastructure and manufacture of system equipment in the market has laid a solid foundation for the sales growth.

The demand for fibre-optic cables is expected to increase in 2020 since optical fibre cable is required to be used as a basic transmission media for the broadband speed upgrade and traffic burst in both fibre-optic broadband and mobile communication networks. New 5G pre-transmission and mid-transmission network will promote new demand for optical fibre cable from significant increase in construction of in urban network and back bone network driven by the future 5G construction. As a result of the favorable and adverse effect, the sales of the Group's cables and related products will only change within a narrow range. By the way, the Group would explore the markets in the ASEAN countries other than Thailand to overseas to promote more sales revenue with more new and potential customers.

In 2020, the Group would utilize its advantages in technologies and capacity structure to gain more customers. On one hand, the Group would focus on both domestic and overseas markets, take market opportunities, differentiate itself with its leading technologies branding and quality, and realize synergies within the Group to aim leading positions in the industry segment. On the other hand, the Group would continue to optimize its capacity structure of optical fibre, increase production efficiency and lower costs.

The Group would gradually develop end to end comprehensive solutions based on customers' demand and application scenarios. Through customer replication, products extension and business extension, the Group would strengthen its business such optical fibre, optical fibre core and optical fibre cable. Meanwhile under the existing planning of constructing our new factory in Futong Thailand, we wish to strengthen our production capacity to meet the future development and competition.

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 30 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 2019, the Group has successfully managed its business independently with respect to the manufacturing production and sales strategy.

## 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 2019. 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 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 2019, 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.

## Key Relationship with Employees, Customers and Suppliers

The total employee headcount (including Directors) of the Group was 208 as at 31 December 2019 (31 December 2018: 251). 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. 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 2019, the Group sold approximately 4.1 million fkm of optical fibre and approximately 0.8 million fkm of optical fibre cable and approximately 1.1 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 FY2018 and FY2019 .

The utilization rate of optical fibre decreased from 97.3% to 82.3% from FY2018 to FY2019 and that of optical fibre cable and optical cable cores decreased from 51.7% to 39.4% from FY2018 to FY2019. Both Transtech and Futong Thailand have adjusted their production volume based on the sales order.

## Return on Assets (Revenue/Total Asset)

The Group's revenue amounted to HK\$510.1 million in FY2018 and HK\$370.8 million in FY2019 while the Group's total assets amounted to HK\$718.4 million and HK\$800.6 million as of 31 December 2018 and 2019 respectively.

Hence, the Group's return on assets decreased from approximately 71.0% in FY2018 to 46.3% in FY2019. This was mainly because of the sales revenue reduced in FY2019. 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 2019 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.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2019, total revenue of the Group decreased by about 27.3% to approximately HK\$370.8 million as compared with the corresponding period in 2018.

The decrease in total revenue for the year ended 31 December 2019 was mainly due to the general weak market in the telecommunication industry resulting in decrease in sales volume and selling prices of the Group's products (except for sales volume of optical cable cores). The sales volume of optical cable cores increased as compared with the corresponding period in 2018 primarily due to the shift of proportion of product mix from optical fibre cables to optical cable cores.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 and right-of-use assets, 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 2019, the cost of sales of the Group decreased by about 24.8% to approximately HK\$286.1 million as compared with the corresponding period in 2018.

Such decrease for the year ended 31 December 2019 was mainly attributable to the generally lower sales volume of the Group's products during the year ended 31 December 2019.

The gross profit of the Group decreased from approximately HK\$129.8 million, for the year ended 31 December 2018 to approximately HK\$84.7 million for the year ended 31 December 2019. The gross profit margin decreased from approximately 25.4% for the year ended 31 December 2018 to approximately 22.8% for the year ended 31 December 2019. This is mainly attributable to the decrease of the gross profit margin of optical fibres and optical fibre cables for the year ended 31 December 2019 by approximately 8.0% and approximately 6.7% respectively as compared to the year ended 31 December 2018. Nevertheless, the gross profit margin of optical cable cores increased by approximately 8.4%, which partially offset the decrease in gross profit margin mentioned above.

## Other income

The Group's bank interest income decreased from approximately HK\$2.4 million for the year ended 31 December 2018 to approximately HK\$0.8 million for the year ended 31 December 2019 mainly due to less bank deposits having been placed as fixed deposits for the year ended 31 December 2019 as compared with the corresponding period.

## Other losses

The Group's foreign exchange losses increased from approximately HK\$3.9 million for the year ended 31 December 2018 to approximately HK\$4.4 million for the year ended 31 December 2019 mainly because more depreciation charges being incurred as a result of fluctuation of Renminbi ("RMB") against Hong Kong Dollar ("HK\$") during the year as compared with the corresponding period in 2018.

## 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 decreased from approximately HK\$8.0 million for the year ended 31 December 2018 to approximately HK\$4.9 million for the year ended 31 December 2019, representing a decrease of approximately 38.8%.

The decrease in the selling and distribution expenses for the year ended 31 December 2019 was mainly due to (i) the decrease in staff cost as a result of a decrease in the headcount for the sales and marketing department for Futong Thailand; and (ii) the decrease in export cost for the year ended 31 December 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 decreased from approximately HK\$28.3 million for the year ended 31 December 2018 to approximately HK\$25.6 million for the year ended 31 December 2019, representing a decrease of approximately 9.5%.

The decrease in the administrative expenses for the year ended 31 December 2019 was mainly attributable to the full depreciation of part of the leasehold improvement of Futong Thailand in November 2018, resulting in decrease in depreciation during the year ended 31 December 2019.

## Finance costs

Finance costs represent the interest expense on bank borrowings and lease liabilities. The finance costs of the Group increased from approximately HK\$1.0 million for the year ended 31 December 2018 to approximately HK\$1.2 million for the year ended 31 December 2019 due to lease liabilities was recognised since the Group had applied new and amended accounting policies. For the impact on the Group's accounting treatment due to "HKFRS 16 Leases", see Note 2 to the consolidated financial statements for the year ended 31 December 2019.

## Other expenses

The Company started the work for the transfer of listing of equity securities from GEM to the Main Board in the first quarter of 2019. Such expenses was approximately HK\$7.2 million for the year ended 31 December 2019 (year ended 31 December 2018: nil).

## Profit for the year

Profit attributable to owners of the Company for the year ended 31 December 2019 amounted to approximately HK\$35.8 million (year ended 31 December 2018: approximately HK\$79.6 million).

The decrease in profit attributable to owners of the Company for the year ended 31 December 2019 was mainly attributable to the aggregate effects of (i) the decrease in gross profit; (ii) the decrease in bank interest income; (iii) the increase of interests in lease liabilities and foreign exchange loss; (iv) the decrease of selling and distribution expenses and administrative expenses; and (v) non-recurring expenses related to the transfer of listing of equity securities from GEM to the Main Board 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\$135.9 million as at 31 December 2019 (31 December 2018: approximately HK\$187.0 million). As at 31 December 2019, the Group had total bank borrowings of approximately HK\$27.8 million (31 December 2018: approximately HK\$18.0 million). Details of the bank borrowings are set out in note 23 to the consolidated financial statements.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 2019 and 31 December 2018, the gearing ratio were 4.0% and 2.9%, respectively.

## CAPITAL STRUCTURE

As at 31 December 2019, 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 AND LITIGATION

As at 31 December 2019, the Group had no material contingent liabilities and litigations (31 December 2018: nil).

## CHARGE OF ASSETS

As at 31 December 2018, the Group had pledged its land, buildings and machinery of approximately HK\$79.0 million to secure the banking facilities granted to the Group. The pledges have been released in June 2019.

## CHARGE OF REGISTER

As at 31 December 2019, 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") and RMB against HK\$. 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 2019, the Group has capital commitments of approximately HK\$56.8 million (31 December 2018: HK\$56.1 million).

## SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 31 December 2019, the Group did not hold any significant investment in equity interest in any other company.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 three years ended 31 December 2019. 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 2019 (HK\$million)	Unused amount as at 31 December 2019 (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	47.3	26.1	The expansion plan for Futong Thailand’s factory commenced in the second-half of 2018, however, it remained in the contract negotiation stage during most of the time in FY2018. The contract negotiation process was completed in January 2019 and the construction of the factory was commenced in first half of 2019. Based on the latest construction and implementation plan and barring unforeseeable circumstances, the construction of the Group’s Thailand factory is scheduled to be completed in the first half of FY2021 and the manufacturing at the factory is scheduled to commence in the second half of FY2021 because the machinery and equipment delivery will be delayed as the suppliers temporarily suspended their production due to the outbreak of pneumonia illness by new coronavirus in PRC.
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 2019, there are little change of customers’ demand for new type of products. It is expected to utilize this proceeds by the end of FY2020.

## MANAGEMENT DISCUSSION AND ANALYSIS

Business Strategies as Stated in the Prospectus	Proposed amount to be used (HK\$million)	Actual amount utilized up to 31 December 2019 (HK\$million)	Unused amount as at 31 December 2019 (HK\$million)	Explanation
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	2.3	2.3	In line of the business development in the ASEAN countries, it is estimated that most of the unused amount will be used in 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	59.1	32.7	

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, HK\$2.3 million for developing customers relationship, HK\$0.3 million for research and development and HK\$47.3 million and HK\$26.1 million for the new factory construction and deposits respectively in Thailand. The unutilised net proceeds of approximately HK\$6.6 million is deposited in a licensed bank in Thailand.

### 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 2019, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

### MATERIAL ASSET IMPAIRMENTS AND PERFORMANCE GUARANTEES

During the year ended 31 December 2019, the Group did not have any material asset impairments and performance guarantee given to or received from a connected person or an independent party.

### POST BALANCE SHEET EVENTS

The outbreak of pneumonia illness by new coronavirus happened in the end of FY2019 but became worse in the beginning of FY2020. It has already caused thousands of death all over the world and will certainly bring a huge negative impact to the globally economy including the communication infrastructure. We believe our Group will also suffer much from this event but the impact is too early to estimate when this report was prepared; however, we will keep close watch to the latest development to take appropriate actions to manage all possible risks.

# 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 2019 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 ( <i>Chairman</i> )	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Mr. He Xingfu ( <i>Chief Executive Officer</i> )	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Mr. Yu Jiangping	(appointed as executive director on 1 July 2018)
Mr. Xu Muzhong	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Mr. Pan Jinhua	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)

### Independent Non-executive Directors

Mr. Lau Siu Hang	(appointed on 23 June 2017)
Mr. Li Wei	(appointed on 23 June 2017)
Mr. Leong Chew Kuan	(appointed on 23 June 2017)

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 46 to 51 of this report. There are no family or other material relationships among members of the Board.

# CORPORATE GOVERNANCE REPORT

## 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 2019, the Company held one Annual General Meeting, six Board meetings, six Audit Committee meetings, two Remuneration Committee meetings, one Nomination Committee meeting 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:

Name of Directors	Attendance/Number of Meetings					
	Annual General Meeting	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Chairman and INED Meeting
<b>Executive Directors:</b>						
Mr. Hu Guoqiang	1/1	6/6	N/A	N/A	1/1	1/1
Mr. He Xingfu	1/1	6/6	N/A	2/2	N/A	N/A
Mr. Yu Jiangping	1/1	6/6	N/A	2/2	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	1/1	N/A
<b>Independent Non-executive Directors:</b>						
Mr. Leong Chew Kuan	1/1	6/6	6/6	2/2	1/1	1/1
Mr. Lau Siu Hang	1/1	6/6	6/6	2/2	1/1	1/1
Mr. Li Wei	1/1	6/6	6/6	2/2	1/1	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.

# CORPORATE GOVERNANCE REPORT

## 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.

# CORPORATE GOVERNANCE REPORT

## 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. Xu Muzhong and Mr. Pan Jinhua were appointed as executive Directors of the Company on 6 September 2016. 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.

# CORPORATE GOVERNANCE REPORT

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 2020, 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 2019, interim report for six months ended 30 June 2019, quarterly report for the nine months ended 30 September 2019 and the audited consolidated financial statements for the year ended 31 December 2019.

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. Yu Jiangping, 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.

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 FY2019 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.



# CORPORATE GOVERNANCE 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	
	2019 Number of employees	2018 Number of employees
Nil to HK\$1,000,000	2	3
HK\$1,000,001–HK\$1,500,000	–	–
HK\$1,500,001–HK\$2,000,000	–	–
	2	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.

# CORPORATE GOVERNANCE 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 2019, 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 2019, 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 2019	1,000
Other non-audit services including the preparation of continuing connected transactions letter and comfort letters for the proposed transfer of listing from GEM to the Main Board	470
Total	1,470

# 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 2019 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.

# CORPORATE GOVERNANCE REPORT

## Constitutional Documents

Throughout the year ended 31 December 2019 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 28 May 2020.

## 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](http://www.transtechoptel.com)) has provided an effective communication platform to the public and the shareholders.

# CORPORATE GOVERNANCE REPORT

## 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 2019, 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 2020, 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 2019 in all material respects.

During the year ended 31 December 2019, 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.

## CORPORATE GOVERNANCE REPORT

The Group has set up an internal audit system to oversee its operation. Throughout the year ended 31 December 2019 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 2019 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

This Environmental, Social and Governance (“ESG”) report (the “Report”) of Transtech Optelecom Science Holdings Limited (the “Group” or “we”) represents our truthful and objective view 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”).

## Scope of Reporting and Basis of Preparation

This report was prepared 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 2019 to 31 December 2019 (the “FY2019” or the “Reporting Period”).

## ESG Governance

This report is confirmed by the management and approved by the Board on 27 March 2020. We value the opinions of the stakeholders and welcome readers to contact us because we believe all constructive suggestions will further improve this report and our overall ESG performance.

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”.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Business Philosophy

The Group viewed the people and space connected through optical fibres and optical cable and a bridge to make access for the people to communicate in a fast and efficient way. We recognized the following key points as our business philosophy:

Concepts	Aim
Management	Integrity Learning Open-minded
Supply Chain	Efficiency Forging ahead collaboratively
Marketing	Forging ahead with determination Upholding honesty and morality
Human Resource	Justice and equity Promotion of the worthy
Finance	Intelligence Efficiency Professionalism
Safety	Keeping alert of safety Reflecting safety in action
R&D	Collaborative innovation Practicality and efficiency
Quality	Continual improvement The pursuit of excellent quality



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Stakeholder Engagement

We highly emphasise the communication with different stakeholders, actively carries out regular and effective communications with stakeholders. The Group has established various communication channels during the Reporting Period to understand the stakeholders' concerns and opinions. We have identified 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	Issues concerned
<b>Employees</b>	<ul style="list-style-type: none"> <li>Intranet and Email Communication</li> <li>Internal Meeting, Seminar and Briefing</li> <li>Employee Training and Activities</li> <li>Performance Appraisal</li> </ul>	<ul style="list-style-type: none"> <li>Promotion and Development</li> <li>Salary and Benefit</li> <li>Education and Training</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>Company Website</li> <li>Customer Hotline and Mail</li> <li>Marketing Promotion</li> <li>Customer Survey and Feedback</li> </ul>	<ul style="list-style-type: none"> <li>Business Development</li> <li>Energy Saving and Consumption Reduction</li> <li>Business Development</li> </ul>
<b>Suppliers and Sub-contractors</b>	<ul style="list-style-type: none"> <li>Quotation and Tendering</li> <li>Site-visit and Supplier Evaluation</li> <li>Supplier Conference</li> <li>Industry Forums</li> </ul>	<ul style="list-style-type: none"> <li>Supplier Management</li> <li>Energy Saving and Consumption Reduction</li> <li>Business Development</li> </ul>
<b>Shareholders</b>	<ul style="list-style-type: none"> <li>Press Releases</li> <li>Annual Report and Interim Report</li> <li>Announcements and Circulars</li> <li>Shareholder's Meeting</li> </ul>	<ul style="list-style-type: none"> <li>ESG Governance</li> <li>Business Development</li> <li>Energy Saving and Consumption Reduction</li> </ul>
<b>Other External Parties (including government, NGOs, media and employees' family)</b>	<ul style="list-style-type: none"> <li>Company Website</li> <li>Donation and Community Investment</li> <li>Volunteering Activities and Social Support</li> <li>Daily Operation</li> </ul>	<ul style="list-style-type: none"> <li>Emission Management</li> <li>Charity</li> <li>Energy Saving and Consumption Reduction</li> </ul>

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ESG Materiality Analysis and Assessment

During the Reporting Period, the Group experienced stable development without significant changes to its business. We conducted communication with our stakeholders to understand the opinions and expectations of different stakeholders in the response of the Group to ESG issues. 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 FY2019, 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

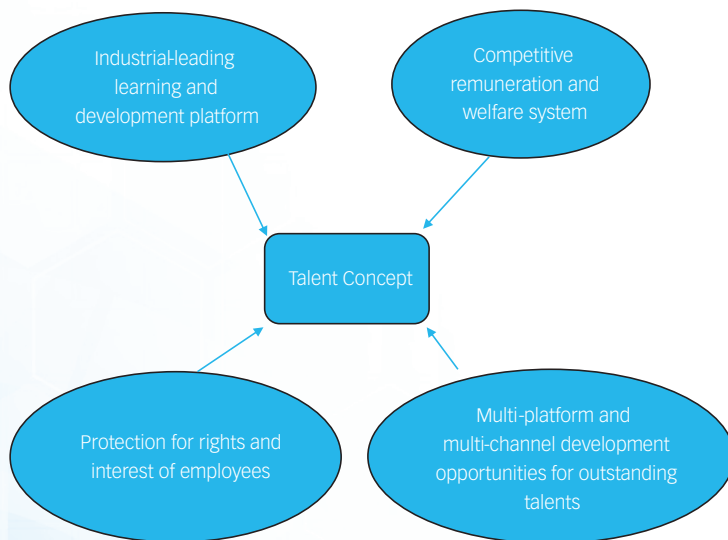
## Performance Highlights in 2019

It is our pleasure to present our performance accomplishments and highlights in 2019. We put great effort to upgrade our administrative standard in ESG and recognize our task in terms of the following attributes:

Aim	Result
Harmony	No occurrence of: Work-related fatality. Complaint related to unfairness or discrimination. Child labor or forced labor.
Achievement	No fraud, bribery, money laundering or corruption. Increase customer satisfaction. Most of the major suppliers obtained ISO14001
Success	Reused Helium in 7,500,000 litres. Reduced wood and wooden planks consumption by 22% on average.

## OUR EMPLOYEE

As part of its commitment to "Justice and equity, Promotion of the worthy", we strive to recruit passionate professionals by offering competitive interests and benefit, comprehensive training system and a healthy and safe workplace, so as to promote its own sustainable growth and employees' ongoing development. Given our diverse workforce, we adhere to standardized human resources policy of the guidance of human resources management in our subsidiaries.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Occupational Health and Safety

The Group has always regarded protecting employees' safety and health as one of its key tasks by maintaining strict compliance 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.

The Group strictly abides by the relevant laws and regulations of the countries on which it operates. According to the requirements of OHSAS 18001, we have been following the "safety first and prevention-oriented" principle thoroughly and have established occupational health and safety management system with a view to preventing and minimising security hazards and potential harm to employees' health in the course of production. During the Reporting Period, there were no fatalities due to work-related injuries. After each of the incident involving work-related injures, we have promptly taken rescue and emergency actions, conducted investigation of the case of incident in a timely manner and carried out technological transformation for existing safety risks. In order to prevent the re-occurrence of these incidents worker related injuries, we have provided safety training for all staff after the incidents to raise their awareness of safe production.

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 organised production safety education and training on a regular basis, with the aim of enhancing staff's safety awareness and operational skills.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Development and Training

We invest in building a sound training mechanism to satisfy organisational needs. 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, ISO 9001 training for internal auditors, management skills training, safety training 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 or paid leave upon approval of the management.

## Compensation and Benefits

The Group strictly follows the local and group-wide remuneration and benefit policy and offers competitive remuneration, while attracting external top talents, we also emphasise the incentives and fairness of internal remuneration and benefit policy, so as to meet our needs for high-caliber talents. 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.

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. 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. 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 a reasonable rates.

## Staff Activities

In order to promote the interaction of and establish closer relationship among the employees and satisfy the practical needs of each staff member we organize diversified activities for our staff every year, including large-scale cultural and sports events, spring festival dining and sports days, etc. We also organize caring activities for subsidiaries overseas, targeting staff with different cultural background.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Recruitment and Promotion

We optimised the staff recruitment system, recruitment channels and information management during the Reporting Period. 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 talents in the communities. 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.

## Optimization of staff recruitment management

### Optimization of recruitment and allocation system

- Revision to recruitment management regulations
- Establishment of overseas recruitment management regulations
- Selections of management regulations

### Expansion of recruitment channels

- Setting up recruitment channel on media
- Establishment of the job news sharing platform
- Expansion of recruitment channels for mid-to-high level staff

### Information of recruitment

- Launch of recruitment approval process
- Monthly recruitment report on new joiners
- Job news sharing platform
- Planning for the recruitment system

Our comprehensive performance appraisal system and promotion mechanism allow us to retain most key talents. 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

The Group provides protection for complaints and whistle-blowers of fraud cases and prohibits any form of illegal discrimination revenge, or had hostility against employees participated in the investigation. 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Anti-child Labour and Forced Labour

Since the Group is firmly against child labor and forced labor, it verifies the identity of new employees and enter into labor contracts on a voluntary basis. We strictly prohibit 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. 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

Under such environment with increasingly fierce competitiveness, we have followed the quality culture of "Continual Improvement, the Pursuit of Excellent Quality" in optimizing ourselves in terms of development, inheritance and improvement. 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

Successful practice is the main criterion to test the truth. For long, the Group has adhered to the development path of "Input, digestion, absorption, improvement and output" and put quality and technology in first priority. By constructing quality management system, enhancing quality management model, creating quality culture and developing quality activities. 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 Group 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. 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Supply Chain Management and Sustainability Development

The Group advocates mutual growth with the industrial chain, when selecting suppliers, we expect to join hands with them to promote economic development as well as to step up supplier support to build a long-term win-win relationship with our partners. 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 OHSAS 18001 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

Adhering to the core values of "Client Focus, Accountability and shareholder benefit", the Group enhances and optimises the customer service process to serve customers with top-notch and high quality products. 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

The Group concerns the after-sale service as well as feedback and suggestion on products in particular. Hence, it has formulated 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

Customer information and data is a valuable resource of the Group and we place great emphasis on protecting client's information and their privacy. 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.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Intellectual Property Rights

The Group recognises the importance of protecting intellectual property rights as well; hence, it has sound policy and procedures in place to prevent infringement of copy rights, patents and offer intellectual property rights. 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

The Group has formulated internal anti-corruption policies to prevent bribery blackmailing, fraud and money laundering effectively. The Group abides 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

The Group has always strived to create a green, harmonious yet splendid ecological environment and is committed to facilitating the construction of an environment-friendly society. To this end, we have continuously pushed forward energy conservation and emission reduction; and during the Reporting Period, we formulated environmental safety target for our subsidiaries and incorporate such into performance management by controlling the source environmental impacts and optimising environmental management. To ensure pollutant disposal are in compliance with and meet emission standards, and on such basis the Group seized the opportunities of clean technology and explored more approaches and channels regarding energy utilisation, and made every effort to continuously reduce the negative impact on the environment during the entire process of business management and thus achieving long-term sustainable development.

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, SOCIAL AND GOVERNANCE REPORT

## 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 ISO 14001 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 continued to pay attention to the air emission, and underwent treatment and compliance with emission standard during the production process. The Group's major air emissions were derived from our private cars and light vehicles. In FY2019, nitrogen oxides, sulphur oxides and particulate matter generated from the operation of the Group amounted to 171.65 kg, 0.86 kg and 15.78 kg, respectively<sup>1</sup>. 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.

## Waste Disposal and Management

In terms of control of waste management, the Group strictly controlled the emission concentration of pollutants from each sources. 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 FY2019, the major hazardous waste produced by the Group was non-halogenated solvents which amounted to 0.4 tonnes, waste oil including printing ink and engine oil which amounted to 0.12 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.

<sup>1</sup> The calculation of the air emissions is based on "Reporting Guidance on Environmental KPIs" issued by the Stock Exchange of Hong Kong Limited.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In FY2019, 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	31.44	31.44	100%
Glass	6.35	6.14	96.69%
Paper	9.65	9.37	97.10%
Plastics and plastic compounds	35.08	34.08	97.15%
Scrapped optical fibres and optical fibre cables	52.25	46.01	88.06% <sup>Note1</sup>
Wood	9.51	—	— <sup>Note2</sup>

Note 1: Given that there is lack of recycling service providers for scrapped optical fibres in Hong Kong, the Group has not been able to undertake any recycling of 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.

## 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 FY2019 was 6,415.29 tonnes<sup>2</sup>. 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 FY2019, 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 7,500,000 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.

<sup>2</sup> 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, "CO2 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Utilisation of Energy and Water Consumption

During the Reporting Period, the Group continued to facilitate the energy and water treatment process. 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	12,737,203 KWh	2.176 KWh per kilometre of fibre
Diesel	32,754.5 litres	0.0056 litres per kilometre of fibre
Lead-free gasoline	22,525.61 litres	0.0038 litres per kilometre of fibre
Purchased water	38,673 m <sup>3</sup>	0.0066 m <sup>3</sup> 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.

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

Although we do not generate significant sewage in our manufacturing operations, 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Bio-diversity

Our factories in Hong Kong and Thailand were well developed in the industrial clusters 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 in our existing manufacturing plants and the additional new plant in Thailand with an aim of conserving natural environment.

## Utilisation of Packaging Materials

With regard to the use of packaging materials, the Group consumed 72.44 tonnes of optical fibre trays, 62.40 tonnes of cardboard boxes and 706.43 tonnes of wooden planks in FY 2019. 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 40.17 tonnes of optical fibre trays and 4.03 tonnes of paper boxes.

## OUR SOCIETY

### Social Investment

During the Reporting Period, Futong Thailand signed a memorandum of understanding with Rajamangala University of Technology Bangkok to provide vacancies of on-the-job training for the students in the plant. 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 organized a free bread distribution for seniors and visited the nursing home. We also participated in the blood donation hosted by the Hong Kong Red Cross. In FY2019, 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" 2019.

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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Aspect	Reference	Subject Area	Page
<b>A. Environmental</b>			
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	41
	A1.1*	Emissions types and data	41
	A1.2*	Greenhouse gas emissions	42
	A1.3*	Total hazardous waste	42
	A1.4*	Total non-hazardous waste	42
	A1.5	Measures to mitigate emissions and results achieved	41–44
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A2: Use of Resources	A2	Policies on the efficient use of resources, including energy, water and other raw materials	43–44
	A2.1*	Direct and/or indirect energy consumption by type in total and intensity	43–44
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A3: The Environment and Natural Resources	A3	Policies on minimising the issuer's significant impact on the environment and natural resources	40–44
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<b>B. Social</b>			
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	34–38
B2: Health and Safety	B2	Policies and compliance relating to providing a safe working environment and protecting employees from occupational hazards	35
B3: Development and Training	B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	36
B4: Labour Standards	B4	Policies and compliance relating to preventing child and forced labour	37–38
Operating Practices			
B5: Supply Chain Management	B5	Policies on managing environmental and social risks of the supply chain	38–39
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	39–40
B7: Anti-corruption	B7	Policies and compliance relating to bribery, extortion, fraud and money laundering	40
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	44

\* 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 56, 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 60, 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 55, 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. Pan Jinhua** (潘金華), aged 55, 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.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Xu Muzhong** (徐木忠), aged 53, 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.

### Independent Non-Executive Directors

**Mr. Leong Chew Kuan** (梁昭坤), aged 43, 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. From December 2018 to February 2020, Mr. Leong worked as Group Financial Controller in Chairman's office, at Glorious Sun Holdings Limited.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Lau Siu Hang** (劉少恒), aged 64, 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 64, 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 44, 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 58, 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.

**Mr. Wang Yingzhong** (王英忠), aged 59, 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. Lee Yin Chun, Anthea** (李妍臻), aged 41, 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 2019.

## 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 dated 30 June 2017 (the “Prospectus”).

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 33 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 2019 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 71 to 73.

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2019.

## 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 134 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 15 to 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 2019 are set out in note 13 to the consolidated financial statements.

# REPORT OF DIRECTORS

## BANK BORROWINGS

Particulars of bank borrowings of the Group at 31 December 2019 are set out in note 23 to the consolidated financial statements.

## INTEREST CAPITALISED

The Group has not capitalised any interest during the year ended 31 December 2019.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 24 to the consolidated financial statements.

## RESERVES

Details of movements in reserves of the Group during the year ended 31 December 2019 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 2019, 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\$53.1 million comprising accumulated loss of approximately HK\$42.4 million and the share premium of approximately HK\$95.5 million (2018: approximately HK\$64.3 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 2019, 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 2019 and up to the date of this report were as follows:

### Executive Directors

Mr. Hu Guoqiang ( <i>Chairman</i> )	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Mr. He Xingfu ( <i>Chief Executive Officer</i> )	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Mr. Yu Jiangping	(appointed as executive director on 1 July 2018)
Mr. Xu Muzhong	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Mr. Pan Jinhua	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)

### Independent Non-executive Directors

Mr. Leong Chew Kuan	(appointed on 23 June 2017)
Mr. Lau Siu Hang	(appointed on 23 June 2017)
Mr. Li Wei	(appointed on 23 June 2017)

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).

# REPORT OF DIRECTORS

## 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 46 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 2019.

As at 31 December 2019, 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 2019 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 2019, 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 2019 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.



# REPORT OF DIRECTORS

## 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.

## REPORT OF DIRECTORS

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 2019:

- (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 2019 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 2019 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 2019 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.

# REPORT OF DIRECTORS

## (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 2019 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 <sup>(1)</sup>	Approximate shareholding percentage
Mr. Wang Jianyi ("Mr. Wang") <sup>(2)</sup>	Interest in a controlled corporation	195,000,000 (L)	75%
Futong Investments <sup>(3)</sup>	Interest in a controlled corporation	195,000,000 (L)	75%
Futong China <sup>(4)</sup>	Interest in a controlled corporation	195,000,000 (L)	75%
Hangzhou Futong Optical Communication Investments Co., Ltd. ("Futong Optical Communication") <sup>(5)</sup>	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 2019 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 2019.

# REPORT OF DIRECTORS

## RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2019 are set out in note 30 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. 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 and Non-fully Exempt Continuing Connected Transaction

#### *Sales of Optical Fibres to Futong China Group*

During the three years ended 31 December 2019, 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 three years ended 31 December 2019 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”) and the annual cap for FY2019 as set out in a new Framework Sales Agreement dated 18 March 2019 (the “New 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)	FY2019 (HK\$ million)
Optical fibre	36.6	37.4	17.9

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, FY2018 and FY2019 did not exceed the annual cap.

# REPORT OF DIRECTORS

## *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 for FY2017 and FY2018 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.

Since the Optical Fibre Framework Sales Agreement dated 16 June 2017 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\$18.0 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 dated 18 March 2019 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.

## *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 for FY2017 and FY2018, 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.

## **(2) Non-fully Exempt Continuing Connected Transaction**

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

During the three years ended 31 December 2019, 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.

# REPORT OF DIRECTORS

## *Actual Transaction Value*

For FY2017, FY2018 and FY2019, Transtech has paid a sum of approximately HK\$10.8 million, HK\$11.9 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 2019 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.

## REPORT OF DIRECTORS

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 6 March 2020.

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 2019 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 2019 (year ended 31 December 2018: nil).

### SHARE OPTION SCHEME

The Company has no share option scheme.

# REPORT OF DIRECTORS

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the year ended 31 December 2019 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 2019, 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 2019, 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 2019, the aggregate amount of revenue attributed to the Group's largest and the five largest customers accounted for approximately 27% and 72% (2018: 14% and 56%) of the total revenue of the Group, respectively. For the year ended 31 December 2019, the Group's purchase from the largest and the five largest suppliers accounted for approximately 50% and 89% (2018: 52% and 85%) of the total purchases of the Group, respectively. At no time during the year ended 31 December 2019 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.



# REPORT OF DIRECTORS

## 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 2019. 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 2019, 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 2019 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 45 of this report.

## DONATION

During FY2019, the Group made donation for charitable purposes in the aggregate amount of HK\$6,000 (2018: HK\$22,000).

## ANNUAL GENERAL MEETING

The next annual general meeting ("AGM") of the Company will be held on 28 May 2020, 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.

# REPORT OF DIRECTORS

## 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 25 May 2020 to 28 May 2020, 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 Friday, 22 May 2020.

## EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcements issued by the Company dated 30 May 2019 and 5 December 2019, in relation to the formal application and renewal application, respectively, submitted to the Stock Exchange for the Transfer of Listing pursuant to Chapter 9A and Appendix 28 of the Main Board Listing Rules. No approval-in-principle for the Transfer of Listing was granted by the Listing Committee as at 23 March 2020, the printed date of this report.

Moreover, the outbreak of pneumonia illness by new coronavirus occurred in the beginning of FY2020, it will certainly give a negative impact to the PRC economy but it is too early to draw any conclusion until the timeliness and scope becoming clear. Our director believe our production capacities can maintain completely because our production lines are not in PRC. Save from this event, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2019 and up to the date of approval of this report.

## AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by Deloitte Touche Tohmatsu, who is also the auditor of Transtech for the five years ended 31 December 2019 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 2019, the Group had totally 208 headcounts including 59 and 149 employees in Hong Kong and Thailand respectively (2018: totally 251 headcounts including 72 and 179 employees in Hong Kong and Thailand respectively). The total staff costs, including directors' emoluments, amounted to approximately HK\$36.5 million during the year ended 31 December 2019 (year ended 31 December 2018: approximately HK\$41.5 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 2019, 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.

# REPORT OF DIRECTORS

## 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 2019 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 2019 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, 27 March 2020

# INDEPENDENT AUDITOR'S REPORT

# 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 133, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

# INDEPENDENT AUDITOR'S REPORT

## 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 29 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 2019, the carrying amount of trade receivables is HK\$277,043,000 with loss allowance for trade receivables of HK\$703,000 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 current economic conditions, credit history of its customers, including default or delay in payments and settlement records and ageing analysis of trade receivables, and evaluating whether the historical loss rates are appropriately adjusted based on 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.

# INDEPENDENT AUDITOR'S REPORT

## 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.

# INDEPENDENT AUDITOR'S REPORT

- 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 Yim K.W..

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

27 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December	
		2019 HK\$'000	2018 HK\$'000
<b>Revenue</b>	5	<b>370,763</b>	510,083
Cost of sales		<b>(286,096)</b>	(380,308)
<b>Gross profit</b>		<b>84,667</b>	129,775
Other income	6	<b>1,539</b>	5,269
Other losses	6	<b>(4,441)</b>	(3,896)
Loss allowance for trade receivables		<b>(703)</b>	(135)
Selling and distribution expenses		<b>(4,860)</b>	(8,010)
Administrative expenses		<b>(25,602)</b>	(28,316)
Finance costs	8	<b>(1,172)</b>	(997)
Other expenses		<b>(7,244)</b>	–
Profit before taxation	9	<b>42,184</b>	93,690
Income tax expense	10	<b>(6,421)</b>	(14,132)
Profit for the year		<b>35,763</b>	79,558
<b>Other comprehensive income</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<b>24,747</b>	1,185
Total comprehensive income for the year		<b>60,510</b>	80,743
Earnings per share	12		
Basic (HK cents)		<b>13.76</b>	30.60



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	The Group	
		As at 31 December	
		2019	2018
		HK\$'000	HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	163,424	120,088
Right-of-use assets	14	16,347	–
Deposits for acquisition of property, plant and equipment	17	103,996	73,747
Deposits	17	63	101
Deferred tax assets	25	98	6
		<b>283,928</b>	193,942
<b>Current assets</b>			
Inventories	15	69,191	97,566
Trade receivables	16	277,043	237,004
Deposits, prepayments and other receivables	17	34,507	2,868
Bank balances and cash	18	135,920	187,014
		<b>516,661</b>	524,452
<b>Current liabilities</b>			
Trade and bills payables	19	45,865	53,926
Other payables and accrued charges	20	8,865	7,635
Contract liabilities	21	393	285
Lease liabilities	22	11,633	–
Bank borrowings	23	27,788	18,035
Tax payable		6,168	3,707
		<b>100,712</b>	83,588
<b>Net current assets</b>		<b>415,949</b>	440,864
<b>Total assets less current liabilities</b>		<b>699,877</b>	634,806
<b>Non-current liabilities</b>			
Lease liabilities	22	6,493	–
Deferred tax liabilities	25	4,011	3,811
		<b>10,504</b>	3,811
<b>Net assets</b>		<b>689,373</b>	630,995

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	The Group As at 31 December	
		2019 HK\$'000	2018 HK\$'000
<b>Capital and reserves</b>			
Issued share capital	24	2,600	2,600
Reserves		686,773	628,395
<b>Total Equity</b>		<b>689,373</b>	630,995

The consolidated financial statements on pages 71 to 133 were approved and authorised for issue by the board of directors on 27 March 2020 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 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
Adjustment (see note 2)	-	-	-	-	(2,132)	(2,132)
At 1 January 2019 (restated)	2,600	95,534	289,031	(117)	241,815	628,863
Profit for the year	-	-	-	-	35,763	35,763
Other comprehensive income	-	-	-	24,747	-	24,747
Total comprehensive income for the year	-	-	-	24,747	35,763	60,510
At 31 December 2019	2,600	95,534	289,031	24,630	277,578	689,373

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., Ltd. ("Futong Thailand").

# CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	42,184	93,690
Adjustments for:		
Depreciation of property, plant and equipment	14,611	17,738
Depreciation of right-of-use assets	10,955	–
Interest income	(833)	(2,449)
Interest expenses	1,172	997
Loss on disposals of property, plant and equipment	–	7
Net loss allowance for trade receivables	703	135
<b>Operating cash flows before movements in working capital</b>	<b>68,792</b>	<b>110,118</b>
Decrease in inventories	32,180	37,823
Increase in trade receivables	(27,122)	(80,069)
Increase in other receivables, deposits and prepayments	(31,404)	(514)
Decrease in trade and bills payables	(17,663)	(87,629)
Increase in other payables and accrued charges	1,058	145
Increase/(decrease) in contract liabilities	83	(1,300)
<b>Cash generated from/(used in) operations</b>	<b>25,924</b>	<b>(21,426)</b>
Tax paid	(3,851)	(17,179)
<b>NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>22,073</b>	<b>(38,605)</b>
<b>INVESTING ACTIVITIES</b>		
Interest received	890	2,603
Deposits paid for acquisition of property, plant and equipment	(24,096)	(73,747)
Purchases of property, plant and equipment	(50,003)	(613)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(73,209)</b>	<b>(71,757)</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
<b>FINANCING ACTIVITIES</b>		
New bank loans raised	54,590	85,200
Repayments of bank borrowings	(46,454)	(67,933)
Repayments of lease liabilities	(11,308)	–
Interest paid	(1,172)	(997)
<b>NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES</b>	<b>(4,344)</b>	16,270
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(55,480)</b>	(94,092)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>187,014</b>	279,551
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>4,386</b>	1,555
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH</b>	<b>135,920</b>	187,014

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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 Investments 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 33.

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 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS	Annual Improvements to HKFRSs 2015–2017 Cycle

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 2.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* (“**HKAS 17**”), and the related interpretations.

#### *Definition of a lease*

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

#### *As a lessee*

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities is 3.02%.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”) (CONTINUED)

### 2.1 HKFRS 16 Leases (Continued)

As a lessee (Continued)

	At 1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	6,703
Lease liabilities discounted at relevant incremental borrowing rates	6,658
Add: Termination options reasonably certain not to be exercised	23,297
Less: Recognition exemption — short-term leases	(521)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	29,434
Analysed as	
Current	11,308
Non-current	18,126
	29,434

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	27,302



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”) (CONTINUED)

### 2.1 HKFRS 16 Leases (Continued)

The following table summarises the impact of transition to HKFRS 16 on accumulated profits at 1 January 2019.

	HK\$'000
<b>Accumulated profits</b>	
Recognition of right-of-use assets and lease liabilities	(2,132)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000
<b>Non-current Assets</b>			
Right-of-use assets	–	27,302	27,302
<b>Capital and Reserves</b>			
Reserves	628,395	(2,132)	626,263
<b>Current Liabilities</b>			
Lease liabilities	–	11,308	11,308
<b>Non-current Liabilities</b>			
Lease liabilities	–	18,126	18,126

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”) (CONTINUED)

### 2.2 HKAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

#### *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 17	Insurance Contracts <sup>1</sup>
Amendments to HKFRS 3	Definition of a Business <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>3</sup>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>2</sup> 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.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSS, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

### Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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 HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of assets”.

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

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

The principal accounting policies are set out below.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue from contracts with customers (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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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 and optical cable cores and optical fibres and other related products.

### Leases

*Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

*The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)*

#### **Allocation of consideration to components of a contract**

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

#### **Short-term leases**

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases (Continued)

*The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)*  
(Continued)

#### **Right-of-use assets**

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

#### **Refundable rental deposits**

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

#### **Lease liabilities**

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases (Continued)

*The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)  
(Continued)*

#### **Lease modifications**

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

### **Leases (before application of HKFRS16 on 1 January 2019)**

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 (before application of HKFRS16 on 1 January 2019)**

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use 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 property, plant and equipment and right-of-use 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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. 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 or a group of cash-generating units) 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 or a group of cash-generating units) 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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. 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.

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*

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets (Continued)

#### *Impairment of financial assets*

The Group recognises a loss allowance for expected credit loss ("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, 12-month ECL ("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 on individual basis.

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.

#### **(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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets (Continued)

#### *Impairment of financial assets (Continued)*

##### **(i) Significant increase in credit risk (Continued)**

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 foregoing, 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.

##### **(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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets (Continued)

*Impairment of financial assets (Continued)*

#### (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.

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets (Continued)

#### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire. 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.

### 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.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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 to the same taxable entity by the same taxation authority.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

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).

### Borrowing costs

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

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

## 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 individual assessment to calculate ECL for trade receivables. The provision rates are based on internal credit ratings and 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.

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 29.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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 2019, the Group determined that there is no change to the estimated useful lives of the property, plant and equipment. The carrying amount of property, plant and equipment is approximately HK\$163,424,000 as at 31 December 2019 (2018: HK\$120,088,000).

## 5. REVENUE AND SEGMENTAL INFORMATION

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

Year ended 31 December 2019

Segments	Optical fibres and other related products HK\$'000	Optical fibre cables and optical cable cores HK\$'000	Total HK\$'000
Types of goods			
Sales of goods — recognised at a point in time			
Optical fibre cables	–	104,976	104,976
Optical fibres	143,203	–	143,203
Optical cable cores	–	100,177	100,177
Other related products	22,407	–	22,407
Total	165,610	205,153	370,763

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 5. REVENUE AND SEGMENTAL INFORMATION (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 2019				
	Optical fibre cables and optical cable cores	Optical fibres and other products	Total segment revenue	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of optical fibre cables	104,976	–	104,976	–	104,976
Sales of optical fibre	–	210,478	210,478	(67,275)	143,203
Sales of optical cable cores	100,177	–	100,177	–	100,177
Other related products	–	22,407	22,407	–	22,407
Segment revenue	205,153	232,885	438,038	(67,275)	370,763

Year ended 31 December 2018

Segments	Optical fibres and other related products HK\$'000	Optical fibre cables and optical cable cores 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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 5. REVENUE AND SEGMENTAL INFORMATION (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 and optical cable cores	Optical fibres and other related products	Total segment revenue	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 365 days (2018: 0 to 720 days) upon delivery.

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 and optical cable cores, which is located in Thailand; and (ii) Optical fibres and other related products, which is located in Hong Kong.

The Group has changed its segment names from "Optical fibres" to "Optical fibres and other related products" and from "Optical fibre cables, optical cable cores and other related products" to "Optical fibre cables and optical cable cores" during the year ended 31 December 2019. However, the underlying business of the segment is same as prior year.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

### Segment revenue and results

Year ended 31 December 2019

	Optical fibre cables and optical cable cores HK\$'000	Optical fibres and other related products HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>Revenue</b>					
External sales	205,153	165,610	370,763	–	370,763
Inter-segment sales	–	67,275	67,275	(67,275)	–
Segment revenue	205,153	232,885	438,038	(67,275)	370,763
Segment profit	15,360	38,822	54,182	878	55,060
Interest income					166
Unallocated corporate expenses					(4,626)
Finance costs					(1,172)
Other expenses					(7,244)
Profit before taxation					42,184

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

### Segment revenue and results (Continued)

Year ended 31 December 2018

	Optical fibre cables and optical cable cores HK\$'000	Optical fibres and other related products HK\$'000	sub-total HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>Revenue</b>					
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

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 certain bank interest income, corporate expenses, finance costs, other 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

### Other information

Year ended 31 December 2019

	Optical fibre cables and optical cable cores HK\$'000	Optical fibres and other related products HK\$'000	Total HK\$'000
<b>Other segment information (included in the measure of segment profit or loss or regularly provided to CODM)</b>			
Additions to non-current assets (Note)	44,743	5,260	50,003
Depreciation of property, plant and equipment	9,145	5,466	14,611
(Reversal of) loss allowance for trade receivables	(412)	1,115	703

Year ended 31 December 2018

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

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



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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	
	2019 HK\$'000	2018 HK\$'000
PRC (excluding Hong Kong)	17,870	37,354
Hong Kong	151,691	154,203
Thailand	88,231	144,263
Vietnam	–	2,644
Singapore	100,177	84,088
Laos	2,417	9,836
The Philippines	2,510	4,767
Burma	4,821	67,828
Others	3,046	5,100
	<b>370,763</b>	510,083

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

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Hong Kong	47,281	34,175
Thailand	236,647	159,767
	<b>283,928</b>	193,942

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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	
	2019 HK\$'000	2018 HK\$'000
Customer A	N/A*	67,229
Customer B	41,194	73,905
Customer C	66,169	N/A*
Customer D	N/A*	61,774
Customer E	100,177	N/A*

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

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

## 6. OTHER INCOME AND OTHER LOSSES

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Other income:		
Income from sales of scrap products	326	797
Bank interest income	833	2,449
Others	380	2,023
	<b>1,539</b>	<b>5,269</b>
Other losses:		
Foreign exchange losses	(4,441)	(3,889)
Loss on disposals of property, plant and equipment	-	(7)
	<b>(4,441)</b>	<b>(3,896)</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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	He Xingfu HK\$'000 (Note i)	Yu Jiangping HK\$'000 (Note iii)	Pan Jinhua HK\$'000	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 2019									
Fees	600	360	-	560	-	240	240	240	2,240
Other emoluments									
Salaries and other benefits	-	1,411	760	-	705	-	-	-	2,876
Retirement benefit scheme contributions	-	18	-	-	-	-	-	-	18
<b>Total emoluments</b>	<b>600</b>	<b>1,789</b>	<b>760</b>	<b>560</b>	<b>705</b>	<b>240</b>	<b>240</b>	<b>240</b>	<b>5,134</b>

	Hu Guoqiang HK\$'000	He Xingfu HK\$'000 (Note i)	Yu Jiangping HK\$'000 (Note iii)	Wei Guoqing HK\$'000 (Note iv)	Pan Jinhua HK\$'000	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
<b>Total emoluments</b>	<b>600</b>	<b>1,740</b>	<b>400</b>	<b>257</b>	<b>560</b>	<b>672</b>	<b>240</b>	<b>240</b>	<b>240</b>	<b>4,949</b>

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

### (b) Employees' emoluments

The five highest paid individuals of the Group during the year included three directors (2018: two directors) whose emoluments are included in the disclosures in (a) above. The emoluments of the remaining two (2018: three) individuals who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Salaries and other benefits	1,505	1,990
Discretionary bonus	115	146
Retirement benefit scheme contributions	36	54
	<b>1,656</b>	<b>2,190</b>

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

	Year ended 31 December	
	2019 Number of individuals	2018 Number of individuals
Nil to HK\$1,000,000	4	4
HK\$1,500,001–HK\$2,000,000	1	1
	<b>5</b>	<b>5</b>

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	
	2019 HK\$'000	2018 HK\$'000
Interest on bank borrowings	468	997
Interest on lease liabilities	704	–
	<b>1,172</b>	<b>997</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 9. PROFIT BEFORE TAXATION

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	1,000	1,000
Depreciation of property, plant and equipment	14,611	17,738
Less: amount capitalised in inventories	(12,858)	(14,207)
	1,753	3,531
Depreciation of right-of-use assets	10,955	–
Directors' remuneration (Note 7)	5,134	4,949
Other staff costs		
Salaries and other benefits	30,685	35,783
Retirement benefits scheme contributions	694	801
Total staff costs	36,513	41,533
Less: amount capitalised in inventories	(20,086)	(24,092)
	16,427	17,441
Cost of inventories recognised as cost of sales	286,096	380,308
Professional expense on the application for the transfer from GEM to the Main Board of the Stock Exchange	7,244	–

## 10. INCOME TAX EXPENSE

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Hong Kong Profits Tax		
Current Tax	6,161	14,764
(Over)underprovision in prior years	(20)	82
	6,141	14,846
Thailand withholding tax	172	28
Deferred tax (Note 25)	108	(742)
	6,421	14,132

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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, 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:

	<b>Year ended 31 December</b>	
	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>42,184</b>	93,690
Tax at the applicable income tax rate	<b>6,960</b>	15,459
Tax effect of income not taxable for tax purpose	<b>(289)</b>	(406)
(Over)under provision in prior years	<b>(20)</b>	82
Tax effect of expenses not deductible for tax purpose	<b>2,265</b>	934
Effect of tax exemption granted	<b>(2,502)</b>	(1,635)
Withholding income tax for profit to be distributed from the subsidiary in Thailand	<b>172</b>	28
Tax effect of two-tiered tax rate regime	<b>(165)</b>	(330)
Tax charge for the year	<b>6,421</b>	14,132

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 11. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company for both years, nor has any dividend been proposed since the end of the reporting periods.

## 12. EARNINGS PER SHARE

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

	2019 HK\$'000	2018 HK\$'000
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	35,763	79,558
	2019 '000	2018 '000
<b>Number of shares</b> Weighted average number of ordinary shares for the purpose of basic earnings per share	260,000	260,000

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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
<b>COST</b>									
At 1 January 2018	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
<b>At 31 December 2018</b>	<b>28,586</b>	<b>45,017</b>	<b>53,727</b>	<b>113,764</b>	<b>6,327</b>	<b>1,901</b>	<b>3,193</b>	<b>40</b>	<b>252,555</b>
Additions	-	-	-	5,249	31	6	-	44,717	50,003
Disposals	-	-	-	-	-	(57)	-	-	(57)
Exchange realignment	2,244	3,534	1,767	4,225	460	82	197	1,115	13,624
<b>At 31 December 2019</b>	<b>30,830</b>	<b>48,551</b>	<b>55,494</b>	<b>123,238</b>	<b>6,818</b>	<b>1,932</b>	<b>3,390</b>	<b>45,872</b>	<b>316,125</b>
<b>DEPRECIATION</b>									
At 1 January 2018	-	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
<b>At 31 December 2018</b>	<b>-</b>	<b>11,889</b>	<b>52,197</b>	<b>59,650</b>	<b>4,547</b>	<b>1,318</b>	<b>2,866</b>	<b>-</b>	<b>132,467</b>
Provided for the year	-	2,369	405	10,829	591	266	151	-	14,611
Eliminated on disposals	-	-	-	-	-	(57)	-	-	(57)
Exchange realignment	-	992	1,756	2,359	342	56	175	-	5,680
<b>At 31 December 2019</b>	<b>-</b>	<b>15,250</b>	<b>54,358</b>	<b>72,838</b>	<b>5,480</b>	<b>1,583</b>	<b>3,192</b>	<b>-</b>	<b>152,701</b>
<b>CARRYING AMOUNTS</b>									
<b>At 31 December 2019</b>	<b>30,830</b>	<b>33,301</b>	<b>1,136</b>	<b>50,400</b>	<b>1,338</b>	<b>349</b>	<b>198</b>	<b>45,872</b>	<b>163,424</b>
At 31 December 2018	28,586	33,128	1,530	54,114	1,780	583	327	40	120,088

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 were mortgaged as collateral to secure bank loans as set out in note 23. The collaterals have been released in June 2019.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 14. RIGHT-OF-USE ASSETS

	Leased properties HK\$'000
Carrying amount	
1 January 2019	27,302
31 December 2019	16,347

### For the year ended 31 December 2019

	2019 HK\$'000
Depreciation expense on right-of-use assets	10,955
Expense relating to short-term leases	686

The total cash outflow for leases amount to HK\$12,698,000 during the year ended 31 December 2019.

For both years, the Group leases a plant and office premises for its operations. Lease contracts are entered into for a fixed term of 5 years, with termination option as described below.

The Group regularly entered into short-term leases for staff quarters. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

### Termination option

The Group has a termination option in a lease for plant and office premises. This is used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The termination option held are exercisable only by the Group and not by the respective lessor. The Group was reasonable certain not to exercise the termination option, therefore, lease liabilities have been recognised for the remaining term of the lease as at 31 December 2019.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 15. INVENTORIES

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Raw materials and consumables	34,675	58,888
Work in progress	10,075	9,814
Finished goods	15,723	19,960
Goods-in-transit	8,718	8,904
<b>Total</b>	<b>69,191</b>	<b>97,566</b>

## 16. TRADE RECEIVABLES

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Trade receivables — sales of goods	278,884	238,074
Less: Loss allowance	(1,841)	(1,070)
<b>Total trade receivables</b>	<b>277,043</b>	<b>237,004</b>

The Group grants credit terms of 0–365 days (2018: 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	
	2019 HK\$'000	2018 HK\$'000
0–180 days	149,439	152,965
181–270 days	47,044	61,168
Over 270 days	80,560	22,871
<b>Total</b>	<b>277,043</b>	<b>237,004</b>

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$90,957,000 (2018: HK\$96,006,000) which are past due as at the reporting date. Out of the past due balances, HK\$12,145,000 (2018: HK\$1,561,000) 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 16. TRADE RECEIVABLES (CONTINUED)

Details of impairment assessment of trade receivables for the years ended 31 December 2019 and 2018 are set out in note 29.

## 17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Electricity deposits	785	785
Other deposits	169	170
Prepayments	30,496	908
Other receivable	706	180
Value-added tax receivables	2,414	926
Deposits for acquisition of property, plant and equipment	103,996	73,747
<b>Total</b>	<b>138,566</b>	<b>76,716</b>
Presented as non-current assets	104,059	73,848
Presented as current assets	34,507	2,868
<b>Total</b>	<b>138,566</b>	<b>76,716</b>

## 18. BANK BALANCES AND CASH

Bank balances carry interest at market interest rates ranging from 0.01% to 2.15% per annum as at 31 December 2019 (2018: 0.01% to 2.1%).

For the years ended 31 December 2019 and 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.

## 19. TRADE AND BILLS PAYABLES

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Bills payables	12,686	25,409
Trade payables	33,179	28,517
<b>Total</b>	<b>45,865</b>	<b>53,926</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 19. 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	
	2019 HK\$'000	2018 HK\$'000
Trade and bills payables:		
0–30 days	12,933	10,767
31–60 days	24,024	18,329
61–90 days	4,220	18,024
91–180 days	3,022	6,623
Over 180 days	1,666	183
	<b>45,865</b>	<b>53,926</b>

## 20. OTHER PAYABLES AND ACCRUED CHARGES

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Accrued charges	7,829	5,198
Other payables	1,036	2,437
	<b>8,865</b>	<b>7,635</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 21. CONTRACT LIABILITIES

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Sales of optical fibre cables	393	285

As at 1 January 2018, contract liabilities amounted to HK\$1,585,000.

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
For the year ended 31 December 2019 Revenue recognised that was included in the contract liability balance at the beginning of the year	285
For the year ended 31 December 2018 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% (2018: 20%–50%) deposit depends on the contract terms.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 22. LEASE LIABILITIES

	As at 31 December 2019 HK\$'000
Lease liabilities payable:	
Within one year	11,633
Within a period of more than 1 year and not later than 5 years	6,493
	<b>18,126</b>
Less: Amount due for settlement within 12 months shown under current liabilities	<b>(11,633)</b>
Amount due for settlement after 12 months shown under non-current liabilities	<b>6,493</b>

All the lease obligations are denominated in HK\$ as at 31 December 2019.

## 23. BANK BORROWINGS

	As at 31 December			
	2019 Effective interest rate	HK\$'000	2018 Effective interest rate	HK\$'000
Unsecured and unguaranteed:				
— Promissory notes	5.21%	1,818	—	—
— Bank loans	4.00%	25,970	—	—
Secured and unguaranteed:				
— Promissory notes	—	—	4.58%–4.76%	18,035
		<b>27,788</b>		18,035
Less: Amounts due within one year shown under current liabilities		<b>(27,788)</b>		(18,035)
Amounts shown under non-current liabilities		—		—

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 23. BANK BORROWINGS (CONTINUED)

The carrying amounts of the above borrowings are repayable\*:

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Within one year	27,788	18,035

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

### For the year ended 31 December 2019

Promissory notes amounting to Renminbi ("RMB") 1,601,000 (equivalent to HK\$1,818,000) as at 31 December 2019 were interest bearing at Chinese Yuan 6-month Chinese Renminbi Hong Kong Inter-bank Offered Rate ("CNH HIBOR") plus 2% per annum.

A short-term loan amounting to Thai Baht ("THB") 100,000,000 (equivalent to HK\$25,970,000) as at 31 December 2019 was interest bearing at a rate of Minimum Lending Rate of Thailand minus 2% per annum.

### For the year ended 31 December 2018

Promissory notes amounting to United States Dollar ("US\$") 2,296,000 (equivalent to HK\$18,035,000) as at 31 December 2018 were interest bearing at US\$3-month London Inter-Bank Offered Rate ("LIBOR") plus 2% per annum.

The Group's bank borrowings of HK\$18,035,000 were secured by land, buildings and machinery of approximately HK\$78,992,000 in aggregate as at 31 December 2018. The pledges have been released in June 2019.

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

	THB HK\$'000	RMB HK\$'000	US\$ HK\$'000
<b>As at 31 December 2019</b>	25,970	1,818	–
As at 31 December 2018	–	–	18,035

## 24. ISSUED SHARE CAPITAL

	Number of shares	HK\$'000
<b>Authorised</b>		
Ordinary shares of HK\$0.01 each		
As at 1 January 2018, 31 December 2018 and 2019	1,000,000,000	10,000
<b>Issued and fully paid</b>		
As at 1 January 2018, 31 December 2018 and 2019	260,000,000	2,600

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 25. DEFERRED TAXATION

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

### Deferred tax

	<b>ECL provision</b> HK\$'000	<b>Accelerated tax depreciation</b> HK\$'000	<b>Total</b> HK\$'000
At 1 January 2018	3	(4,550)	(4,547)
Credit to profit or loss	3	739	742
At 31 December 2018	6	(3,811)	(3,805)
Credit (charge) to profit or loss	<b>92</b>	<b>(200)</b>	<b>(108)</b>
<b>At 31 December 2019</b>	<b>98</b>	<b>(4,011)</b>	<b>(3,913)</b>

The following is the analysis of the deferred taxation for presentation purpose in the consolidated statement of financial position:

	<b>As at 31 December</b>	
	<b>2019</b> HK\$'000	2018 HK\$'000
Deferred tax assets	<b>98</b>	6
Deferred tax liabilities	<b>(4,011)</b>	(3,811)
	<b>(3,913)</b>	(3,805)



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 26. OPERATION LEASE

### The Group as lessee

	2018 HK\$'000
Minimum lease payments paid under operating lease during the year	12,551

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 HK\$'000
Within one year	6,459
In the second to fifth year inclusive	244
	6,703

At 31 December 2018, operating lease payments represented 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. The future minimum lease payment under non-cancellable operating lease with a related company, Futong Group International Limited ("Futong Group International"), within one year was HK\$5,940,000.

## 27. CAPITAL COMMITMENT

	2019 HK\$'000	2018 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	56,822	56,129

## 28. 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 29. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Financial assets		
Financial assets at amortised cost	414,623	425,153
Financial liabilities		
Amortised cost	74,183	73,298

### 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.

#### Market risk

##### Foreign currency risk

The Group's foreign currency exposures arise mainly from the exchange rate movements of the US\$ and 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	
	2019 HK\$'000	2018 HK\$'000
RMB	202,316	158,339
US\$	68,284	78,821

#### Liabilities

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
RMB	14,456	15,164
US\$	15,491	50,860

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 29. 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% (2018: 5%) increase and decrease in the relevant foreign currencies against the functional currency of the entity (i.e. HK\$ and THB) to which they relate. 5% (2018: 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% (2018: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the relevant foreign currencies strengthen 5% (2018: 5%) against HK\$. For a 5% (2018: 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		US\$ Impact	
	Year ended 31 December		Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Profit after tax	8,423	6,724	2,087	775

#### 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 bank borrowings at variable rates.

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 2019 and 2018.

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 29. 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 points (2018: 100 basis points) 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 2019, if interest rates had been 100 basis points (2018: 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\$278,000 (2018: decrease/increase by HK\$180,000). 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 individual impairment assessment under ECL model on trade balances. 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 deposits and other receivables and assessed that the ECL on these balances are insignificant and thus no loss allowance provision was recognised for the both years.

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 29. 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\$151,778,000 (2018: HK\$139,835,000), in aggregate, comprised approximately 55% (2018: 59%) of the Group's trade receivables as at 31 December 2019. 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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 29. 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:

2019	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK\$'000
Financial assets at amortised cost					
Trade receivables	16	N/A	Low risk	Lifetime ECL	85,277
			Watch list	Lifetime ECL	193,607
Deposits and other receivables	17	N/A	(Note 2)	12m ECL	1,660*
Bank balances	18	BAA-AA	N/A	12m ECL	135,920
2018	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK\$'000
Financial assets at amortised cost					
Trade receivables	16	N/A	Low risk	Lifetime ECL	27,809
			Watch list	Lifetime ECL	210,265
Deposits and other receivables	17	N/A	(Note 2)	12m ECL	1,135*
Bank balances	18	BAA-AA	N/A	12m ECL	187,014

\* The gross carrying amounts disclosed above include the relevant interest receivables which are 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. The Group determines the expected credit losses on these items by individual assessment.
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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 29. FINANCIAL INSTRUMENTS (CONTINUED)

### Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

	2019			2018		
	Past due HK\$'000	Not past due/ No fixed repayment terms HK\$'000	Total HK\$'000	Past due HK\$'000	Not past due/ No fixed repayment terms HK\$'000	Total HK\$'000
Deposits and other receivables	-	1,660	1,660	-	1,135	1,135

#### 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, optical fibres and other related products. The following table provides information about the exposure to credit risk for trade receivables as at 31 December 2019 and 2018 within lifetime ECL (not credit impaired).

#### Gross carrying amount

Internal credit rating	2019		2018	
	Average loss rate	Trade receivables HK\$'000	Average loss rate	Trade receivables HK\$'000
Low risk	0.16%	85,277	0.25%	27,809
Watch list	0.88%	193,607	0.48%	210,265
		278,884		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 2019, the Group provided loss allowance for trade receivables of HK\$703,000 (2018: HK\$135,000).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 29. FINANCIAL INSTRUMENTS (CONTINUED)

### Financial risk management objectives and policies (Continued)

#### Gross carrying amount (Continued)

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
<b>As at 1 January 2018</b>	932
Changes due to financial instruments recognised as at 1 January:	
— Impairment losses reversed	(932)
New financial assets originated	1,067
Exchange adjustments	3
<b>As at 31 December 2018</b>	1,070
Changes due to financial instruments recognised as at 1 January:	
— Impairment losses reversed	(881)
— Impairment losses recognised	577
New financial assets originated	1,007
Exchange adjustments	68
<b>As at 31 December 2019</b>	1,841

#### 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 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.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 29. FINANCIAL INSTRUMENTS (CONTINUED)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

	Weighted average effective interest rate %	Within 1 year or on demand HK\$'000	1–5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
<b>As at 31 December 2019</b>					
Trade and bills payables	–	45,865	–	45,865	45,865
Other payables	–	530	–	530	530
Bank borrowings	4.08	28,193	–	28,193	27,788
Lease liabilities	3.02	11,990	6,534	18,524	18,126
		<b>86,578</b>	<b>6,534</b>	<b>93,112</b>	<b>92,309</b>
<b>As at 31 December 2018</b>					
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
		<b>73,480</b>	<b>–</b>	<b>73,480</b>	<b>73,298</b>

As at 31 December 2019 and 2018, 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 30. RELATED PARTY TRANSACTIONS

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

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
<b>Fellow subsidiaries</b>		
Hangzhou Futong Communication Technology Co., Ltd. ("Hangzhou Futong")		
Sales <sup>#</sup>	17,870	37,354
<b>Related company<sup>^</sup></b>		
Futong Group International		
Rental expense <sup>#</sup>	N/A	11,880
Payment of lease liabilities <sup>#</sup>	11,880	N/A

<sup>#</sup> The related party transactions are also defined as continuing connected transactions under the Listing Rules.

<sup>^</sup> Controlled by a shareholder of Hangzhou Futong Investments Co., Ltd., ultimate holding company of the Company.

The sales, rental expense and payment of lease liabilities are all at the terms agreed with the relevant parties.

(b) Trade receivables:

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Hangzhou Futong	–	8,160

(c) Trade and bills payables:

	As at 31 December	
	2019 HK\$'000	2018 HK\$'000
Hangzhou Futong	158	161

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 30. 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	
	2019 HK\$'000	2018 HK\$'000
Short-term benefits	5,116	4,211
Post-employment benefits	18	18
	<b>5,134</b>	<b>4,229</b>

## 31. 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.

	Lease liabilities Note 22 HK\$'000	Bank borrowings Note 23 HK\$'000	Total HK\$'000
At 1 January 2018	–	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
Adjusted upon application of HKFRS 16	29,434	–	29,434
At 1 January 2019 (restated)	29,434	18,035	47,469
Financing cash flows	(12,012)	7,668	(4,344)
Interest expenses	704	468	1,172
Foreign exchange realignment	–	1,617	1,617
At 31 December 2019	18,126	27,788	45,914

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 32. 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.

## 33. 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
				2019 %	2018 %	
Transtech	BVI	Hong Kong	US\$430	100	100	Manufacturing and sales of optical fibres and other related products
Futong Thailand	Thailand	Thailand	THB807,110,000	100	100	Manufacturing and sales of optical fibre cables and optical cable cores
Great Sign Technologies Limited	BVI	Hong Kong	US\$1,000	100	100	Investment holding
Pan South Industries Limited	BVI	Hong Kong	US\$1,000	100	100	Investment holding

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 34. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2019, there have been reports of confirmed cases of COVID-19 in the PRC and certain other foreign countries. As the Group is headquartered in Hong Kong, and its production facilities are located in Hong Kong and Thailand, the directors of the Company believe that such areas do not experience a significant social or transportation disruption which would directly, adversely and materially affect the operation of the Group's production facilities. However, given the unpredictability associated with the COVID-19 outbreak and any further contingency measures that may be put in place by the relevant governments and corporate entities, the actual financial impact of the COVID-19 outbreak, if any, on the Group's 2020 financial statements could be different from the estimates disclosed above depending on how the situation evolves, the Group will closely monitor in this regard.

## 35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 HK\$'000	2018 HK\$'000
<b>Non-current assets</b>		
Investments in subsidiaries	394,018	394,018
<b>Current assets</b>		
Deposits, prepayments and other receivables	137	209
Bank balances and cash	17,964	24,141
	<b>18,101</b>	24,350
<b>Current liabilities</b>		
Other payables and accrued charges	3,625	1,103
Amounts due to subsidiaries	32,195	29,753
Tax payable	37	28
	<b>35,857</b>	30,884
Net current liabilities	<b>(17,756)</b>	(6,534)
<b>Total assets less current liabilities</b>	<b>376,262</b>	387,484
<b>Net assets</b>	<b>376,262</b>	387,484
<b>Capital and reserves</b>		
Issued share capital	2,600	2,600
Reserves	373,662	384,884
<b>Total equity</b>	<b>376,262</b>	387,484

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 35. 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 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
Loss and other comprehensive expense for the year	–	–	(11,222)	(11,222)
<b>At 31 December 2019</b>	<b>95,534</b>	<b>320,522</b>	<b>(42,394)</b>	<b>373,662</b>

# FINANCIAL SUMMARY

## RESULT

	For the year ended 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	370,763	510,083	556,539	599,772	395,515
Cost of sales	(286,096)	(380,308)	(413,626)	(490,699)	(358,471)
Gross profit	84,667	129,775	142,913	109,073	37,044
Profit/(loss) for the year	35,763	79,558	104,350	67,233	(2,925)

## ASSETS AND LIABILITIES

	As at 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Non-current assets	283,928	193,942	136,800	142,035	151,986
Current assets	516,661	524,452	575,525	397,578	341,068
Non-current liabilities	10,504	3,811	4,550	5,934	3,495
Current liabilities	100,712	83,588	156,594	204,920	227,203
Net current assets	415,949	440,864	418,931	192,658	113,865
Net assets	689,373	630,995	551,181	328,759	262,356

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

The financial information for the years ended 31 December 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.