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 on Main Board: 9963)

(Stock Code on GEM: 8465)

TRANSFER OF LISTING FROM GEM TO THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Sponsor

ICBC 工银国际

TRANSFER OF LISTING OF THE SHARES FROM GEM TO THE MAIN BOARD

On 30 May 2019, an application was made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue on the Main Board by way of the Transfer of Listing pursuant to Chapter 9A and Appendix 28 of the Main Board Listing Rules, and the application was further renewed on 5 December 2019 and 9 June 2020 respectively. The last day of dealings in the Shares on GEM (Stock Code on GEM: 8465) will be 4 November 2020. It is expected that dealings in the Shares on the Main Board (Stock Code on Main Board: 9963) will commence at 9:00 a.m. on 5 November 2020.

As at the Latest Practicable Date, all the applicable pre-conditions for the Transfer of Listing as set out in the Main Board Listing Rules have been fulfilled in relation to the Company and the Shares.

The Transfer of Listing will have no effect on the existing share certificates in respect of Shares which will continue to be good evidence of legal title and be valid for trading, settlement and registration purposes and will not involve any transfer or exchange of the existing share certificates. No change will be made to the English and Chinese stock short names of the Company, the existing share certificates, the board lot size, the trading currency of the Shares and the share registrars and transfer offices of the Company following the Transfer of Listing.

DROP IN PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY FOR 6M2020 AND THE EXPECTED LOWER PROFIT LEVEL FOR FY2020

For 6M2020, the Group recorded (i) a total revenue of HK$127.0 million; and (ii) a net profit of HK$2.8 million. Based on the preliminary review of the Group's unaudited consolidated management accounts for the three months ended 30 September 2020 and the information currently available to the Board, the Group is expected to record an aggregate revenue of approximately HK$77.0 million for the three months ended 30 September 2020. Based on a preliminary review of the Group's recently available unaudited consolidated management accounts, the projected net profit based on management's expectations, its expected market conditions and the information currently available to the Board, the Group is expected to record a decrease in net profit for FY2020 as compared to that of FY2019. For further details, please refer to the section headed "Other information relating to the Group's future prospects" of this announcement. Shareholders and potential investors are advised to read carefully the annual results announcement of the Group for the year ended 31 December 2020 to be published by the end of March 2021 in accordance with the Main Board Listing Rules.

SHARE PRICE AND TRADING VOLUME VOLATILITY

The price and trading volume of the Shares has been volatile since the Company's listing on GEM. The Board is not aware of any reason for such volatility and the price and trading volume of the Shares may continue to be volatile. Attention of the Shareholders and potential investors of the Company is drawn to the potential risk and they are advised to exercise caution when dealing in the Shares.

Reference is made to the announcements issued by the Company dated 30 May 2019, 5 December 2019 and 9 June 2020, respectively, in relation to the formal application and renewal applications, submitted to the Stock Exchange for the Transfer of Listing pursuant to Chapter 9A and Appendix 28 of the Main Board Listing Rules.

TRANSFER OF LISTING OF THE SHARES FROM GEM TO THE MAIN BOARD

On 30 May 2019, an application was made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue on the Main Board by way of the Transfer of Listing pursuant to Chapter 9A and Appendix 28 of the Main Board Listing Rules, and application was further renewed on 5 December 2019 and 9 June 2020, respectively. ICBC International Capital Limited has been appointed as the sole sponsor by the Company to advise on the Transfer of Listing from GEM to the Main Board of the Stock Exchange.

The Board announces that the approval-in-principle for the Transfer of Listing was granted by the Listing Committee on 27 October 2020 for the Shares to be listed on the Main Board and to be de-listed from GEM. The last day of dealings in the Shares on GEM (Stock Code on GEM: 8465) will be on 4 November 2020. It is expected that dealings in the Shares on the Main Board (Stock Code on Main Board: 9963) will commence at 9:00 a.m. on 5 November 2020.

As at the Latest Practicable Date, the Directors confirm that all the applicable pre-conditions for the Transfer of Listing as set out in the Main Board Listing Rules have been fulfilled in relation to the Company and the Shares.

REASONS FOR TRANSFER OF LISTING

The Company has been listed on GEM since 20 July 2017. The Group is principally engaged in manufacturing and sales of optical fibres, optical fibre cables, optical cable cores and other related products. The Directors consider that the Transfer of Listing will enhance the profile of the Group and the attractiveness of the Shares to institutional and retail investors. The Board also believes that the Main Board enjoys an enhanced status among investors which could result in a larger investor base leading to greater trading liquidity in the Shares, and that the listing of the Shares on the Main Board will be beneficial to the future growth, business development and financial flexibility of the Group. Additionally, the Group has been improving its sales efforts in the ASEAN markets, and it is believed that through its enhanced listing status as a Main Board listed issuer on the Stock Exchange, given the fact that a number of the Group's competitors are Main Board listed issuers on the Stock Exchange, the Group will be able to capture more business opportunities and develop its business with a stronger corporate image, and better promote itself as a prominent market player in the optical telecommunication products manufacturing industry.

The Board has no immediate plans to change the nature of the business of the Group following the Transfer of Listing. The Transfer of Listing will not involve the issue of any new Shares by the Company.

DEALINGS IN THE SHARES ON MAIN BOARD

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 20 July 2017, being the Listing date. Subject to continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for trading, settlement and registration purposes. No transfer or exchange of the existing share certificates will be involved. No change is proposed to be made to the English and Chinese stock short names of the Company, the existing share certificate, the board lot size, the trading currency of the Shares and the share registrar and transfer offices of the Company following the Transfer of Listing. Currently, the Shares are traded in board lots of 2,000 Shares each and are traded in Hong Kong Dollars. The principal share registrar and transfer office of the Company in the Cayman Islands is Estera Trust (Cayman) Limited and the Hong Kong branch share registrar and transfer office of the Company is Boardroom Share Registrars (HK) Limited.

SHAREHOLDING DISTRIBUTION

The Company was listed on GEM by way of the Global Offering, which comprised of the Hong Kong Public Offer and the International Offering. According to the Company's announcement dated 19 July 2017, (i) a total of 1,316 valid applications under the Hong Kong Public Offer had been received for a total of 94,584,000 Hong Kong Public Offer Shares, representing approximately 14.55 times of the total number of 6,500,000 Hong Kong Public Offer Shares, representing 2.5% of the Company's issued share capital, available for subscription under the Hong Kong Public Offer; and (ii) 58,500,000 Shares, representing 22.5% of the Company's issued share capital, had been conditionally allocated to a total of 143 placees. The distribution of the Shares under the International Offering is set forth as below:

	Aggregate number of Shares allocated under the International Offering	Approximate percentage of shareholding over the enlarged issued share capital of the Company immediately after completion of the Global Offering and the Capitalisation Issue
Top placee	8,120,000	3.12%
Top 5 placees	20,840,000	8.02%
Top 10 placees	28,326,000	10.89%
Top 25 placees	37,940,000	14.59%

The Company has made an enquiry into its shareholding. Based on the responses received up to the date of this announcement and to the best of knowledge and belief of the Directors having making all reasonable inquiries, as at 20 August 2020, being the latest practicable date in ascertaining the shareholdings in the Company, (i) the Controlling Shareholders held an aggregate of 195,000,000 Shares (representing 75% of the entire issued share capital of the Company); and (ii) the identifiable Shareholders (other than the Controlling Shareholders) held an aggregate of 63,350,000 Shares (representing 24.4% of the entire issued share capital of the Company). A total of not less than 300 Shareholders were identified by the search conducted by the Company. The below table sets out the number of identifiable public Shareholders and the Shareholders' spread other than the Shares held by the Controlling Shareholders as at 20 August 2020:

	Aggregate number of Shares held by the identifiable public Shareholder(s) *(Note 1)*	**Approximate percentage of shareholding to the entire issued share capital of the Company**
Top identifiable public Shareholder *(Note 2)*	5,370,000	2.1%
Top five identifiable public Shareholder *(Note 3)*	15,118,000	5.8%
Top ten identifiable public Shareholder *(Note 4)*	23,116,000	8.9%
Top 25 identifiable public Shareholder *(Note 5)*	36,640,000	14.1%

Notes:

1. As at 20 August 2020, the number of Shares stated as being held by HKSCC Nominees Limited in the Company's branch register of members was 62,479,800 Shares and the number of Shares stated as being held in CCASS on the CCASS Search Website was 43,435,800 Shares. A discrepancy of 19,044,000 Shares (the "**Discrepancy Shares**") was found (representing approximately 7.3% of Company's share capital). Out of the Discrepancy Shares, the identities of holders of 17,710,000 Discrepancy Shares (representing approximately 6.8% of the Company's issued share capital) were identified, and the holders of the remaining 1,334,000 Discrepancy Shares (representing approximately 0.5% of the Company's issued share capital) have not been identified (the "**Unidentified Discrepancy Shares**"). The aggregate shareholding in the Company which was held by unidentified Shareholders amounted to 1,650,000 Shares (the "**Unidentifiable Shares**") (representing approximately 0.6% of the Company's issued share capital), which includes the Unidentified Discrepancy Shares and the Shares being held by market intermediaries which did not respond to the Company's statutory inquiries and non-consenting investor participants.

2. The identifiable public Shareholders (other than the Controlling Shareholders) held an aggregate of 63,350,000 Shares, representing approximately 24.4% of the entire issued share capital of the Company. Assuming that the Unidentifiable Shares were all held by the top 25 identifiable Shareholders (including the Controlling Shareholders), the aggregate number of Shares held by them will be 232,736,000 Shares, representing approximately 89.5% of the entire issued share capital of the Company.

3. As there is no Shareholder, other than the Controlling Shareholders, through Futong HK, holding 5% or more of the entire issued share capital of the Company according to the Disclosure of Interests Online System on the website of the Stock Exchange, all of the Unidentifiable Shares could be held by the top

public Shareholder. Accordingly, the maximum aggregate number of Shares held by the top public Shareholder would be no more than 13,000,000 Shares, representing no more than 5% of the entire issued share capital of the Company.

4. Taking into account the Unidentifiable Shares, the top five public Shareholders in aggregate may hold a maximum of 16,768,000 Shares, representing 6.5% of the entire issued share capital of the Company.

5. Taking into account the Unidentifiable Shares, the top ten public Shareholders in aggregate may hold a maximum of 24,766,000 Shares, representing 9.5% of the entire issued share capital of the Company.

6. Taking into account the Unidentifiable Shares, the top 25 public Shareholders in aggregate may hold a maximum of 38,290,000 Shares, representing 14.7% of the entire issued share capital of the Company.

PUBLIC FLOAT

The Directors confirm that, as at the date of this announcement, (i) at least 25% of the total issued share capital of the Company is held by the public (as defined in the Main Board Listing Rules); (ii) the Company has at least 300 Shareholders; and (iii) not more than 50% of the Shares held by the public are held by the three largest public Shareholders. Accordingly, the public float requirements have been maintained in compliance with Rule 8.08 of the Main Board Listing Rules.

There are no outstanding options, warrants or similar rights or convertible equity securities issued by the Company, which will be transferred to the Main Board as at the date of this announcement.

SHARE PRICE AND TRADING VOLUME VOLATILITY

The price and trading volume of the Shares has been volatile since the Company's listing on GEM.

The Company was first listed on GEM on 20 July 2017 at an offer price of HK$1.68 per Share (the "**IPO Offer Price**"), and closed at HK$1.84 per Share on the same day, representing an increase of 9.52% as compared to the IPO Offer Price.

In the second half of 2017 from the Listing Date, the Share price experienced a period of large uptrend with significant volatility. For instance, the highest and lowest closing Share prices during the second half of 2017 were HK$3.86 per Share and HK$1.62 per Share, respectively, representing an increase of 138.3% in the Share price. In particular, the closing Share prices rose rapidly from (i) HK$1.62 per Share on 2 August 2017 to HK$1.94 per Share on 3 August 2017, representing an increase of 19.8%; (ii) HK$2.13 per Share on 12 September 2017 to HK$2.7 per Share on 13 September 2017, representing an increase of 26.8%; and (iii) HK$2.91 per Share on 6 October 2017 to HK$3.7 per Share on 12 October 2017, representing an increase of 27.2%. During the period, a total of approximately 222.0 million Shares were traded, representing 83.3% of the total number of Shares traded since the Listing.

In the first half of 2018, the Share price experienced a slight downtrend and remained relatively stable as compared to the second half of 2017. For instance, the highest and lowest closing Share prices during the first half of 2018 were HK$3.01 per Share and HK$2.49 per Share, respectively, representing a decrease of 17.3% in the Share price.

During the period, the aggregate trading volume was approximately 12.4 million Shares, representing a significant drop of 94.4% in trading volume as compared to the second half of 2017.

In the second half of 2018, the Share price experienced a steady downtrend and was relatively volatile as compared to the first half of 2018. For instance, the highest and lowest closing Share prices during the second half of 2018 were HK$2.68 per Share and HK$1.07 per Share, respectively, representing a decrease of 60.1% in the Share price. During the period, the aggregate trading volume was approximately 26.5 million Shares, representing a significant increase of 113.3% in trading volume as compared to the first half of 2018.

In the first half of 2019, the Share price experienced a downtrend and remained relatively stable as compared to the second half of 2018. For instance, the highest and lowest closing Share prices during the first half of 2019 were HK$1.54 per Share and HK$1.18 per Share, respectively, representing a decrease of 23.38% in the Share price. During the period, the aggregate trading volume was approximately 5.5 million Shares, representing a significant decrease of 79.8% in trading volume as compared to the second half of 2018.

In the second half of 2019, the Share price continued to experienced a downtrend. For instance, the highest and lowest closing Share prices during the second half of 2019 were HK$1.25 per Share and HK$0.82 per Share, respectively, representing a decrease of 34.4% in the Share price. During the period, the aggregate trading volume was approximately 3.6 million Shares.

In the first half of 2020, the Share price was generally stable despite of minor fluctuations. For instance, the closing Share price ranged from HK$0.82 to HK$1.00 per Share, save that on one trading day during this period a lower closing Share price of HK$0.68 per Share was recorded. During the period, the aggregate trading volume was approximately 4.6 million Shares.

In the second half of 2020 and up to the Latest Practicable Date, the Share price was generally stable despite minor fluctuations. For instance, the highest and lowest closing Share prices during the second half of 2020 were HK$0.89 per Share and HK$1.19 per Share, respectively. During the period, the aggregate trading volume was approximately 6.2 million Shares.

The Board is not aware of any reason for such volatility and the price and trading volume of the Shares may or may not continue to be volatile. Attention of the Shareholders and potential investors of the Company is drawn to the potential risks and they are advised to exercise caution when dealing in the Shares.

PUBLICATION OF ANNUAL FINANCIAL RESULTS AND FINANCIAL REPORT

Upon completion of the Transfer of Listing, the Company will cease the practice of quarterly reporting of financial results and will follow the relevant requirements of the Main Board Listing Rules which include publishing its interim results and annual results within two months and three months from the end of the relevant periods or financial year ends, respectively. The Board is of the view that the potential investors and Shareholders will continue to have access to relevant information on the Company following the reporting requirements under the Main Board Listing Rules.

The interim results announcement and interim report of the Group for 6M2020 were both published on 14 August 2020, please refer to the above published documents for details. In accordance with the Main Board Listing Rules, the Company expects its annual results announcement and the annual report for the year ended 31 December 2020 will be published by the end of March 2021.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Business Overview

The Group is principally engaged in manufacturing and sales of optical fibres, optical fibre cables, optical cable cores and other related products. The Group also designs and manufactures specialty optical fibre cables pursuant to requests from the Group's customers, including rodent resistant optical fibre cable, flame-retardant optical fibre cable and non-metallic optical fibre cable. In addition, the Group manufactures optical fibres for its production of optical fibre cables, as well as for sale to third parties. Furthermore, the Group sells optical cable cores and other related products, including power cable and other auxiliary products.

The Company has two major operating subsidiaries, namely Transtech and Futong Thailand:

- Transtech is principally engaged in the manufacturing and sales of optical fibres, and its production facilities are located in Hong Kong; and

- Futong Thailand is principally engaged in the manufacturing and sales of optical fibre cables, optical cable cores and other related products, and its production facilities are located in Thailand.

There has been no change to the Group's principal business and controlling shareholders from the Listing up to the date of this announcement.

Revenue

The table below sets forth the revenue of optical fibres, optical fibre cables, optical cable cores and other related products for the periods indicated, by amount and as percentage of total revenue, during the Track Record Period:

	FY2017		FY2018		FY2019		6M2019 (unaudited)		6M2020 (unaudited)	
	(HK$ in thousands, except for percentages)									
Optical fibre cables	203,654	36.6%	237,990	46.7%	104,976	28.3%	51,783	29.1%	50,021	39.4%
Optical fibres	191,594	34.4%	174,958	34.3%	143,203	38.6%	75,608	42.6%	59,236	46.6%
Optical cable cores	159,188	28.6%	97,135	19.0%	100,177	27.0%	50,254	28.3%	17,748	14.0%
Other related products	2,103[(1)]	0.4%	—	—	22,407[(2)]	6.1%	—	—	—	—
Total	**556,539**	**100%**	**510,083**	**100%**	**370,763**	**100%**	**177,645**	**100%**	**127,005**	**100%**

Notes:

1. Optical fibre cables and optical fibre cores related products

2. Optical fibres related products

Please refer to "Management Discussion and Analysis" of this announcement for further details about fluctuations and changes in the Group's financial results by business segment during the Track Record Period.

The table below is the breakdown of revenue of different products of the Group derived from the Parent Group and Independent Third Parties for the Track Record Period:

Customer	Product(s)	FY2017 Sales amount *(HK$ million)*	FY2017 % of total sales	FY2018 Sales amount *(HK$ million)*	FY2018 % of total sales	FY2019 Sales amount *(HK$ million)*	FY2019 % of total sales	6M2019 Sales amount *(HK$ million)*	6M2019 % of total sales	6M2020 Sales amount *(HK$ million)*	6M2020 % of total sales
Parent Group	Optical fibre	36.6	6.5	37.4	7.3	17.9	4.8	17.9	10.1	11.2	8.8
	Sub-total	**36.6**	**6.5**	**37.4**	**7.3**	**17.9**	**4.8**	**17.9**	**10.1**	**11.2**	**8.8**
Independent Third Parties	Optical fibre cable	203.6	36.6	238.0	46.7	105.0	28.3	51.8	29.1	50.0	39.4
	Optical fibre	155.0	27.9	137.6	27.0	125.3	33.8	57.7	32.5	48.0	37.8
	Optical cable core	159.2	28.6	97.1	19.0	100.2	27.0	50.2	28.3	17.8	14.0
	Other related products	2.1[(1)]	0.4	—	—	22.4[(2)]	6.1	—	—	—	—
	Sub-total	**519.9**	**93.5**	**472.7**	**92.7**	**352.9**	**95.2**	**159.7**	**89.9**	**115.8**	**91.2**
	Total	**556.5**	**100.0**	**510.1**	**100.0**	**370.8**	**100.0**	**177.6**	**100.0**	**127.0**	**100.0**

Notes:

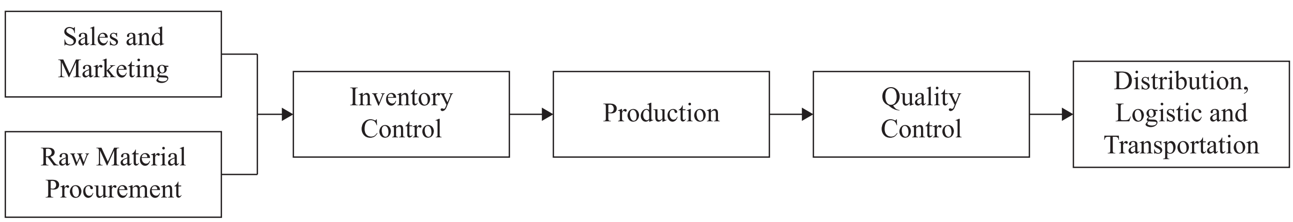
1. Optical fibre cables and optical fibre cores related products

2. Optical fibres related products

For risks associated with the historical support from the Parent Group, see "Material Risks Associated With The Group's Business — The Group has historically leveraged on the support from the Parent Group in a variety of areas including the Group's use of the "Futong trademark". If the Group is unable to operate and develop the Group's business independently, its prospects will be adversely affected" below.

Business model

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



Production process and facilities

Optical fibres are manufactured from optical fibre preforms, and optical fibre cables are manufactured primarily from optical fibres that are bound and go through the colouring, coating, stranding, and sheathing processes. Optical cable cores are manufactured primarily from optical fibres that are bound and go through the colouring, coating, and stranding processes.

As of 30 June 2020, the Group had main production facilities with a total gross floor area of approximately 5,000 square metres for the production of optical fibres and approximately 20,000 square metres for the production of optical fibre cables, facilities with a total gross floor area of approximately 7,500 square metres, in aggregate, for warehouse purposes and facilities with a total gross floor area of approximately 2,350 square metres, in aggregate, for administrative purposes.

As of 30 June 2020, the Group had production lines for the production of optical fibres, including Nextrom drawing production lines and Company S drawing production lines. Moreover, the Group had various machinery for the production of optical fibre cables and optical cable cores, including colouring machines, tubing machines, cabling machines and sheathing machines.

As disclosed in the Company's annual reports for FY2018 and FY2019, implementing the expansion plan of the Group's new production facility in Thailand, including the construction of a factory in Thailand with a view to further integrating the production of optical fibres and optical fibre cables within the Group, remains one of the Group's business strategies going forward:

- the Directors believe that the integration of the production of optical fibres and optical fibre cables within the Group will provide the Group with greater flexibility on optical fibres procurement in terms of delivery time, stability on production processes given the familiarity on raw material quality, administrative convenience and control over production costs, and the synergetic effects on manufacturing efficiency brought along by the vertical integration may be accrue in the long-run as the Group's optical fibre production capacities in Hong Kong and Thailand will eventually complement each other thereby further increasing overall production efficiency and capabilities;

- the Group is optimistic about the prospects of the optical fibre industry in the Group's major markets due to the expected growth in demand that will be brought along by the 5G technology and the continuation on China's Belt and Road Initiative in the Southeast Asian. See "Industry Outlook, Future Prospects, Recent Development And No Material Adverse Change" below; and

- during the Track Record Period, as part of the Group's business strategies, the Group seeks to obtain orders from new customers from time to time. The Group received orders from new customers during the Track Record Period, and many of such new customers continued to place orders with the Group in 2020, and based on the foregoing, the Directors believe the Group's relationship with its customers remains to be healthy.

As such, the Directors believe that there will be sufficient market demand for the Company's products despite the recent challenging market conditions.

Production Capacity and Utilisation Rate

The following table sets forth the overall production capacity, the actual production volume and the utilisation rate for optical fibres, optical fibre cables and optical cable cores for the periods indicated:

	FY2017			FY2018			FY2019			6M2019			6M2020		
	Overall production capacity	Actual production volume	Utilisation rate[3]	Overall production capacity	Actual production volume	Utilisation rate[3]	Overall production capacity	Actual production volume	Utilisation rate[3]	Overall production capacity	Actual production volume	Utilisation rate[3]	Overall production capacity	Actual production volume	Utilisation rate[3]
			%			%			%			%			%
	(fkm, in thousands, except for percentages)														
Optical fibres (fkm)	4,813[1]	4,650	96.6	4,813[1]	4,685	97.3	4,813	3,962	82.3	2,407	1,945	80.8	2,407	1,342	55.8
Optical fibre cables and optical cable cores (fkm)	4,804[2]	2,923	60.8	4,804[2]	2,482	51.7	4,804	1,890	39.4	2,402	908	37.8	2,402	715	29.8

Notes:

(1) Overall production capacity of optical fibres is calculated based on the production of standardised products and the production facilities operating 15.5 or 19.8 hours a day, as applicable, and 28.5 days a month.

(2) Overall production capacity of optical fibre cables and optical cable cores is calculated based on the production of standardised products and the production facilities operating 18 hours a day and based on 26 days a month. There are multiple manufacturing processes involved in the production of optical fibre cables and optical cable cores, each of which may have different production capacity. The overall production capacity is calculated based on the manufacturing process with the production capacity of the most common specification. As the Group uses similar facilities for the production of optical fibre cables and optical cable cores, therefore, optical fibre cables and optical cable cores share the same overall production capacity.

(3) Utilisation rate is arrived at by dividing the actual production volume by the overall production capacity.

The utilisation rate for production of optical fibres at Transtech maintained at a high rate of 96.6%, 97.3% and 82.3% in FY2017, FY2018 and FY2019, however, the utilisation rate for production of optical fibre cables and optical cable cores at Futong Thailand dropped from 60.8% in FY2017, to 51.7% in FY2018, and further decreased to 39.4% in FY2019, mainly attributable to the lower sales volume for optical cable cores in FY2018 and the lower sales volume for optical fibre cables in FY2019, respectively.

The utilisation rates for production of optical fibres, optical fiber cables and optical cable cores are lower in 6M2020 as compared to 6M2019, primarily due to the lower actual volume of the Group's products being produced as a result of the generally lower sales volume for the Group's products in 6M2020, the corresponding shorter actual production time adjusted by the Group in response to the then prevailing market conditions and the outbreak of COVID-19 in the first half of 2020.

Employees

As at 30 June 2020, the Group had a total of 197 employees in Hong Kong and Thailand. The table below shows the Group's full-time employees by function:

	As of 30 June 2020	
	Number of employees	**% of total employees**
Manufacturing	109	55.3%
Quality control	22	11.2%
Human Resources	14	7.1%
Business affairs	8	4.0%
Sales, procurement and transportation	10	5.1%
Technology	10	5.1%
Accounting	9	4.6%
Equipment	6	3.0%
General management	7	3.6%
Construction	2	1.0%
Total	197	100%

CUSTOMERS

During the Track Record Period, customers for the Group's products were primarily Independent Third Parties in Hong Kong, Thailand and in other ASEAN countries, and, as confirmed by the Directors, the Group generally did not have direct sales relationships or enter into agreements with end-users in FY2017. From FY2018, the Group started to conduct direct sales with the telecommunication operators in Thailand. For FY2017, FY2018, FY2019 and 6M2020, the aggregate amount of revenue attributed to the Group's largest and the five largest customers accounted for 47.4% and 87.8%, 14.5% and 56.4%, 27.0% and 71.8% and 19.4% and 58.7% of the total revenue of the Group, respectively.

Set out below is certain background information of the Group's five largest customers for FY2017:

	Customer	Major products purchased	Principal business	Location	Approximate years of business relationship as of 30 June 2020	Credit period	Percentage of total sales for FY2017
1.	Customer B	Optical cable cores and optical fibres	Trading business	Hong Kong	4	60–90 days(2)	47.4%
2.	Kij Sangthong Trading Company Limited ("KST")	Optical fibre cables	Importer and distributor of telecommunications equipment	Thailand	5	45–365 days(1)	15.7%
3.	Asian Communication Equipment Company Limited ("ACE")(3)	Optical fibre cables	Distributor of fibre optic cables	Thailand	5	100% advance payment, 45–180 days	12.6%
4.	Parent Group	Optical fibres	Trading of optical fibres and auxiliary materials; manufacturer of optical fibre cables	PRC	7	90 days	6.5%
5.	Trigiant (HK) Limited (俊知(香港)有限公司) ("Trigiant")	Optical fibres	Trading of optical fibres	Hong Kong	4	90 days	5.6%

Set out below is certain background information of the Group's five largest customers for FY2018:

	Customer	Major products purchased	Principal business	Location	Approximate years of business relationship as of 30 June 2020	Credit period	Percentage of total sales for FY2018
1.	Trigiant	Optical fibres	Trading of optical fibres	Hong Kong	4	90–120 days	14.5%
2.	KST	Optical fibre cables	Importer and distributor of telecommunications equipment	Thailand	5	60–150 days(1)	13.2%
3.	Customer F	Optical fibre cables	Manufacturer of telecommunication equipment	Cambodia	3	180–720 days(4)	12.1%
4.	Customer G	Optical cable cores	Wholesale trade of a variety of products	Singapore	3	45–150 days	8.4%
5.	Thai Thong Network Technology Co., Ltd. ("TNT")(3)	Optical fibre cables	Distributor of fibre optic cables	Thailand	2	45–150 days	8.2%

Set out below is certain background information of the Group's five largest customers for FY2019:

	Customer	Major products purchased	Principal business	Location	Approximate years of business relationship as of 30 June 2020	Credit period	Percentage of total sales for FY2019
1.	Customer I	Optical cable cores	Wholesale trade of a variety of products	Singapore	2	365–425 days(5)	27.0%
2.	Fareach Trading Co., Limited ("Fareach")	Optical fibres	Trading business	Hong Kong	*Note 8*	180 days	17.8%
3.	Trigiant	Optical fibres	Trading of optical fibres	Hong Kong	4	120 days	11.1%
4.	Customer K(6)	Optical fibre cables	Telecommunication operation	Thailand	2	90 days	9.5%
5.	Easy Beauty Limited ("Easy Beauty")(7)	Optical fibres	Trading business	Hong Kong	*Note 8*	180 days	6.4%

Set out below is certain background information of the Group's five largest customers for 6M2020:

	Customer	Major products purchased	Principal business	Location	Approximate years of business relationship as of 30 June 2020	Credit period	Percentage of total sales for 6M2020
1.	Fareach	Optical fibres	Trading business	Hong Kong	*Note 8*	180 days	19.4%
2.	Customer I	Optical cable cores	Wholesale trade of a variety of products	Singapore	2	425 days(5)	14.0%
3.	Customer N	Optical fibres	Trading business	Hong Kong	*Note 8*	180 days	8.9%
4.	Parent Group	Optical fibres	Trading of optical fibres and auxiliary materials; manufacturer of optical fibre cables	PRC	7	180 days	8.8%
5.	Customer O	Optical fibres cables	Telecommunication operation	Thailand	*Note 8*	30 days	7.6%

Notes:

1. The Group entered into a payment terms agreement with KST on each of 13 October 2016 and 1 December 2017, respectively, pursuant to which, among other things, a credit period ranging from 60 days to 360 days may be granted to KST for certain orders and depending on the contract value of the purchase order, such that, KST may be granted a credit period of 75 days for 95% of the invoice value while the remainder 5% would be required to be paid at 360 days, for invoices with a value of over THB15 million.

2. Certain sales to Customer B were conducted on the basis of 100% advance payment against delivery.

3. So far as the Directors are aware, ACE and TNT are controlled by the same majority shareholder.

4. The Group entered into a master purchase agreement with Customer F on 10 November 2017, pursuant to which, among other things, the payable amounts for purchase orders thereunder are required to be paid in instalments as follows: 15% as down payment, 30% within 6 months, 25% within 12 months, 15% within 18 months and the remaining 15% within 24 months. In addition, during the Track Record Period, the Group entered into separate purchase orders from time to time with Customer F which are outside the scope of such master purchase agreement, with credit periods ranging from 6 months to 24 months, pursuant to which the payables thereunder are also required to be paid in instalments.

5. The Group entered into separate purchase orders with Customer I from time to time, with respect to which payment will be settled in instalments. For those purchase orders in FY2019, Customer I was granted a credit period of 365 to 425 days. For those purchase orders in 6M2020, Customer I was granted a credit period of 425 days. For those purchase orders with a credit term of 365 days, the payables thereunder are required to be paid in the following instalments: 20% within 130 days after delivery; 35% within 220 days after delivery; and the remaining 45% within 365 days after delivery. For the purchase order with a credit term of 425 days, the payables thereunder are required to be paid in the following instalments: 20% within 190 days after delivery; 35% within 280 days after delivery; and the remaining 45% within 425 days after delivery.

6. Customer K also conducted its purchases from the Group through two of its subsidiaries.

7. According to the disclosure of interests result from the Stock Exchange website's disclosure of interests online system as at the Latest Practicable Date, Easy Beauty is one of the substantial shareholders (for the purposes of the Main Board Listing Rules) of Trigiant.

8. Each of these customers had less than one year of business relationship with the Group as at 30 June 2020.

To the best of the knowledge of the Directors and save as disclosed, none of the Directors, their close associates or any Shareholder who owns more than 5% of the issued share capital of the Company has any interest in any of the five largest customers (other than the Parent Group) and/or their respective end-users (if applicable) during the Track Record Period. All these five largest customers (other than the Parent Group) and/or their respective end-users (if applicable) during the Track Record Period are Independent Third Parties.

Sales to the Parent Group

The Group historically sold optical cable cores and other related products to the Parent Group and Independent Third Party customers. The Group has ceased selling optical cable cores and other related products to the Parent Group since October 2016 and has been focusing on Independent Third Party customers for these products since then.

The sales from the Group to the Parent Group amounted to HK$36.6 million, HK$37.4 million, HK$17.9 million and HK$11.2 million for FY2017, FY2018, FY2019 and 6M2020, respectively. While the Group continued to sell optical fibres to the Parent Group after the Listing, the sales to the Parent Group accounted for 6.5%, 7.3%, 4.8% and 8.8% of the Group's total revenue for FY2017, FY2018, FY2019 and 6M2020, respectively. The sales amount by the Group to the Parent Group as a percentage of the Group's total sales increased from FY2017 to FY2018, but then decreased from FY2018 to FY2019, while the sales amount by the Group to Independent Third Party customers accounted for 93.5%, 92.7% and 95.2% of the Group's total sales during each of FY2017, FY2018 and FY2019, respectively. During 6M2020, the Company utilised the FY2020 Annual Cap to accommodate the demand of the Parent Group in one sales order. According to the Parent Group, the purchase of optical fibres from the Group on such one-off basis was to strategically secure supply of optical fibres in anticipation of any potential shortage of optical fibres in the PRC that may be caused by the widespread outbreak of COVID-19. Based on the above, the Directors believe that it does not materially rely on the Parent Group on the sales of optical fibres, which is in line with the Group's business strategy of focusing in Hong Kong and the ASEAN markets given the Group has diversified its customer base and sell the products to customers in its target markets. For information on the Group's revenue contribution by geographical area, please refer to "Revenue" below. For information on the relevant sales of optical fibres to the Parent Group, please refer to "Continuing Connected Transactions".

SUPPLIERS

Suppliers of the Group include trading companies and manufacturers of raw materials. For FY2017, FY2018, FY2019 and 6M2020, the Group's purchase from the largest and the five largest suppliers accounted for 33.9% and 89.3%, 52.2% and 86.1%, 49.9% and 89.4% and 70.2% and 89.7% of the total purchases of the Group, respectively.

Set out below is certain background information of the Group's five largest suppliers for FY2017:

	Supplier	Major materials supplied	Principal activities	Location	Approximate years of business relationship as of 30 June 2020	Credit period	Percentage of total cost of purchase for FY2017
1.	Company S Subsidiary	Optical fibre preform, coating materials	Trading of electric wire/ cable, optical fibre/cable, fusion splicer, lightwave and microwave devices, compound semi-conductors, fine polymer and hardmetal products	Hong Kong	11	90 days	33.9%
2.	SWCC Showa Cable Systems Co., Ltd. ("SWCC")	Optical fibres	Manufacture of metal telecommunication cables and optical fibre cables	Japan	7	180 days	33.2%
3.	Hangzhou Kanghua Information Industry Co., Ltd. (杭州康華信息產業有限公司) ("Kanghua")	Steel strip, aluminum strip, sheath material	Sales of telecommunications materials, metal materials, chemical raw materials and chemical products	PRC	3	180 days	14.8%
4.	Talomsin Plastics Co., Ltd. ("Talomsin")	Auxiliary raw materials	Trading of auxiliary materials	Thailand	7	60 days	4.0%
5.	Shanghai H-Fast Electronic Technology Co., Ltd. (上海德鴻高新材料有限公司) ("Dehong")	Polybutylene terephthalate materials	Producers of the special material used for optical fibre secondary coating	PRC	3	180 days	3.4%

Set out below is certain background information of the Group's five largest suppliers for FY2018:

	Supplier	Major materials supplied	Principal activities	Location	Approximate years of business relationship as of 30 June 2020	Credit period	Percentage of total cost of purchase for FY2018
1.	Company S Subsidiary	Optical fibre preforms; coating materials	Trading of electric wire/cable, optical fibre/cable, fusion splicer, lightwave and microwave devices, compound semi-conductors, fine polymer and hardmetal products	Hong Kong	11	90 days	52.2%
2.	Kanghua	Steel strip, aluminum strip, sheath material	Sales of telecommunications materials, metal materials, chemicalraw materials and chemical products	PRC	3	180 days	20.4%
3.	Dehong	PBT materials	Producers of the special material used for optical fibre secondary coating	PRC	3	180 days	5.5%
4.	Supplier F	Sheath material	Distributor of plastic resin	Thailand	3	60 days	5.1%
5.	Talomsin	Auxiliary raw materials	Trading of auxiliary materials	Thailand	7	60 days	2.9%

Set out below is certain background information of the Group's five largest suppliers for FY2019:

	Supplier	Major materials supplied	Principal activities	Location	Approximate years of business relationship as of 30 June 2020	Credit period	Percentage of total cost of purchase for FY2019
1.	Company S Subsidiary	Optical fibre preforms, coating materials	Trading of electric wire/cable, optical fibre/cable, fusion splicer, lightwave and microwave devices, compound semi-conductors, fine polymer and hardmetal products	Hong Kong	11	0–90 days	49.9%
2.	Kanghua	Steel strip, aluminum strip, sheath material, optical fibre preforms	Sales of telecommunications materials, metal materials, chemicalraw materials and chemical products	PRC	3	0–90 days	25.7%
3.	Talomsin	Auxiliary raw materials	Trading of auxiliary materials	Thailand	7	60 days	6.8%
4.	Dehong	PBT materials	Producers of the special material used for optical fibre secondary coating	PRC	3	180 days	3.7%
5.	Shanghai Phichem Material Co Ltd (上海飛凱光電材料股份有限公司) ("Shanghai Phichem")	Coating materials	Research, production and sales of uv-curable materials and electronic chemical materials.	PRC	11	90 days	3.3%

Set out below is certain background information of the Group's five largest suppliers for 6M2020:

	Supplier	Major materials supplied	Principal activities	Location	Approximate years of business relationship as of 30 June 2020	Credit period	Percentage of total cost of purchase for 6M2020
1.	Kanghua	Steel strip, aluminium strip, sheath material, optical fibre preforms, optical fibre	Sales of telecommunications materials, metal materials, chemical raw materials and chemical products	PRC	3	0–90 days	70.2%
2.	Talomsin	Auxiliary raw materials	Trading of auxiliary materials	Thailand	7	60 days	7.2%
3.	Company S Subsidiary	Optical fibre preforms	Trading of electric wire/cable, optical fibre/cable, fusion splicer, lightwave and microwave devices, compound semi-conductors, fine polymer and hardmetal products	Hong Kong	11	90 days	6.3%
4.	Dehong	PBT materials	Producers of the special material used for optical fibre secondary coating	PRC	3	90 days	3.1%
5.	Supplier J	Spool and pallet	Manufacture of wood products	Thailand	7	60 days	2.9%

To the best of the knowledge of the Directors, none of the Directors, their close associates or any Shareholder who owns more than 5% of the issued share capital of the Company has any interest in any of the Group's five largest suppliers during the Track Record Period. All these five largest suppliers during the Track Record Period are Independent Third Parties.

SUMMARY OF THE GROUP'S FINANCIAL PERFORMANCE

The following table sets forth the selected financial information of the Group for FY2017, FY2018, FY2019, 6M2019 and 6M2020:

	FY2017	FY2018	FY2019	6M2019 (unaudited)	6M2020 (unaudited)
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
			(in thousands)		
Revenue	556,539	510,083	370,763	177,645	127,005
Cost of sales	(413,626)	(380,308)	(286,096)	(139,054)	(110,043)
Gross profit	142,913	129,775	84,667	38,591	16,962
Other income	2,775	5,269	1,539	1,910	2,232
Other gains and losses	19,305	(3,896)	(4,441)	(816)	(1,991)
Loss allowance for trade receivables	—	(135)	(703)	(267)	290
Selling and distribution expenses	(7,255)	(8,010)	(4,860)	(2,489)	(1,709)
Administrative expenses	(28,303)	(28,316)	(25,602)	(12,843)	(11,376)
Finance costs	(1,283)	(997)	(1,172)	(842)	(753)
Listing/other expenses	(9,553)	—	(7,244)	—	—
Profit before taxation	118,599	93,690	42,184	23,244	3,655
Income tax expense	(14,249)	(14,132)	(6,421)	(2,318)	(886)
Profit for the year	104,350	79,558	35,763	20,926	2,769
Other comprehensive income (expense)					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	19,943	1,185	24,747	18,006	(11,693)
Total comprehensive income (expense) for the year	124,293	80,743	60,510	38,932	(8,924)
Profit for the year attributable to:					
Owners of the Company	104,350	79,558	35,763	20,926	2,769
Non-controlling interest	—	—	—	—	—
	104,350	79,558	35,763	20,926	2,769
Total comprehensive income (expense) for the year attributable to:					
Owners of the Company	124,293	80,743	60,510	38,932	(8,924)
Non-controlling interest	—	—	—	—	—
	124,293	80,743	60,510	38,932	(8,924)

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The Group generates revenue primarily from sales of three types of products, namely (i) optical fibre, (ii) optical fibre cable and (iii) optical cable core. The Group also generate revenue from the sale of other related products, including power cable and other auxiliary products. The following table illustrates the revenue of the Group by types of products for the periods indicated, by amount and as a percentage of total revenue:

	FY2017		FY2018		FY2019		6M2019		6M2020	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (Unaudited)	*%*	*HK$'000* (Unaudited)	*%*
Optical fibre cables	203,654	36.6	237,990	46.7	104,976	28.3%	51,783	29.1%	50,021	39.4%
Optical fibres	191,594	34.4	174,958	34.3	143,203	38.6%	75,608	42.6%	59,236	46.6%
Optical cable cores	159,188	28.6	97,135	19.0	100,177	27.0%	50,254	28.3%	17,748	14.0%
Other related products	2,103[(1)]	0.4	—	—	22,407[(2)]	6.1%	—	—	—	—
Total	556,539	100%	510,083	100%	370,763	100%	177,645	100%	127,005	100%

Notes:

1. Optical fibre cables and optical fibre cores related products

2. Optical fibres related products

The following table illustrates the revenue by customers' geographical location, which is based on billing address, and as percentage of total revenue for the periods indicated:

	FY2017		FY2018		FY2019		6M2019		6M2020	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (Unaudited)	*%*	*HK$'000* (Unaudited)	*%*
PRC (excluding Hong Kong)	36,601	6.5	37,354	7.3	17,870	4.8	17,870	10.1	11,235	8.8
Hong Kong	309,739	55.7	154,203	30.2	151,691	40.9	57,738	32.5	53,737	42.3
Thailand	164,195	29.5	144,263	28.3	88,231	23.8	44,990	25.3	37,760	29.8
ASEAN countries (excluding Thailand) *(Note)*	42,773	7.7	171,603	33.7	112,971	30.5	57,047	32.1	24,273	19.1
Others	3,231	0.6	2,660	0.5	—	—	—	—	—	—
Total	556,539	100.0	510,083	100.0	370,763	100.0	177,645	100.0	127,005	100.0

Note: During the Track Record Period, the Group's revenue in respect of the sales to ASEAN countries (excluding Thailand) was mainly attributable to sales to customers located in Singapore and Burma.

Overview of the Group's revenue during the Track Record Period

The Group's revenue for FY2017, FY2018, FY2019 and 6M2020 were HK$556.5 million, HK$510.1 million, HK$370.8 million and HK$127.0 million, respectively. Primary reasons for the fluctuation in the Group's revenue during the Track Record Period are as follows:

- *The transitional period from 4G to 5G technology may have negatively affected the Group's performance during the Track Record Period* — In past years, main drivers for demand for the Group's products included construction of infrastructure projects relating to FTTx and 4G technology. However, in 2018, the payback period of 4G technology investments continued while telecommunication operators planned for the arrival of 5G technology. The Directors believe that the industry trend during the Track Record Period and the anticipation for implementation and roll-out of 5G technology in its key markets has negatively affected the overall demand for optical communication products in the industry and has also caused competition in the market to intensify, which may have, in turn, had a negative effect on the financial performance of the Group. See "Industry Outlook, Future Prospects, Recent Development and No Material Adverse Change — Prospects and drivers of demand for optical telecommunication products — Industry trend during the Track Record Period, and — Prospects and drivers of demand for optical telecommunication products" for details of the relevant factors;

- *The competition in the telecommunication product manufacturing industry has negatively affected the demand from the Group's customers* — During FY2019, due to increased market competition in ASEAN countries, as evidenced by, among others, the increased investment in ASEAN by other optical fibre cable manufacturers that are competitors to the Group in ASEAN, there was a drop in demand from the Group's customers; and

- *Decrease in average selling prices and sales volume of the Group's product during the Track Record Period* — Owing to the reasons above, the Directors believe that the noticeable drop in such average selling prices and sales volume were mainly contributed by the generally weakened market demand as evidenced by the decreasing of capital expenditure investment of telecommunication operators in some of the Group's key markets and the worsened market environment in connection with the outbreak of COVID-19 in the first half of 2020. With a view towards maintaining the Group's competitiveness, the average selling price of relevant optical fibre products was accordingly adjusted. See "Management Discussion And Analysis — Average Selling Prices and Sales Volume" below for details.

Period to period comparison of the Group's revenue

Revenue for FY2018 as compared to that of FY2017

The total revenue of the Group decreased from HK$556.5 million for FY2017 to HK$510.1 million for FY2018, representing a decrease by approximately 8.3% as compared with the corresponding period in 2017. Taking into account the then industry trend and against the backdrop of an anticipation for 5G technology, the Directors believe that such factors have negatively affected the overall demand for optical communication products in the industry and has caused competition in the market to intensify, which may have, in turn, had a negative effect on the Group's revenue for FY2018. The decrease in the Group's total revenue for FY2018 was primarily contributed by the following specific reasons:

(i) the decreased sales revenue of optical fibres from HK$191.6 million for FY2017 to HK$175.0 million for FY2018, which was in line with the drop in the Group's sales volume for optical fibres of 2,911 fkm for FY2017 to 2,705 fkm for sales to external customers for FY2018. The Company believes that the decrease in optical fibres was primarily due to less optical fibres being sold to external customers, as part of the Group's business strategy to integrate the production of optical fibres and optical fibre cables within the Group. The Group historically procured optical fibres from SWCC for production of optical fibre cables. In FY2018, SWCC ceased to be one of the Group's five largest suppliers given the increased internal consumption by Futong Thailand of the optical fibres produced by Transtech. In such connection, during the Track Record Period, the Group's higher internal optical fibres consumption resulted in the lower revenue contribution by external optical fibre sales. For reasons for and benefits of the Group on pursuing the production integration practice, see "Production process and facilities" above;

(ii) the decreased sales revenue of optical cable cores from HK$159.2 million for FY2017 to HK$97.1 million for FY2018, which was in line with the significant drop in the Group's sales volume for optical cable cores of 1,686 fkm for FY2017 to 997 fkm for FY2018. The lower sales revenue of optical cable cores during FY2018 was primarily due to the shift of proportion of product mix from optical cable cores to optical fibre cables; and

(iii) the decrease in average selling prices of the Group's products in FY2018 as compared to FY2017. See "Management Discussion And Analysis — Average Selling Prices and Sales Volume" below for details of changes in the average selling price of the Group's products from FY2017 to FY2018.

The Group's decrease in total revenue for FY2018 was partially offset by the increased sales volume for optical fibre cables of 1,220 fkm for FY2017 to 1,589 fkm for FY2018, which was mainly due to (i) the shift of proportion of product mix from optical cable cores to optical fibre cables; and (ii) the Group's effort in expanding its optical fibre cables market to ASEAN countries other than Thailand.

Revenue for FY2019 as compared to that of FY2018

The total revenue of the Group decreased from HK$510.1 million for FY2018 to HK$370.8 million for FY2019, representing a decrease by approximately 27.3% as compared with the corresponding period in 2018. Taking into account the then industry trend and against the backdrop of an anticipation for 5G technology, the Directors believe that such factors have negatively affected the overall demand for optical communication products in the industry and has caused competition in the market to intensify, which may have, in turn, had a negative effect on the Group's revenue for FY2019. The decrease in the Group's total revenue for FY2019 was primarily contributed by the following specific reasons:

(i) the decreased sales revenue of optical fibre cables from HK$238.0 million for FY2018 to HK$105.0 million for FY2019, which was in line with the drop in the Group's sales volume for optical fibre cables of 1,589 fkm for FY2018 to 790 fkm for FY2019. The Directors believe that the decrease in optical fibre cables sold to the Group's customers during FY2019 was mainly due to the increased competition in the market which resulted in less demand from the Group's customers, as compared with the corresponding period in 2018, resulting in a significant drop in sales volume of the optical fibre cables; and

(ii) the decreased sales revenue of optical fibres from HK$175.0 million for FY2018 to HK$143.2 million for FY2019, which was in line with the drop in the Group's sales volume for optical fibre of 2,705 fkm for FY2018 to 2,640 fkm for sales to external customers for FY2019. The lower sales revenue of optical fibres during FY2019, as compared to that of FY2018, was primarily due to the decrease in average selling price of the optical fibre in FY2019, as compared with the corresponding period in 2018. See "Average Selling Prices and Sales Volume" below for information.

The Group's decrease in total revenue for FY2019 was partially offset by the sales revenue of other related products of HK$22.4 million in FY2019, and the increased sales volume for optical cables cores of 997 fkm for FY2018 to 1,081 fkm for FY2019, which was mainly due to the shift of proportion of product mix from optical fibre cable to optical cables cores.

Revenue for 6M2020 as compared to that of 6M2019

The total revenue of the Group decreased from HK$177.6 million for 6M2019 to HK$127.0 million for 6M2020, representing a decrease by approximately 28.5% as compared with the corresponding period in 2019. The decrease in the Group's total revenue for 6M2020 was primarily contributed by the general decrease in sales volume of optical fibres and optical cable cores, and the overall decrease in average selling prices of the Group's products as compared with the corresponding period in 2019, and partially offset by the increase in sales volume of optical fibre cables. See "Management Discussion And Analysis — Average Selling Prices and Sales Volume" below for details of changes in the average selling price of the Group's products from 6M2019 to 6M2020. The Board considers that the decrease in total revenue is mainly attributable to the disturbances of general business activities due to the outbreak of the COVID-19 pandemic and the overall unfavourable market conditions in 6M2020, which negatively affected the sales of the Group's optical communication products. See "Industry Outlook, Future Prospects, Recent Development and No Material Adverse Change — The outbreak of COVID-19 which might delay the recovery of market demand" for details.

Average Selling Prices and Sales Volume

The table below sets forth the average selling prices, being the Group's revenue generated from the sales of the relevant product divided by the sales volume of the product for the respective periods, and the sales volume of the Group's optical fibre cables, optical fibres and optical cable cores for the periods indicated:

	FY2017	FY2018	FY2019	6M2019	6M2020
Average selling price (per fkm)					
Optical fibre cables	THB724.6	THB617.2	THB524.5	THB596.2	THB427.1
Optical fibres	HK$65.8	HK$64.7	HK$54.2	HK$54.4	HK$44.9
Optical cable cores	THB409.9	THB401.3	THB365.9	THB373.1	THB290.2

The table below sets out the sales volume of the Group's products for the periods indicated:

Sales volume (fkm)					
Optical fibre cables	1,220	1,589	790	349	479
Optical fibres	2,911	2,705	2,640	1,390	1,320
Optical cable cores	1,686	997	1,081	540	250

The average selling prices of optical fibres and optical fibre cables of the Group fluctuated during the Track Record Period. For FY2017, FY2018 and FY2019 the average selling price of the Group's optical fibres was HK$65.8 per fkm, HK$64.7 per fkm and HK$54.2 per fkm respectively. The average selling prices of the Group's optical fibres from FY2017 to FY2018 were relatively stable during such period. For FY2019, the average selling price of the Group's optical fibres decreased from HK$64.7 per fkm to HK$54.2 per fkm, and further decreased to HK$44.9 per fkm as at 6M2020. The Directors believe that the noticeable drop in such average selling price during the Track Record Period were contributed by the generally weakened market demand as evidenced by the decreasing of capital expenditure investment of telecommunication operators in some of the Group's key markets and the worsened market environment in connection with the outbreak of COVID-19 in the first half of 2020. With a view towards maintaining the Group's competitiveness, the average selling price of relevant optical fibre products was accordingly adjusted.

For FY2017, FY2018 and FY2019, the average selling price of the Group's optical fibre cables was THB724.6 per fkm, THB617.2 per fkm and THB524.5 per fkm, respectively, reflecting a decreasing trend throughout the Track Record Period. Other than the weakened market demand mentioned above, the Directors believe that the drop in average selling price of optical fibre cables in FY2018 and FY2019 was due to increased market competition in ASEAN countries as evidenced by, among others, the increased investment in ASEAN by other optical fibre cable manufacturers that are competitors to the Group in ASEAN. For 6M2019 and 6M2020, the average selling price of the Group's optical fibre cables was THB596.2 per fkm and THB427.1 per fkm, respectively. The Directors believe that the noticeable drop in such average selling price was mainly due to the worsened market environment in connection with the outbreak of COVID-19 in the first half of 2020. With a view towards maintaining the Group's competitiveness, the average selling price of relevant optical fibre cable products was accordingly adjusted according to the then prevailing market conditions.

For FY2017, FY2018 and FY2019, the average selling price of the Group's optical cable cores was THB409.9 per fkm, THB401.3 per fkm and THB365.9 per fkm, respectively, reflecting a generally decreasing trend during the period. Other than the weakened market demand mentioned above, the Directors believe the drop in such average selling price was due to increased market competition in ASEAN countries as evidenced by, among others, increased or planned increase in investments in ASEAN by direct competitors to the Company. For 6M2019 and 6M2020, the average selling price of the Group's optical cable cores was THB373.1 per fkm and THB290.2 per fkm, respectively. The Directors believe that the drop in such average selling price in 6M2020 were mainly due to the worsened market environment in connection with the outbreak of COVID-19 in the first half of 2020. With a view towards maintaining the Group's competitiveness, the average selling price of relevant optical cable core products was accordingly adjusted according to the then prevailing market conditions. Please refer to the section headed "Industry Outlook, Future Prospects, Recent Development and No Material Adverse Change" for details of the market outlook during and after the Track Record Period.

Cost of sales

The Group's cost of sales for FY2017, FY2018, FY2019 and 6M2020 were HK$413.6 million, HK$380.3 million, HK$286.1 million, and HK$110.0 million respectively.

For FY2018, the cost of sales of the Group decreased by about 8.1% to HK$380.3 million as compared with the corresponding period in 2017. Such decrease for FY2018 was mainly attributable to the net effect of (i) the decreased sales volume of optical cable cores and the sales volume of optical fibres to Independent Third Party customers; (ii) the decrease of average unit cost of optical fibre cables; and (iii) the increase of sales volume of optical fibre cables in ASEAN countries other than Thailand during the said periods.

For FY2019, the cost of sales of the Group decreased by about 24.8% to HK$286.1 million as compared with the corresponding period in 2018. Such decrease for FY2019 was mainly attributable to the net effect of (i) the decreased sales volume of optical fibre and optical fibre cables; (ii) the increased sales volume of optical cables cores; and (iii) the decrease of average unit cost of optical fibre cables.

For 6M2020, the cost of sales of the Group decreased by about 20.9% to HK$110.0 million as compared with the corresponding period in 2019, mainly due to the generally lower sales volume of the Group's products in 6M2020.

Gross profit and gross profit margin

	FY2017		FY2018		FY2019		6M2019		6M2020	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (Unaudited)	*%*	*HK$'000* (Unaudited)	*%*
Segment gross profit and gross profit margin										
Optical fibre cables, optical cable cores	71,314	19.7	68,045	20.3	43,476	21.2	21,900	21.5	6,327	9.3
Optical fibres	70,974	37.0	61,730	35.3	39,094	27.3	16,691	22.1	10,635	18.0
Other related products	625[(1)]	29.7	—	—	2,097[(2)]	9.4	—	—	—	—
Total gross profit and gross profit margin	142,913	25.7	129,775	25.4	84,667	22.8	38,591	21.7	16,962	13.4

Notes:

1. Optical fibre cables and optical fibre cores related products

2. Optical fibres related products

The Group's gross profit for FY2017, FY2018, FY2019 and 6M2020 were HK$142.9 million, HK$129.8 million, HK$84.7 million and HK$17.0 million, respectively.

For FY2018, the gross profit of the Group decreased from HK$142.9 million to HK$129.8 million as compared with the corresponding period in 2017. The gross profit margin slightly decreased from 25.7% for FY2017 to 25.4% for FY2018.

For FY2019, the gross profit of the Group decreased from HK$129.8 million in FY2018 to HK$84.7 million for as compared with the corresponding period in 2018. The gross profit margin decreased from 25.4% for FY2018 to 22.8% for FY2019, which is mainly attributable to the decrease of the gross profit margin of optical fibres and optical fibre cables for FY2019 by 8.0% and 6.7% respectively as compared to the corresponding period in 2018. Nevertheless, the gross profit margin of optical cable cores increased by 8.4% in FY2019, which partially offset the decrease in gross profit margin mentioned above.

For 6M2020, the gross profit of the Group decreased from HK$38.6 million to HK$17.0 million as compared with the corresponding period in 2019. The gross profit margin decreased from 21.7% for 6M2019 to 13.4% for 6M2020, which is mainly attributable to the decrease of the gross profit margin of optical fibres, optical fibre cables and optical cable cores for 6M2020 by 4.1%, 5.7% and 14.6% respectively as compared to the corresponding period in 2019. The Directors are of the view that the decrease of gross profit margin of optical fibres is in line with (i) the decrease in its average selling prices. See "Management Discussion And Analysis — Average Selling Prices and Sales Volume" for details of changes in the average selling price of the Group's optical fibre products from 6M2019 to 6M2020; and (ii) the decrease in the raw material costs for the production of the Group's optical fibres.

Other Income

Other income consists of (i) income from sales of scrap products, (ii) bank interest income, and (iii) others. The Group's other income for FY2017, FY2018, FY2019 and 6M2020 were HK$2.8 million, HK$5.3 million, and HK$1.5 million and HK$2.2 million, respectively.

For FY2018, the Group's bank interest income increased from HK$0.9 million for FY2017 to HK$2.4 million for FY2018 mainly due to increased placement of bank deposits as fixed deposits in FY2018 as compared with corresponding period in FY2017. The Group's income from sales of scrap products remained relatively stable from HK$0.7 million for FY2017 to HK$0.8 million for FY2018 as compared with corresponding period in FY2017.

For FY2019, the Group's bank interest income decreased from HK$2.4 million for FY2018 to HK$0.8 million for FY2019 mainly due to less bank deposits having been placed as fixed deposits for FY2019 as compared with the corresponding period, which resulted in the decrease in other income for FY2019. The Group's income from sales of scrap products decreased from HK$0.8 million for FY2018 to HK$0.3 million for FY2019, mainly due to less scrap products have been sold for FY2019 as compared with corresponding period in FY2018.

For 6M2020, the Group's bank interest income decreased from HK$0.5 million for 6M2019 to HK$0.1 million for 6M2020 mainly due to less bank deposits having been placed as fixed deposits for 6M2020 as compared with the corresponding period. The Group's income from sales of scrap products remained relatively stable from HK$0.2 million for 6M2019 to HK$0.1 million for 6M2020. The Group also recognised a government grant of HK$1.6 million under the Employment Support Scheme of the Hong Kong government in June 2020.

Other Gain and Losses

Other gains and losses consist of (i) foreign exchange gains/losses and (ii) loss on disposals of property, plant and equipment. The Group's other gains for FY2017 was HK$19.3 million, and the Group's other losses for FY2018, FY2019 and 6M2020 were HK$3.9 million, HK$4.4 million and HK$2.0 million, respectively.

The Group's foreign exchange gain for FY2017 was HK$19.3 million. For FY2018, FY2019 and 6M2020, the Group recognised foreign exchange loss of HK$3.9 million, HK$4.4 million and HK$2.0 million, respectively.

For FY2018, the Group recognised foreign exchange loss of HK$3.9 million as compared with the corresponding period in 2017, mainly due to the depreciation of RMB against HK$ during FY2018.

For FY2019, the Group's foreign exchange loss increased from HK$3.9 million for FY2018 to HK$4.4 million for FY2019 due to more depreciation charges being incurred during FY2019 as a result of fluctuations of RMB against HK$ during the period.

For 6M2020, the Group recognised foreign exchange loss of HK$2.0 million for 6M2020 as compared with a foreign exchange loss of HK$0.8 million for 6M2019, mainly due to the fluctuation of exchange rates among RMB, THB, US$, and HK$ during 6M2020.

Selling and distribution expenses

The Group's selling and distribution expenses for FY2017, FY2018, FY2019 and 6M2020 were HK$7.3 million, HK$8.0 million, HK$4.9 million and HK$1.7 million, respectively.

For FY2018, the Group's selling and distribution expenses increased from HK$7.3 million to HK$8.0 million as compared with the corresponding period in 2017, representing an increase of 9.6%. The increase was mainly due to increase in export cost caused by the increase of transportation cost and insurance cost as there was increase in sales of optical fibre cables to ASEAN countries.

For FY2019, the Group's selling and distribution expenses decreased from HK$8.0 million to HK$4.9 million as compared with the corresponding period in 2018, representing a decrease of 38.8%. The decrease in the selling and distribution expenses for FY2019 was mainly due to the decrease in staff cost as a result of a decrease in the headcount for the sales and marketing department for Futong Thailand and the decrease in export cost during the relevant period.

For 6M2020, the Group's selling and distribution expenses decreased from HK$2.5 million for 6M2019 to HK$1.7 million for 6M2020, representing a decrease of 31.3%. The decrease in the selling and distribution expenses for 6M2020 was mainly due to the decrease in staff costs as there was a decrease in the headcount for the sales and marketing department for Futong Thailand, and the decrease in transportation expenses, travelling expenses and system transaction charge for 6M2020.

Administrative expenses

The Group's administrative expenses primary consisted of (i) staff costs, (ii) office expenses, (iii) depreciation, (iv) operation management fees, (v) transportation expenses, (vi) professional fees, and (vii) other expenses for FY2017, FY2018, FY2019 and 6M2020, were HK$28.3 million, HK$28.3 million, HK$25.6 million and HK$11.4 million, respectively.

For FY2018, the Group's administrative expenses remained stable at HK$28.3 million as compared with the corresponding period in 2017.

For FY2019, the Group's administrative expenses decreased from HK$28.3 million to HK$25.6 million as compared with the corresponding period in 2018, representing a decrease of 9.5%. The decrease 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 said period.

For 6M2020, the Group's administrative expenses decreased from HK$12.8 million for 6M2019 to HK$11.4 million for 6M2020, representing a decrease of 11.4%. The decrease in the administrative expenses for 6M2020 was mainly attributable to the decrease in staff costs and other administrative expenses such as listing maintenance fees, decreased depreciation of property, plant and equipment, travelling, repair and maintenance expenses during 6M2020, as compared with the corresponding period in 2019.

Finance costs

Finance costs represent the interest expense on bank borrowings and lease liabilities.

The Group's finance costs for FY2017, FY2018, FY2019 and 6M2020 were HK$1.3 million, HK$1.0 million, HK$1.2 million, and HK$0.8 million respectively.

The decrease from HK$1.3 million for FY2017 to HK$1.0 million for FY2018 was mainly due to the decrease in the average bank borrowings throughout the said periods as compared with the corresponding periods in 2017.

The finance costs of the Group increased from HK$1.0 million for FY2018 to HK$1.2 million for FY2019 due to the lease liabilities that 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 unaudited condensed consolidated financial statements for FY2019 as disclosed in the Company's annual report for 2019.

The finance costs of the Group remained relatively stable for 6M2020 at HK$0.8 million as compared with the corresponding periods in 2019.

Listing/other expenses

The Company started the relevant preparation work for the Listing in the third quarter of 2016. The Company's listing expenses amounted to HK$9.6 million for FY2017 and that was fully settled in FY2017. The Company started the work for the Transfer of Listing in 3M2019, and the other expenses incurred in connection with the proposed Transfer of Listing was approximately HK$7.2 million for FY2019.

Income tax expense

The Group's income tax expenses for FY2017, FY2018, and FY2019 and 6M2020 were HK$14.2 million, HK$14.1 million, HK$6.4 million and HK$0.9 million respectively.

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable by the Group is based on taxable profit for the year. 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.

Futong Thailand has been granted preferential tax treatments by the BOI relating to manufacturing of cables, which included 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**"). No income tax has been provided by Futong Thailand for FY2018 and FY2019, and the Directors confirm that no income tax will be provided by Futong Thailand for FY2020, as Futong Thailand was operating within the Exemption Period. For further details of the preferential tax treatment, please refer to "Material Risks Associated With The Group's Business — If the preferential policies and tax treatments the Group currently receive from the Thai government become unavailable or otherwise change or terminate, it could adversely affect the Group's business and profitability".

Profit for the year during the Track Record Period

The Group's net profit for FY2017, FY2018, FY2019 and 6M2020 were HK$104.4 million, HK$79.6 million, HK$35.8 million and HK$2.8 million, respectively.

For FY2018, the net profit of the Group decreased from HK$104.4 million to HK$79.6 million as compared with the corresponding period in 2017, representing a decrease by approximately 23.8%. The decrease in net profit for FY2018 was in line with the decrease in the Group's revenue from HK$556.5 million for FY2017 to HK$510.1 million for FY2018, representing a decrease by approximately 8.3%, and other than being mainly due to the decrease in the Group's revenue, the drop in net profit is also attributable to the foreign exchange loss of HK$3.9 million in FY2018, as compared with the foreign exchange gain of HK$19.3 million in the corresponding period in 2017.

For FY2019, the net profit of the Group decreased from HK$79.6 million to HK$35.8 million as compared with the corresponding period in FY2018, representing a decrease by approximately 55.0%. The decrease in net profit for FY2019 was in line with the decrease in the Group's revenue from HK$510.1 million for FY2018 to HK$370.8 million for FY2019, representing a decrease by approximately 27.3%, and other than being mainly due to the decrease in the Group's revenue, the drop in net profit is also attributable to (i) the decrease of other income as the Group's bank interest income dropped from HK$2.4 million for FY2018 to HK$0.8 million for FY2019; and (ii) the other expenses of HK$7.2 million for FY2019.

For 6M2020, the net profit of the Group decreased from HK$20.9 million to HK$2.8 million as compared with the corresponding period in 2019, representing a decrease by approximately 86.8%. The decrease in net profit for 6M2020 was in line with the decrease in the Group's revenue from HK$177.6 million for 6M2019 to HK$127.0 million for 6M2020, representing a decrease by approximately 28.5%, and other than being mainly due to the decrease in the Group's revenue, the drop in net profit is also attributable to the foreign exchange loss of HK$2.0 million in 6M2020, as compared with the foreign exchange loss of HK$0.8 million in the corresponding period in 2019. The net profit of the Group for 6M2020 is inclusive of the government grant of HK$1.6 million received by Transtech under the Employment Support Scheme of the Hong Kong government in June 2020. The Board considers that the decrease in net profit is mainly attributable to the disturbances of general business activities due to the outbreak of the COVID-19 pandemic and the overall unfavourable market conditions in 6M2020, which negatively affected the sales of the Group's optical communication products. See "Industry Outlook, Future Prospects, Recent Development and No Material Adverse Change — The outbreak of COVID-19 which might delay the recovery of market demand" for details.

SUMMARY OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below presents the summary of consolidated statements of financial position of the Group as at 31 December 2017, 2018, 2019 and 30 June 2020.

Consolidated Statement of Financial Position

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Non-current assets				
Property, plant and equipment	136,785	120,088	163,424	164,600
Right-of-use assets	—	—	16,347	8,808
Deposits for acquisition of property, plant and equipment	—	73,747	103,996	117,717
Deposits	15	101	63	29
Deferred tax assets	—	6	98	88
	136,800	**193,942**	**283,928**	**291,242**
Current assets				
Inventories	134,769	97,566	69,191	66,839
Trade receivables	158,063	237,004	277,043	262,119
Tax receivable	—	—	—	1,627
Deposits, prepayments and other receivables	3,142	2,868	34,507	76,799
Bank balances and cash	279,551	187,014	135,920	41,778
	575,525	**524,452**	**516,661**	**449,162**

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)
Current liabilities				
Trade and bills payables	140,621	53,926	45,865	19,284
Other payables and accrued charges	9,061	7,635	8,865	7,657
Contract liabilities	—	285	393	100
Lease liabilities	—	—	11,633	12,284
Bank borrowings	900	18,035	27,788	11,507
Tax payable	6,012	3,707	6,168	—
	156,594	83,588	100,712	50,832
Net Current assets	**418,931**	**440,864**	**415,949**	**398,330**
Total assets less current liabilities	555,731	634,806	699,877	689,572
Non-current liabilities				
Deferred tax liabilities	4,550	3,811	4,011	3,852
Lease liabilities	—	—	6,493	—
Bank borrowings	—	—	—	5,271
	4,550	3,811	10,504	9,123
Net assets	**551,181**	**630,995**	**689,373**	**680,449**
Capital and reserves				
Issued share capital	2,600	2,600	2,600	2,600
Reserves	548,581	628,395	686,773	677,849
Total Equity	551,181	630,995	689,373	680,449

ANALYSIS OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

Property, Plant and Equipment

The carrying amounts of the Group's property, plant and equipment amounted to HK$136.8 million, HK$120.1 million, HK$163.4 million and HK$164.6 million as at 31 December 2017 and 2018 and 2019 and 30 June 2020, respectively.

The decrease in the carrying amounts of the Group's property, plant and equipment from 31 December 2017 to 31 December 2018 was primarily due to the relevant depreciation charges in FY2018. The increase in the carrying amount of the Group's property, plant and equipment from 31 December 2018 to 31 December 2019 was primarily due to the ongoing construction of a new production facility in Thailand with HK$44.7 million recognised as addition of construction in progress in FY2019. The slight increase in the carrying amounts of the Group's property, plant and equipment from 31 December 2019 to 30 June 2020, was mainly due to the ongoing construction of a new production facility in Thailand in 6M2020. The Group's property, plant and equipment with carrying amounts of HK$85.0 million and HK$79.0 million as of 31 December 2017 and 2018, respectively, were mortgaged as collateral to secure banking facilities. The aforementioned pledges of land, buildings and machinery have been released in June 2019. As at 30 June 2020, the Group had not pledged its land, buildings and machinery to secure any banking facilities granted to the Group.

Right-of-use assets and lease liabilities

In relation to the Group's leased properties, including Transtech's manufacturing facility located at Tai Po, Hong Kong, the Group recorded right-of-use assets, current lease liabilities and non-current lease liabilities of the Group of HK$8.8 million, HK$12.3 million and nil, respectively, as at 30 June 2020, after the coming into effect of the new accounting policy of HKFRS 16 (Leases) during FY2019.

Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from more than 1 year to 5 years.

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases and leases of low value assets.

Deposits for acquisition of property, plant and equipment

The amount of deposits for acquisition of property, plant and equipment made by the Group amounted to HK$73.7 million, HK$104.0 million and HK$117.8 million as at 31 December 2018, 31 December 2019 and 30 June 2020 respectively, and such amounts were mainly attributable to the deposit paid for the Group's expansion plan of a new production facility in Thailand as disclosed below and the purchase of certain equipment for Transtech.

For implementing the Group's expansion plan of a new production facility in Thailand, as at 30 June 2020, out of an estimated investment amount of HK$203.3 million for the construction of the factory and relevant facilities as well as the purchase of equipment and machinery for Futong Thailand, around HK$117.8 million has been paid as deposit, and HK$58.2 million has been applied, and an expected funding of HK$27.3 million will be required for the construction in the future. Given the construction of the Thailand factory is still on-going as at 30 June 2020, the relevant deposits for acquisition of property, plant and equipment has yet to be recorded as property plant and equipment of the Group as at the Latest Practicable Date, and such is expected to be recorded when the relevant construction completes. The on-site construction is expected to be completed and the manufacturing at the factory is scheduled to commence in the second half of FY2021. See "Industry Outlook, Future Prospects, Recent Development and No Material Adverse Change" for further information.

Deposits, prepayments and other receivables

The Group recorded deposits, prepayments and other receivables of HK$3.1 million, HK$2.9 million, HK$34.5 million and HK $76.8 million as at 31 December 2017, 2018, 2019 and 30 June 2020, respectively. The deposits, prepayments and other receivables remained relatively stable as at 31 December 2017 and 2018. The significant increase in deposits, prepayments and other receivables from HK$2.9 million as at 31 December 2018 to HK$34.5 million as at 31 December 2019, and then increased to HK$76.8 million as at 30 June 2020, is primarily due to more payment for deposits was made by the Group's raw materials procurement during the relevant period.

Inventories

The Group's inventories primarily consist of raw materials and consumables, work in progress, finished goods and goods-in-transit. The Group's inventories decreased from HK$134.8 million as of 31 December 2017 to HK$97.6 million as of 31 December 2018, and to HK$69.2 million as of 31 December 2019, and to HK$66.8 million as of 30 June 2020.

The decrease from FY2017 to FY2018 was mainly due to the reduction in the inventory level of materials for the production of optical fibre cables as the market had sufficient supply for optical fibres and the inventory level of optical fibre cable goods of Futong Thailand was accordingly reduced.

The decrease from FY2018 to FY2019 was mainly due to the fact that the Group sold most of the inventories of optical fibres cables produced during FY2019, and the inventory level of materials for the production of optical fibres and optical fibre cables was also reduced due to the drop in sales orders for optical fibres and optical fibre cables.

The decrease from FY2019 to 6M2020 was mainly due to the drop in sales orders and sales volume of the Group's products, in relation to the outbreak of COVID-19 in the first half of 2020.

The following table sets forth average inventory turnover days for the periods indicated:

	FY2017	FY2018	FY2019	6M2020
Average inventory turnover days *Note*	95	111	106	113

Note: Average inventory turnover days are based on the average balance of inventory divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. There were 365, 365, 365 and 182 days in FY2017, FY2018, FY2019 and 6M2020, respectively.

The average inventory turnover days ranged from 95 days to 113 days during the Track Record Period. There was no significant change in the average inventory turnover days during the Track Record Period. The Directors confirm that HK$50.4 million, representing approximately 75.5%, of such inventories as of 30 June 2020 have been subsequently charged to cost of sales as of the Latest Practicable Date.

Trade receivables

The Group's trade receivables primarily consist of receivables from the Group's customers for sales of its products. The Group's gross carrying amount of trade receivables amounted to HK$158.1 million, HK$238.1 million, HK$278.9 million and HK$263.6 million as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. The loss allowance for trade receivables for the Group amounted to nil, HK$1.1 million, HK$1.8 million and HK$1.5 million as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. The Group's trade receivables increased from HK$158.1 million as of 31 December 2017 to HK$237.0 million as of 31 December 2018, and to HK$277.0 million as of 31 December 2019, and then decreased to HK$262.1 million as of 30 June 2020.

The increase of the Group's trade receivables from FY2017 to FY2018 is mainly due to the increase in sales to one of the Group's five largest customers for FY2018, to whom the Group granted a relatively long credit period of 6 months to 2 years for sales by the Group to it.

The increase of the Group's trade receivables from FY2018 to FY2019 is mainly due to the increase in sales of optical cable cores to one of the Group's five largest customers in Singapore in FY2019, with respect to which the Group granted a relatively long credit period of 130 days to 425 days, and the sales to that customer accounted for 27.0% of the Group's total sales for FY2019.

The decrease of the Group's trade receivables from FY2019 to 6M2020 is mainly due to the general decrease in sales volume and average selling price of the Group's products.

Trade receivable turnover days

The following table sets out the Group's average trade receivables turnover days for the periods presented:

	FY2017	**FY2018**	**FY2019**	**6M2020**
Average trade receivables turnover days *(Note)*	135	141	253	386

Note: Average trade receivables turnover days are based on the average balance of trade receivables divided by revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. There were 365, 365, 365 and 182 days in FY2017, FY2018, FY2019 and 6M2020 respectively.

The Group's trade receivable balances remained substantial throughout the Track Record Period, representing 28.4%, 46.5%, 74.7% and 206.4% of the Group's revenue for the relevant years/period respectively, while the Group's revenue exhibited a decreasing trend (i.e. FY2017: HK$556.5 million, FY2018: HK$510.1 million, FY2019: HK$370.8 million and 6M2020: HK$127.0 million).

In particular, the increase in the Group's average trade receivables turnover days for FY2018, FY2019 and 6M2020 was primarily due to (i) increase in trade receivable amounts; and (ii) decrease in revenue. For reasons for the increase in the Group's trade receivables amounts during the Track Record Period, see this section "Summary of Consolidated Statements of Financial Position — Trade Receivables" above, and for the Group's decrease in revenue during the Track Record Period, see "Management Discussion and Analysis — Revenue" above.

The Directors confirm that the during the Track Record Period, the Group did not experience any significant dispute with the Group's customers relating to collectability of trade receivables, and the Company believes that the Group has maintained good relationship with its customers.

Credit periods offered to certain customers

The Directors consider that the relatively longer credit period (pursuant to which payments are required to be made in instalments) granted to certain of the Group's customers, including Customer F and Customer I, during the Track Record Period is reasonable and the Directors understand that the credit terms available to purchasers of optical fibre products varies depending on a number of factors including, among other factors, the historical business relationship, such customers' scale of operation and strategic benefits that could be brought to the Group. Based on their understanding of the industry and taking into account the terms of sales with the Group's existing customers, the Directors believe that such relatively longer credit periods do not materially deviate from the market practice given that substantially all or a majority (i.e. 55% or more) of such invoice amounts under such relevant contracts are required to be settled within one year according to the terms of such purchase orders. As disclosed in the Prospectus, it has been one of the Group's business strategies to explore for customers in new markets in the ASEAN, and during the Track Record Period, the Group has been keen to develop, retain and maintain long term business relationships with its customers, for instance, Customer F and Customer I. After taking into account various factors in negotiating and determining relevant terms of sales, including, among others, order size, selling prices, bargaining power, credibility, and, type of products relating to such sales and in order to maintain its competitiveness in the market or to expand into new markets, the Directors consider that the Group has to strike a balance between price and other terms, including credit period granted, on negotiation of terms with its customers, and accordingly, a relatively longer credit period may be granted to specific customers.

In respect of Customer F and Customer I specifically, during the Track Record Period, the Group granted a credit period of up to 24 months and 425 days to Customer F and Customer I, respectively, for sales orders between them as customer and the Group as supplier. For Customer F, the Group considered the following main factors when determining the credit period granted: (i) the length of the Group's business relationship with Customer F and the fact that Customer F was a former customer of the Parent Group prior to the Listing. Based on the foregoing, the Group decided to conduct its sales to Customer F under similar credit terms which were adopted by the Parent Group prior to the Listing; (ii) the Company is given to understand that Customer F generally selects suppliers through a tender process; (iii) payment of Customer F by instalments, under the then proposed master purchase agreement as referred to in this announcement above, such that a majority of the payable amounts would be paid to the Group within one year; and (iv) its geographical location and strategic benefits to the Group. For Customer I, the Group considered the following main factors when determining the credit period granted: (i) relatively higher selling prices accepted by and order quantity requested by Customer I; (ii) payment of Customer I by instalments; and (iii) its geographical location and strategic benefits to the Group.

Ageing analysis of trade receivables

During the Track Record Period, the Group generally granted credit terms of up to 720 days to its customers from the date of invoice. The following is an ageing analysis of the trade receivables presented based on invoice date at the end of the respective reporting periods:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
0–180 days	128,491	152,965	149,439	98,813
181–270 days	29,375	61,168	47,044	75,622
Over 270 days	197	22,871	80,560	87,684
	158,063	237,004	277,043	262,119

During FY2017, the Group had a policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment including the creditworthiness and the past collection history of each client. At the end of the respective reporting periods, the Group had no allowance of bad and doubtful debts. Since 1 January 2018, upon the application of Hong Kong Financial Reporting Standard 9 "Financial Instruments", the Group has used provision matrix to calculate expected losses for trade receivables, where the Group uses individual assessment to calculate the expected credit loss for trade receivables. The Group's internal credit risk grading assessment consist of four categories that are representative of the customers' abilities to pay, and the relevant 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 following table provides information about the exposure to credit risk for trade receivables which are assessed based on the Group's provision matrix as at 31 December 2018, 31 December 2019 and 30 June 2020 within lifetime expected credit loss (not credit impaired):

	FY2018		**FY2019**		**6M2020**	
Internal credit rating *(Note 1)*	**Average loss rate**	**Gross carrying amount of trade receivables attributable to such category of customers**	**Average loss rate**	**Gross carrying amount of trade receivables attributable to such category of customers**	**Average loss rate**	**Gross carrying amount of trade receivables attributable to such category of customers**
		HK$'000		*HK$'000*		*HK$'000*
Low risk customers	0.25%	27,809	0.16%	85,277	0.22%	43,328
Watch list customers	0.48%	210,265	0.88%	193,607	0.65%	220,316
		238,074		278,884		263,644

Notes:

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

Internal credit rating	Description	Trade receivables
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime expected credit loss ("ECL") — not credit-impaired
Watch list	Debtor frequently settles after due dates	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is 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

See "3. Significant Accounting Policies — Financial assets" and "29. Financial Instruments — Financial risk management objectives and policies" of the consolidated financial statements in the 2019 annual report for more information.

2. The Group has yet to apply Hong Kong Financial Reporting Standard 9 "Financial Instruments" for FY2017 and the exposure to credit risk for trade receivables based on the Group's provision matrix does not apply for such reporting period.

Trade receivables that were past due

Included in the Group's trade receivables are debtors with aggregate amount of HK$53.4 million, HK$96.6 million, HK$91.0 million and HK$121.7 million which were past due at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, and the Group has not provided for impairment loss for the amounts of HK$53.4 million as at 31 December 2017. As at 1 January 2018, the Group provided credit loss allowance of HK$0.9 million against accumulated profits in respect of the balance of trade receivables as at 1 January 2018 upon initial application of HKFRS 9. The Group provided loss allowance for trade receivables for HK$0.1 million, HK$0.7 million and reversal of loss allowance of HK$0.3 million charged to the consolidated statement of profit or loss and other comprehensive income of the Group for FY2018, FY2019 and 6M2020 respectively. The Group did not record any credit impairment for its trade receivables during the Track Record Period. The Group does not hold any collateral over these balances.

The Group's trade receivables that were past due decreased from HK$96.6 million as at 31 December 2018 to HK$91.0 million as at 31 December 2019, representing a decrease of 5.8%. A majority of such balance primarily consisted of trade receivables that were past due from three customers of the Group, namely, KST, Trigiant and Customer J as at 31 December 2019. As at 30 June 2020, the Group's trade receivables that were past due increased from HK91.0 million as at 31 December 2019 to HK$121.7 million, representing a increase of 33.7%. See "Trade receivables for particular customers" below for information on relevant trade receivables, relevant settlement and the credit risk management measures taken by the Group.

The Directors are of the view that such overdue amounts as of the end of each reporting period above were at an acceptable level based on their experience and that no specific bad debt provision on these amounts was necessary. For further details on the Directors' views on recoverability of overdue trade receivables due from certain customers comprising the majority of overdue trade receivables due to the Company during the Track Record Period, please refer to "Directors' views on recoverability of overdue trade receivables from particular customers" and "Periodic evaluation of trade receivables" in this section below.

Up to the Latest Practicable Date, HK$56.5 million or 21.5% of the trade receivables as at 30 June 2020, was subsequently settled, and HK$45.8 million or 37.3% of the trade receivables that was past due as at 30 June 2020 was subsequently settled. The Directors believe that such trade receivables that was past due as at 30 June 2020 is generally recoverable taking into account the factors considered by the Directors and set out above on the overdue amounts are at an acceptable level based on their experience.

Trade receivables for particular customers

Particulars of trade receivables settlement by certain of the five largest customers of the Group during the Track Record Period are set out below:

— KST: While trade receivables past due from KST accounted for a substantial part of the Group's trade receivables that were past due during the Track Record Period, all overdue trade receivables of KST as at 31 December 2017, 31 December 2018 and 31 December 2019 have been fully settled as at the Latest Practicable Date. As at 30 June 2020, the total trade receivables of KST amounted to approximately HK$28,000 and is not past due as at the Latest Practicable Date.

— Trigiant: The sales to Trigiant for FY2017 and FY2018 amounted to HK$31.1 million and HK$73.9 million, respectively, and all such trade receivables were fully settled as at the Latest Practicable Date. The sales to Trigiant for FY2019 and 6M2020 amounted to HK$41.2 million and HK$5.4 million, among which, HK$14.2 million and nil has been settled as at the Latest Practicable Date.

  As at 30 June 2020, trade receivables of Trigiant that were past due amounted to HK$25.8 million, and nil has been settled as at the Latest Practicable Date. As at the Latest Practicable Date, the trade receivables of Trigiant that were past due amounted to HK$32.2 million.

— Customer F: The Group had not conducted any sales with Customer F in FY2019 and 6M2020. The sales to Customer F for FY2017 amounted to HK$0.3 million, and that such trade receivables were fully settled as at the Latest Practicable Date. The sales to Customer F for FY2018 amounted to HK$61.8 million, among which, HK$54.2 million of such sales amount (representing 87.8% of the sales amount attributable to Customer F for FY2018) was settled as at the Latest Practicable Date.

  As at 30 June 2020, trade receivables of Customer F that were past due amounted to HK$8.2 million, among which, HK$3.8 million has been settled as at the Latest Practicable Date. As at the Latest Practicable Date, the trade receivables of Customer F was past due amounted to HK$8.1 million. For information on the credit period granted by the Group to Customer F, see "Credit periods offered to certain customers" above.

— Customer I: There were no sales to Customer I in FY2017. The sales to Customer I for FY2018 amounted to HK$41.2 million, and that the relevant sales amount receivables were fully settled as at the Latest Practicable Date. The sales to Customer I for FY2019 and 6M2020 amounted to HK$100.2 million and HK$17.7 million, among which, HK$52.3 million and nil has been settled as at the Latest Practicable Date.

  As at 30 June 2020, trade receivables of Customer I that were past due amounted to HK$21.5 million and HK$8.3 million has been settled as at the Latest Practicable Date. As at the Latest Practicable Date, the trade receivables of Customer I that were past due amounted to HK$38.1 million. For information on the credit period granted by the Group to Customer I, see "Credit periods offered to certain customers" above.

— Customer J: The sales to Customer J for FY2017 amounted to HK$12.5 million, and such trade receivables were fully settled as at the Latest Practicable Date. The sales to Customer J for FY2018, FY2019 and 6M2020 amounted to HK$30.7 million, HK$16.5 million and HK$6.7 million, respectively, among which, the sales amount for FY2018 and FY2019 were fully settled, and none of the sales amount for 6M2020 had been settled, as at the Latest Practicable Date.

  As at 30 June 2020, none of the trade receivables of Customer J were past due. As at the Latest Practicable Date, HK$6.8 million of the trade receivables of Customer J were past due.

— Fareach: The sales to Fareach for FY2019 and 6M2020 amounted to HK$66.2 million and HK$24.7 million, among which, HK$58.5 million and nil has been settled as at the Latest Practicable Date.

  As at 30 June 2020, trade receivables of Fareach that were past due amounted to HK$30.8 million, among which, HK$23.1 million has been settled as at the Latest Practicable Date. As at the Latest Practicable Date, the trade receivables of Fareach that were past due amounted to HK$14.8 million.

Directors' views on recoverability of overdue trade receivables from particular customers

To the best knowledge of the Directors, based on ongoing correspondences and other information furnished to them, Fareach sells goods procured by it from the Group to further third party customers. Accordingly, the Company anticipates that there will probably be a delay in settlement of such overdue trade receivables and will continue monitoring and evaluating such overdue trade receivables, as further described under "Periodic evaluation of trade receivables" below. In respect of Trigiant, Customer F, Customer I, Fareach and Easy Beauty which had a relatively larger amount of trade receivables that were overdue or trade receivables that were long overdue (as the case may be) as at the Latest Practicable Date, the Directors believe that the amounts were generally recoverable given that (i) the Group maintained a constant dialogue with them in respect of the relevant trade receivables; (ii) the Group evaluate the customers' credibility from time to time; (iii) Trigiant is a subsidiary of a company listed on the Stock Exchange, and based on review of the latest published financial statements of such company, the Company is of the view that such parent company is of sound financial background; (iv) the Group did not experience any material dispute with them in respect of such trade receivables; (v) in respect of customers with trade receivables that were long overdue as at the Latest Practicable Date, the Group maintains business relationship with each of Customer I and Fareach; and (vi) the Group had received ongoing settlements from them during the Track Record Period. Based on recent discussions with Trigiant, the Company understands that Trigiant expects to pay part of its trade receivables that were past due as of 30 September 2020 before the end of 2020 and the remaining amount of such past due receivables will be settled during the first half of 2021.

Periodic evaluation of trade receivables

Based on past experience, the Directors did not consider impairment on trade receivables for specific customers is required during FY2017 based on the then impairment accounting policies. For the Group's loss allowance made for trade receivables during the Track Record Period, see "Trade receivables — Trade receivables that were past due" above.

With regard to the amount of trade receivables that were past due as at the Latest Practicable Date, the Directors are of the view that such overdue amounts are of an acceptable level based on their experience. The Group continuously monitors and evaluates its trade receivables and its exposure to credit risk arising from non-payment of trade receivables by its customers. With a view towards maintaining its credit risk management efforts for the Group's trade receivables, the Group has in place internal control and risk management procedures to monitor and control its trade receivables including (i) preparing monthly aging analysis of trade receivables; (ii) assigning personnel to monitor the trade receivables and to collect those trade receivables that were past due, who may seek to collect the overdue trade receivables by measures, including through phone calls, emails or legal actions, to reduce any potential loss of the Company, and (iii) having regular management meetings to review the status of the Group's trade receivables and keeping meeting records. The Group also reviews the payment records of its customers from time to time, seeks to identify the reasons of those overdue trade receivables and strengthens its collection efforts for such trade receivables, and if necessary, will make provisions for bad debts in accordance with the applicable accounting policies. The Group will continue to strengthen its collection efforts for trade receivables that were past due.

The Company has engaged an internal control consultant to perform internal controls assessment on various business processes of the Group (which include trade receivables management) and no material internal control deficiencies were noted upon the closing review.

Trade and bills payables

During the Track Record Period, the Group's trade and bills payables primarily relate to the purchases of raw materials and optical fibre cables. The Group's trade and bills payables decreased from HK$140.6 million as of 31 December 2017, to HK$53.9 million as of 31 December 2018, further decreased to HK$45.9 million as of 31 December 2019 and HK$19.3 million as of 30 June 2020. The decrease from 31 December 2017 to 31 December 2018 was mainly due to the reduced purchase of optical fibres from SWCC, which was substituted by the Group's optical fibres, and the decrease from 31 December 2018 to 30 June 2020 was mainly caused by the increase in deposit for the Group's raw materials procurement. The Group had a credit period of 30 to 180 days from suppliers on its purchases of raw materials during the Track Record Period.

The following is an aging analysis of trade and bills payables presented based on the invoice date at the end of the respective reporting periods:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
0–30 days	36,465	10,767	12,933	11,021
31–60 days	32,266	18,329	24,024	3,870
61–90 days	18,470	18,024	4,220	2,279
91–180 days	53,238	6,623	3,022	1,167
Over 180 days	182	183	1,666	947
	140,621	53,926	45,865	19,284

Net Assets as at 30 June 2020

As contributed by exchange differences on translating foreign operations where the Group recognised other comprehensive expense of HK$11.7 million for 6M2020, the Group recorded a total comprehensive expense of HK$8.9 million for 6M2020. The Group recorded a slight decrease of HK$9.0 million in net assets from HK$689.4 million as at 31 December 2019 to HK$680.4 million as at 30 June 2020, and that was contributed by the combined effects of the drop in current assets of HK$67.5 million and drop in current liabilities of HK$49.9 million. The lower current assets as at 30 June 2020 as compared to that of 31 December 2019 was primarily due to the decrease in bank balances and cash of HK$94.1 million which was partially offset by the increase of HK$42.3 million in deposits, prepayments and other receivables caused by the increase in deposit for the Group's raw materials procurement of HK$37.0 million, while the lower current liabilities as at 30 June 2020 as compared to that of 31 December 2019 was primarily due to the decrease in trade and bills payables of HK$26.6 million, decrease in current bank borrowings of HK$16.3 million and the absence of tax payable.

LIQUIDITY AND CAPITAL 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. During the Track Record Period, the Group financed its working capital needs primarily through cash flows from operations, proceeds from listing and loans. As of 31 December 2017, 2018, 2019 and 30 June 2020, the Group had cash and cash equivalents of HK$279.6 million, HK$187.0 million, HK$135.9 million and HK$41.8 million, respectively, which consisted of bank balances and cash.

Cash flow

The following table sets forth a summary of the Group's cash flows for the periods indicated.

	FY2017	**FY2018**	**FY2019**	**6M2019**	**6M2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating cash flows before movements in working capital	137,214	110,118	68,792	36,518	15,506
Changes in working capital	58,484	(131,544)	(42,868)	(10,373)	(54,813)
Hong Kong Profits Tax paid	(10,310)	(17,179)	(3,851)	(3,695)	(8,831)
Net cash generated from/(used in) operating activities	185,388	(38,605)	22,073	22,450	(48,138)
Net cash used in investing activities	(3,515)	(71,757)	(73,209)	(19,583)	(29,115)
Net cash generated from/(used in) financing activities	36,051	16,270	(4,344)	(25,117)	(13,329)
Net increase/(decrease) in cash and cash equivalents	217,924	(94,092)	(55,480)	(22,250)	(90,582)

Net cash generated from/(used in) operating activities

Cash generated from or used in operating activities primarily relate to the production and sale of the Group's products.

For FY2017, the net cash generated from operating activities was HK$185.4 million, which was mainly due to the profit before tax of HK$118.6 million for the same period and the decrease in trade receivables of HK$110.3 million, net off by increase in inventories of HK$47.9 million. For FY2018, the net cash used in operating activities was HK$38.6 million although the Group recorded profit before tax of HK$93.7 million for the same period, and such net cash outflow was mainly due to the decrease in working capital attributable to the increase in trade receivables of HK$80.1 million and the decrease in trade and bills payables of HK$87.6 million, resulting in HK$21.4 million of cash used in operations. For FY2019, the net cash generated from operating activities was HK$22.1 million, which was mainly due to the profit before tax of HK$42.2 million for the same period, and the increase in trade receivables of HK$27.1 million and the decrease in inventories of HK$32.2 million.

For 6M2020, the net cash used in operating activities was HK$48.1 million, which was mainly due to the profit before tax of HK$3.7 million for 6M2020, net off by the decrease in working capital, which in turn was mainly attributable to the decrease in trade and bills payables of HK$21.8 million and increase in other receivables, deposit and prepayment of HK$41.8 million, which included increase in deposit for the Group's raw materials procurement of HK$37.0 million.

In view of the Group's cash outflow from its operating activities, the Group aims to improve the Group's cash flow position by: (i) continuing to strengthen its collection efforts for trade receivables that were past due, including having in place certain internal control and risk management procedures to monitor and control its trade receivables, see "Trade receivables — Periodic evaluation of trade receivables" above for details; (ii) controlling its potential credit risk by assessing the credibility of new customers prior to taking up any new order from them; (iii) monitoring the Group's inventory level from time to time; and (iv) planning on adopting measures to tighten cost controls over various operational expenses of the Group.

Net cash used in investing activities

Cash used in investing activities primarily relate to repayment from and advances to related companies, interest received, deposits paid for acquisition of property, plant and equipment and the purchase of property, plant and equipment.

For FY2017, the cash used in investing activities was HK$3.5 million, which was primarily attributable to the Group's purchases of property, plant and equipment of HK$4.1 million. For FY2018, the cash used in investing activities was HK$71.8 million, which was primarily attributable to deposits paid for acquisition of property, plant and equipment of HK$73.7 million and the Group's purchases of property, plant and equipment of HK$0.6 million, both in relation to the expansion of Futong Thailand's production facility. For FY2019, the cash used in investing activities was HK$73.2 million, which was primarily attributable to deposits paid for acquisition of property, plant and equipment of HK$24.1 million and the Group's purchases of property, plant and equipment of HK$50.0 million.

For 6M2020, the net cash used in investing activities was HK$29.1 million, which was primarily attributable to deposits paid for acquisition of property, plant and equipment of HK$16.7 million and the Group's purchases of property, plant and equipment of HK$12.5 million.

Net cash generated from/(used in) financing activities

Net cash generated from or used in financing activities primarily relate to new bank loans raised and the repayment of bank borrowings.

For FY2017, the net cash generated from financing activities was HK$36.1 million, primarily attributable to the net proceeds from the Global Offering of HK$98.1 million and new bank loans raised of HK$68.4 million, which was partially offset by repayment of bank borrowings of HK$128.2 million and interest paid of HK$1.3 million. For FY2018, the net cash generated from financing activities was HK$16.3 million, primarily attributable to new bank loans raised of HK$85.2 million, which was partially offset by repayment of bank borrowings of HK$67.9 million and interest paid of HK$1.0 million. For FY2019, the net cash used in financing activities was HK$4.3 million, which was primarily attributable to the repayment of bank borrowings of HK$46.5 million, payment for lease liabilities of HK$11.3 million, and which was primarily offset by the new bank borrowings raised of HK$54.6 million.

For 6M2020, the net cash used in financing activities was HK$13.3 million, which was primarily attributable to the repayment of bank borrowings of HK$73.0 million, and which was primarily offset by the new bank borrowings raised of HK$63.2 million.

Bank balances and cash

As at 30 June 2020, the Group's bank balances and cash amounted to HK$41.8 million, and unutilised banking facilities which amounted to HK$127.6 million. As at the Latest Practicable Date, the Group's unutilised banking facilities amounted to HK$125.8 million.

As part of the Group's financial resources, as at 31 December 2017 and 2018, the Group had total bank borrowings of HK$0.9 million and HK$18.0 million respectively, which was secured by land, buildings and machinery in an aggregate amount of HK$85.0 million and HK$79.0 million as at 31 December 2017 and 2018. The aforementioned pledges of land, buildings and machinery have been released in June 2019. As at 31 December 2019 and 30 June 2020, the Group has total bank borrowings and outstanding promissory notes with an aggregate carrying amount of HK$27.8 million and HK$16.8 million respectively.

The Group utilises various capital resources for its daily operation. For instance, the Group had historically issued promissory notes from time to time for purposes of day-to-day raw materials procurement, which is a financial arrangement between the Group and the bank to provide the Group with an additional short term liquidity and a means of settlement for invoices relating to raw materials procurement for the manufacturing process of the Group.

The Directors are of the opinion that, after taking into account the Group's financial resources available to the Group, including internally generated funds and available facilities, the Group has sufficient working capital for at least the next 12 months from the date of this announcement.

Adoption of HKFRS 9, HKFRS 15 and HKFRS 16

The Company confirms that the adoption of HKFRS 9 "Financial Instruments", HKFRS 15 "Revenue from Contracts with Customers" and HKFRS 16 "Leases" did not have a significant impact on the financial position and performance of the Company when compared to that of HKAS 39, HKAS 18 and HKAS 17 for such relevant periods of the Track Record Period following such adoption.

GEARING RATIO

The gearing ratio of the Group were 0.2%, 2.9% and 4.0% as at 31 December 2017, 31 December 2018 and 31 December 2019. The gearing ratio as at 31 December 2019 increased as compared to that as of 31 December 2018 as the Group had issued interest-bearing promissory notes and bank loans with a carrying amount of HK$27.8 million outstanding as at 31 December 2019. 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.

SIGNIFICANT INVESTMENTS HELD

Except for investments in subsidiaries, as at 30 June 2020, the Company did not hold any significant investment in equity interest in any other company.

CONTINUING CONNECTED TRANSACTIONS

The Group has entered into certain continuing connected transactions with connected persons of the Company during the Track Record Period. The Directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules since the Listing up to the date of this announcement. A summary of the details of the transactions are set out below, and for further information, please refer to the Prospectus and the announcements of the Company dated 18 March 2019 and 30 March 2020.

1. Non-Exempt Continuing Connected Transactions — Sales of Optical Fibres

During the Track Record Period, Transtech sold optical fibres to the Futong China Group, which 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 FY2017, FY2018 and FY2019, and the relevant annual caps as set out in the Existing Agreement in relation to the sales of optical fibres to Futong China Group are set out below.

Actual Sales Amount	**FY2017**	**FY2018**	**FY2019**
		HK$ million	
Optical fibre	36.6	37.4	17.9

The annual caps for the continuing connected transactions under the Existing Agreement were HK$40.0 million, HK$38.0 million and HK$18.0 million for FY2017, FY2018 and FY2019, respectively, and accordingly, the actual sales amount for FY2017, FY2018 and FY2019 did not exceed the relevant annual caps.

Since the Existing Agreement expired on 31 December 2019, in order to continue the transactions under the Existing Agreement, Transtech and Hangzhou Futong entered into the New Optical Fibre Framework Sales Agreement on 30 March 2020, pursuant to which Transtech agreed to sell, and Hangzhou Futong (for itself and on behalf of its subsidiaries) agreed to purchase, optical fibres within the FY2020 Annual Cap for the transactions contemplated under the New Optical Fibre Framework Sales Agreement for FY2020. The FY2020 Annual Cap in respect of the transactions contemplated under the New Optical Fibre Framework Sales Agreement is HK$12.5 million. The transactions under the New Optical Fibre Framework Sales Agreement will be carried out in accordance with the FY2020 Annual Cap.

GEM Listing Rules Implications

Hangzhou Futong is a subsidiary of Futong China, which is one of the controlling shareholders of the Company. As Hangzhou Futong is owned as to more than 30% by Futong China, Hangzhou Futong is an associate of Futong China, hence a connected person of the Company under Rule 20.07(4) of the GEM Listing Rules. Accordingly, the transactions as contemplated under the New Optical Fibre Framework Sales Agreement thus constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules and Chapter 14A of the Main Board Listing Rules.

Given that the highest applicable percentage ratios in respect of the FY2020 Annual Cap for purpose of the New Optical Fibre Framework Sales Agreement are more than 0.1% and less than 5%, the transactions contemplated thereunder 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 and Chapter 14A of the Main Board Listing Rules.

2. Non-fully Exempt Continuing Connected Transaction — Licensing of Premises from Futong Group International Limited ("Futong Group International")

During FY2017, Transtech operated from the Premises which was leased by Futong Group International from HKSTP. Futong Group International was owned by Mr. Wang, one of the controlling shareholders, and Mr. He Xingfu, one of the executive Directors. Since March 2018, Futong Group International has been wholly-owned by Mr. Wang. Therefore, Futong Group International is a connected person of the Group.

On 20 October 2016, the Group entered into the Licence Agreement with Futong Group International. 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 below. The term of the licence is five years, from 1 July 2016 to 30 June 2021. The Licence Agreement is terminable at Transtech's discretion unilaterally at any time by serving on Futong Group International not less than six months' prior notice in writing. Controlling shareholders of the Company have provided indemnity in relation to the costs and losses that may be incurred by the Group in relation to relocation in the event that Transtech is required to move out of the Premises.

Actual Transaction Amount	**FY2017**	**FY2018**	**FY2019**
		(HK$ million)	
Licence Fee	10.8	11.9	11.9

As the Group continues to occupy the premises for Transtech's production base, the Group will continue to 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 the two years ending 31 December 2021 in relation to the licensing of the Premises are set out below.

	FY2020	**FY2021**
	(HK$ million)	
Licence Fee	11.9	13.1

GEM Listing Rules Implications

As certain applicable percentage ratios 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 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.

Pursuant to Rule 20.103 of the GEM Listing Rules, the Directors have already applied for, and the Stock Exchange has granted to us on 28 June 2017, a waiver from strict compliance with the announcement requirement under Rule 20.33 of the GEM Listing Rules in respect of the transactions under the Licence Agreement, subject to the requirement that the aggregate amount of the transactions under the Licence Agreement for each financial year do not exceed the relevant annual caps as stated above.

3. Fully-Exempt Continuing Connected Transaction — Trademark Licence

During the Track Record Period, the Group had been using the and trademarks (collectively, the "**Trademarks**") registered or applied to be registered in Hong Kong and the ASEAN by Futong China and Futong Group (Hong Kong) (as the case may be). Futong China is one of the controlling shareholders of the Company. Futong Group (Hong Kong) is wholly-owned by Futong China. Therefore, both Futong China and Futong Group (Hong Kong) are connected persons of the Company under Chapter 20 of the GEM Listing Rules.

The Group entered into the Trademark Licence Agreement on 16 June 2017. Pursuant to the Trademark Licence Agreement, Futong China and Futong Group (Hong Kong) granted to the Group the right to use the Trademarks in relation to the business of the Group in Hong Kong and the ASEAN at nil consideration for the period of 20 years from 16 June 2017 to 15 June 2037.

GEM Listing Rules and Main Board Listing Rules Implications

As no consideration is payable, the transaction under the Trademark Licence Agreement falls within the de minimis threshold as stipulated under Rule 20.74(1) of the GEM Listing Rules and this transaction is exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules, and Chapter 14A of the Main Board Listing Rules after the Transfer of Listing.

The Directors confirmed that the continuing connected transactions during the Track Record Period were (i) conducted on normal commercial terms or better terms to the Group; (ii) carried out in the Group's ordinary and usual course of business; and (iii) fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

COMPLIANCE MATTERS

The Group has obtained all licences, permits, approvals and certificates necessary to conduct its business operations and has complied with all applicable laws, rules and regulations in all material respects since the Listing on 20 July 2017 and up to the date of this announcement.

The Directors confirm that the Group did not have any material non-compliance of the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date.

COMPLIANCE WITH THE GEM LISTING RULES

To the best knowledge of the Directors, the Group did not have any serious or potentially serious breach of or material non-compliance with the GEM Listing Rules since the Listing and up to the date of this announcement.

USE OF PROCEEDS

As the Listing took place on 20 July 2017, part of the net proceeds received from the Global Offering has been utilised by the Company during the Track Record Period. 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 use of proceeds as disclosed in the Prospectus** *HK$'million*	**Use of proceeds as at 31 December 2018, as actually applied** *HK$'million*	**Use of proceeds as at 31 December 2019, as actually applied** *HK$'million*	**Use of proceeds as at 30 June 2020, as actually applied** *HK$'million*	**Outstanding proceeds allocated as at 30 June 2020** *HK$'million*	**Remarks**
Approximately 80% of the net proceeds will be used for implementing the expansion plan of new production facility in Thailand, including the construction of a factory in Thailand.	73.4	0.2	47.3	58.2	15.2	The new factory expansion plan was kicked off in July 2018 but most of the time in the second half of FY2018 remained in contract negotiation stage with various construction-related working parties, including designers, contractors and engineers. Accordingly, there was a delay in the commencement of construction of the new factory in Thailand. The construction of the Group's Thailand factory is scheduled to be completed and the manufacturing at the factory is scheduled to commence in the second half of FY2021. The unused amount is expected to be fully utilised by the end of FY2020.

Business strategies as stated in the Prospectus	Proposed use of proceeds as disclosed in the Prospectus *HK$'million*	Use of proceeds as at 31 December 2018, as actually applied *HK$'million*	Use of proceeds as at 31 December 2019, as actually applied *HK$'million*	Use of proceeds as at 30 June 2020, as actually applied *HK$'million*	Outstanding proceeds allocated as at 30 June 2020 *HK$'million*	Remarks
						As at 30 June 2020, out of an estimated investment amount of HK$203.3 million for the construction of factory and relevant facilities and purchase of equipment and machineries for Futong Thailand, around HK$117.8 million has been paid as deposit, and HK$58.2 million has been applied for construction, and an expected funding of HK$27.3 million will be required for the construction in future and such is expected to be funded by a combination of bank loan and own funds of the Group.
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	0.3	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. The budget for research and development is based on anticipation of new orders with new designs from the Group's customers and the Group's resulting plan to purchase new equipments for such research and development purposes. For the period from the Listing date to 30 June 2020, there was little change in customers' demand for new types of products requiring research and development. Based on the current market conditions and orders placed by the Group's customers, the Company expects to utilise these proceeds for purchase of new equipment at the Thailand factory, such that the proceeds for such purpose is expected to be fully utilised by the end of FY2020.

Business strategies as stated in the Prospectus	Proposed use of proceeds as disclosed in the Prospectus *HK$'million*	Use of proceeds as at 31 December 2018, as actually applied *HK$'million*	Use of proceeds as at 31 December 2019, as actually applied *HK$'million*	Use of proceeds as at 30 June 2020, as actually applied *HK$'million*	Outstanding proceeds allocated as at 30 June 2020 *HK$'million*	Remarks
Approximately 5% of the net proceeds will be used for enhancing the relationship with existing customers and exploring new customers in Hong Kong and the ASEAN.	4.6	1.5	2.3	2.5	2.1	The amount has not been fully utilised taking into account the sales strategy, market conditions and actual amounts required and incurred by the relevant sales team. In line of the business development practices in the ASEAN countries and the Group's strategy on maintaining business relationships with the Group's existing customers, which includes traveling and meeting with potential and existing clients and submission of tender bids as and when available based on the Group's sales personnel headcount, sales staff's monthly traveling expenses and miscellaneous marketing costs, and it is expected 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	9.2	9.2	—	Fully utilised for factory rent and electricity fee in Hong Kong.
Total	**91.8**	**11.2**	**59.1**	**70.2**	**21.6**	

As at the Latest Practicable Date, the Group does not intend to have any material change on its future plans and use of proceeds.

MATERIAL RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

The Directors believe that the risk management practices are important and will use their best effort to ensure it is sufficient to mitigate the risks present in the Group's operations and financial position as efficiently and effectively as possible. Set forth below are the major risks and uncertainties faced by the Group's business:

The Group may face competition from players that provide competing transmission media platforms for the telecommunications industry. If the Group is unable to develop and introduce new communication products, applications or services, the Group's business could be materially and adversely affected.

The Group competes with players in the telecommunications industry by manufacturing and selling, among others, optical fibre cables with various standard specifications that are widely used in the telecommunications industry. The Group may lose market share to competitors offering competing transmission media platforms for the telecommunications industry. For example, alternative means of transmission utilising different technologies, such as wireless transmission and data compression technologies, may replace or change the use of optical fibre as a transmission media generally, and the Group may lose market demand for the Group's products as a result. The Group's failure in such or other related factors could decrease its product demand, threaten its ability to generate revenues and adversely impact the Group's business, financial condition and results of operations.

Technological innovation is one of the main drivers of the telecommunications industry which demands us to continuously improve the Group's product offering and the communications industry is characterised by rapidly changing technologies, evolving industry standards and continuing improvements. Accordingly, the Group's future success will largely depend upon its continuing ability to adapt to customers' needs and technological developments in a timely manner. Should the Group be unable to develop and introduce new communication products, applications or services in a timely manner in anticipation of or in response to changing technologies, market conditions and/or customers' requirements, or if the Group's products do not achieve market acceptance, the Group's business, financial position and prospects, including the profitability of its products, and its plants and equipment, may be damaged. There can be no assurance that the Group will be successful in using new technologies and adapting the Group's products to emerging industry needs and standards, or that the Group will not experience difficulties which could delay or prevent the successful development or marketing of these products, or that any such new products will adequately meet the requirements of the market and receive market acceptance. Based on current market conditions and information available to the Company, it is believed that the intense competition in the optical communication industry will continue in 2020.

If the Group is unable to continuously enhance the Group's product portfolio and offer high quality new products and/or services, the Group's growth prospects will be adversely affected.

The Group's growth and future success depend on its ability to expand customer base by enhancing its product portfolio and increasing its market position. The Group's ability to successfully attract and retain customers largely depends on, among others, its ability to anticipate and effectively respond to changing customers' demands and preferences, anticipate and respond to changes in the competitive landscape, identify and adopt evolving technologies and develop and upgrade the Group's products catering to the needs of its potential and existing customers. The Group cannot assure you that it is able to successfully develop and upgrade products and/or services that could gain market acceptance, achieve technological feasibility, or meet prescribed industrial standards, in which case, the Group's ability to expand customer base and maintain its leading market position could be adversely affected. The Group's business, prospects, financial condition and results of operations may be materially and adversely affected.

The Group has historically leveraged on the support from the Parent Group in a variety of areas including the Group's use of the "Futong trademark". If the Group is unable to operate and develop the Group's business independently, its prospects will be adversely affected.

The 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 in 2017 and the Transfer of 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 sales to the Parent Group amounted to HK$36.6 million, HK$37.4 million, HK$17.9 million and HK$11.2 million for FY2017, FY2018, FY2019 and 6M2020, respectively, and accounted for 6.5%, 7.3%, 4.8% and 8.8% of the Group's total revenue for FY2017, FY2018, FY2019 and 6M2020, respectively. 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.

The Group sells its optical fibre cables under the "Futong" trademark which were still licensed to it by the Parent Group after the Transfer of 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 Group sell its products to a limited number of customers. If the Group's major customers discontinue their business relationship with the Group, reduce purchase orders or purchase price for the Group's products, its sales and profitability may decrease.

Due to the nature of the Group's industry, the Group derives a substantial portion of the Group's revenue from a limited number of customers. For FY2017, FY2018, FY2019 and 6M2020, sales to the Group's top five customers accounted for 87.8%, 56.4%, 71.8% and 58.7%, respectively, of its total revenue, and sales to the Group's largest customer accounted for 47.4%, 14.5%, 27.0% and 19.4%, respectively, of the Group's total revenue.

During the Track Record Period, customers for the Group's optical fibre cables were primarily Independent Third Parties in Thailand and in other ASEAN markets through some of which telecommunications operators make their procurements, and, as confirmed by the Directors, save for certain subsidiaries of Customer K which became the Group's customers in FY2018 and two Thai state-owned telecommunications companies which became the Group's customers in FY2019 (including Customer O, one of the Group's top five customers for 6M2020), the Group generally did not have direct sales relationships or enter into agreements with such end users. Customers for the Group's optical fibres during the Track Record Period were primarily optical fibre cable companies in the PRC including the Parent Group and customers located in Hong Kong engaged in optical communication products trading.

If the Group's major customers decide not to continue the business relationship with the Group, reduce purchase orders or purchase price for its products, experiences difficulties in making payments for its orders from the Group in time or at all, the Group's sales and profitability may decrease. In addition, since the Group's customers for optical fibre cables are primarily third party companies through which telecommunications operators make their procurements and, as confirmed by the Directors, save for the Group's business relationship with subsidiaries of Customer K and the two Thai state-owned telecommunications companies as mentioned above, the Group generally does not have direct sales relationships or enter into agreements with such end users, any change of procurement channels by the relevant telecommunications operators may adversely affect the Group's sales, and it could be time consuming for the Group to establish business relationships with the new third party companies they purchase from.

The Group relies on a limited number of key suppliers for certain of the Group's raw materials. If such suppliers fail to supply quality raw materials in sufficient volumes at commercially acceptable prices, the Group's business and reputation could be adversely affected.

Key raw materials used for the production of the Group's optical fibres are optical fibre preforms and ultraviolet curing paint. Key raw materials used for the production of the Group's optical fibre cables are, among others, optical fibres, polyethylene and other polymers sheathing materials, steel and aluminium band. The Group places a large percentage of its orders for certain raw materials with a limited number of key suppliers. For FY2017, FY2018, FY2019 and 6M2020, the cost of purchase related to the Group's five largest suppliers on a combined basis accounted for 89.3%, 86.1%, 89.4% and 89.7% of the Group's total purchases for the respective periods.

Company S Subsidiary was one of the Group's five largest suppliers during the Track Record Period, and in particular, the Group relied on Company S Subsidiary for the supply of optical fibre preforms for the production of optical fibres, which was then used to produce optical fibre cables. See "History and Development-Corporate History and Development-Strategic cooperation between Futong China Group and Company S" in the Prospectus for details of the historical relationship with Company S. The Group entered into a sales agreement with Company S and Company S Subsidiary in August 2016 in respect of purchases of optical fibre preforms for a term of three years. While such sales agreement has expired in August 2019, the Company has continued to purchase goods from Company S Subsidiary following such expiry in late 2019 and in 6M2020. Nevertheless, there is no assurance that Company S Subsidiary will continue to supply optical fibre preforms to the Group at its desired prices or at all, that the quantity or quality of the optical fibre preforms Company S Subsidiary supply to the Group will meet its needs. If Company S Subsidiary or other key suppliers of optical fibre preforms decides to terminate its relationship with the Group or significantly increases the price or reduces the supply of its optical fibre preforms, the Group may be unable to find an alternative supplier for optical fibre preforms in time or at all and the Group's production of optical fibres and optical fibre cables may decrease in quality or quantity. As a result, the Group's business, financial condition and results of operations may be materially and adversely affected.

Moreover, if any of the Group's other key suppliers decide to terminate or not to renew the supplier contract with the Group, significantly increase the price of the relevant raw materials, unable to supply to the Group sufficient raw materials due to their own capacity constraints, or fail to perform its obligations pursuant to the supplier contract in time or at all, the Group may have difficulties finding an alternative supplier, delay the delivery of products to its customers, incur additional costs on the production of its products or product liabilities or suffer losses to its reputation. As a result, the Group's business, financial condition and results of operations may be materially and adversely affected.

If the preferential policies and tax treatments the Group currently receive from the Thai government become unavailable or otherwise change or terminate, it could adversely affect the Group's business and profitability.

The Group currently benefit from a number of preferential policies and tax treatments granted by BOI, including:

(1) Tax privileges:

   (a) exemption on paying of corporate income tax on the net profit derived from the promoted activities for the period of eight years from the date that the income is firstly derived from such activities (which will expire in March 2021);

   (b) 50% reduction of the normal rate of corporate income tax on the net profit derived from the promoted activities for a period of five years commencing from the expiry date of the exemption on corporate income tax specified above (which will expire in March 2026);

   (c) exemption from the payment of withholding tax on dividend paid to tax holiday (8 years), provided that such dividend must be paid from the profits generated from the BOI promoted activity only (which will expire in March 2021);

   (d) exemption on paying of import duties on machinery as approved by the BOI throughout the period of investment promotion;

   (e) exemption on paying of import duty on raw and essential materials which are imported for producing for further export for a period of five years from the date of first import (which will expire on 22 May 2021); and

   (f) exemption on paying of import duty on items imported for re-export for a period of five years from the date of first import (which will expire on 22 May 2021).

(2) Non-tax privileges:

   (a) visa and work permit privileges for expatriate of the Futong Thailand;

   (b) permission to have ownership of land in the proportion that the BOI deems appropriate; and

   (c) permission to take out or remit abroad money in foreign currency.

The current or future preferential tax treatments and preferential policies applicable to the Group's business in Thailand may be changed, terminated, or otherwise become unavailable due to many factors, including changes in government policy or administrative decisions by relevant government authorities. The Group's post-tax profitability may be materially and adversely affected as a result of one or more of these or other factors, and the Group's ability to conduct its existing business and to expand its presence in Thailand may be materially and adversely affected.

If the Group experiences delays in collecting, or fail to collect, payment from its customers, it could materially and adversely affect the Group's cash flow.

The Group's trade receivables were HK$158.1 million, HK$237.0 million, HK$277.0 million and HK$262.1 million as of 31 December 2017, 2018, 2019 and 30 June 2020, respectively. As of 31 December 2017, 2018, 2019 and 30 June 2020, the balance of trade receivables that were past due amounted to HK$53.4 million, HK$96.6 million, HK$91.0 million and HK$121.7 million, respectively. If the cash flow, working capital, financial condition or results of operations of the Group's customers deteriorate, or for other reasons out of the Group's control, such as the adverse impact of prevailing market conductions at such relevant time, they may be unable, or they may otherwise be unwilling, to pay receivables owed to us promptly or at all. Any substantial defaults or delays could materially and adversely affect the Group's cash flow, and the Group could be required to terminate its relationships with the Group's customers in a manner that impairs the sales of the Group's products.

In particular, the Group's trade receivables increased from HK$237.0 million as of 31 December 2018 to HK$277.0 million as of 31 December 2019, representing an increase of 16.9%. The increase of the Group's trade receivables from FY2018 to FY2019 is mainly due to the increase in sales of optical cable cores to Customer I, being one of the Group's five largest customers in FY2019, with respect to which the Group granted a relatively long credit period of 365 to 425 days, and the sales to Customer I accounted for 27.0% of the Group's total sales for FY2019. A majority amount of the Group's trade receivables as at 30 June 2020 consisted of trade receivables due from a limited number of customers. For instance, as at 30 June 2020, the trade receivables of Trigiant, Customer F, Customer I, Fareach and Easy Beauty amounted to HK$194.6 million, in aggregate, which accounted for 74.2% of the total trade receivables of the Group as at 30 June 2020. Moreover, the Group's trade receivables that were past due increased from HK$91.0 million as at 31 December 2019 to HK$121.7 million as at 30 June 2020, representing an increase of 33.7%. A majority of such balance primarily consisted of trade receivables that were past due from four customers of the Group, namely, Trigiant, Customer I, Fareach and Easy Beauty in 6M2020. The trade receivables that were past due from those customers amounted to HK$100.8 million, in aggregate, which accounted for 82.9% of the total trade receivables of the Group as at 30 June 2020 that were past due. Accordingly, the Group's recoverability of such trade receivables will largely depend on, among other things, the financial performance, credibility, timeliness of payment and credit period granted to these customers. Any delays in collecting, or fail to collect, payment from these customers, could materially and adversely affect the Group's cash flow.

Furthermore, the Group has granted relatively longer credit periods (pursuant to which payments are required to be made in instalments) to certain of the Group's customers. There is no assurance that all such amounts due to the Group will be settled on time. The Group's financial performance, liquidity and profitability will be adversely affected if significant amounts due to the Group are not settled on a timely basis. Any material adverse changes to the credit condition of any of the Group's major customers could also materially and adversely affect the Group's business. See "Analysis of Selected Consolidated Statements of Financial Position Items — Trade receivables" above.

For further information on future prospects and recent developments in the optical communication products industry, please refer to the section headed "Industry Outlook, Future Prospects, Recent Development and No Material Adverse Change" below.

The Group is subject to economic, political, legal and other risks associated with Thailand, other ASEAN markets, China and Hong Kong. Adverse changes to any of these market may negatively affect the Group's business.

The Group's operations are based in Hong Kong and Thailand, and includes the production of its optical fibres, optical fibre cables, optical cable core and related products. During the Track Record Period, the Group sold its products to customers primarily in Thailand, and also in other ASEAN markets, Hong Kong and the PRC. For the most recent financial year of FY2019, the Group's sales to customers located in Hong Kong, Singapore and Thailand, in aggregate, accounted for approximately 91.7% of the Group's total revenue for FY2019. The Group relies on such specific markets in developing its business. Accordingly, the Group's business, financial condition and results of operations are affected by economic, political, legal and other developments in such jurisdictions. There is no assurance that there will not be adverse changes to the economic, political and legal environment in any of such jurisdictions in the future. In addition, the Group has limited experience in operating business in other countries, and it may have difficulties in relocating its business to other geographic markets. Therefore, any of the adverse changes to any of these jurisdictions may negatively affect the Group's production, sales and its financial prospects.

If the Group fails to maintain its liquidity and cashflows, this may materially and adversely affect its business, results of operating and financial condition.

While the Group had net cash inflow from operating activities in FY2017 and FY2019, the Group had net cash outflow from operating activities of HK$38.6 million in FY2018, primarily consisting of HK$110.1 million of cash generated from operating activities before movements in working capital and negative movement in working capital of HK$131.5 million. The negative working capital adjustments in FY2018 were primarily attributable to an increase in trade receivables of HK$80.1 million, a decrease in trade and bills payables of HK$87.6 million, a decrease in contract liabilities of HK$1.3 million and an increase in other receivables, deposits and payments of HK$0.5 million, which were partially offset by a decrease in inventories of HK$37.8 million and an increase in other payables and accrued charges of HK$0.1 million. The Group recorded net cash outflow from operating activities of HK$48.1 million in 6M2020, primarily due to working capital adjustment consisting of (i) the decrease in inventories of HK$0.9 million; (ii) the decrease in trade receivables of HK$9.2 million; (iii) the increase in deposit, prepayment and other receivables of HK$41.8 million; and (iv) the decrease in trade and bills payables of HK$21.8 million. Please refer to "If the Group experiences delays in collecting, or fail to collect, payment from its customers, it could materially and adversely affect the Group's cash flow" above for the risks associated with the Group's trade receivables.

There is no assurance that the Group will be able to generate positive cash flows from operating activities in the future. The Group's liquidity and financial condition may be materially and adversely affected by the negative net cash flows, and there is no assurance that the Group will have sufficient cash from other sources to fund its operations. If the Group resorts to other financing activities to generate additional cash, the Group will incur financing costs and there is no guarantee that the Group will be able to obtain the financing on terms acceptable to the Group, or at all.

An occurrence of a natural disaster, widespread health epidemic, pandemic such as COVID-19 or other outbreaks could have a material adverse effect on the Group's business, financial condition and results of operations.

Outbreaks of infectious diseases such as COVID-19, H1N1 influenza virus, Ebola, Zika or severe acute respiratory syndrome (SARS) in the regions the Group operate could potentially disrupt its manufacturing operations, reduce demand for its products and increase its costs. Natural disasters, such as floods or earthquakes, could severely disrupt manufacturing operations and increase its costs. In particular, there had been media reports of outbreak of respiratory illness caused by COVID-19 worldwide. In late January 2020, the World Health Organization ("**WHO**") declared the outbreak of novel coronavirus (COVID-19) a Public Health Emergency of International Concern. Moreover, there were reports in the first quarter of 2020 that the highly contagious virus had spread across a number of other region and countries, including Hong Kong and Thailand, where the factories of the Group are located.

Any escalation in these events or similar future events and the ineffective control of the outbreak of COVID-19, may severely disrupt the Group's operations and the operations of its customers and suppliers, and may affect the availability of materials needed for its manufacturing services. Such events may also affect the industry growth and demand for relevant products generally, disrupt the transportation of materials to the Group's manufacturing facilities and finished products to its customers. These events have had, and may continue to have, an adverse impact on the world economy in general, and customer confidence and spending in particular, which in turn could adversely affect the Group's operating results. The impact of these events on the volatility of the world financial markets also could increase the volatility of the market price of the Shares and may limit the capital resources available to the Group, its customers and suppliers. See "Industry Outlook, Future Prospects, Recent Development and No Material Adverse Change — The outbreak of COVID-19 which might delay the recovery of market demand" on the Group's supplies, sales and operation.

The Group may experience inventories obsolescence if the Group fail to effectively manage increase in inventories for its business operations.

The Group's inventories mainly consist of raw materials and consumables, work in progress, finished goods and goods-in-transit. As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the balance of the Group's inventories amounted to approximately HK$134.8 million, HK$97.6 million, HK$69.2 million and HK$66.8 million respectively. The Group's average inventory turnover days were 95 days, 111 days, 106 days and 113 days for FY2017, FY2018, FY2019 and 6M2020, respectively.

The Group implements inventory control management in order to avoid under- or over-stocking. The Group adjust its raw material procurement according to its production process, taking into account lead time required for each type of raw materials, so as to minimise and maintain its inventory of raw materials at an appropriate level. The demand for the Group's products is dependent on its customers' preferences and the economic condition of the markets where they operate, which are beyond its control. The failure to manage the increase in the Group's inventories or accurately forecast the demand of its customers may result in obsolescence of its inventories and adversely affect the result of its business operations, liquidity and cash flow. Please refer to the paragraph headed "Analysis of Selected Consolidated Statements of Financial Position Items — Inventories" for information.

Exchange rate fluctuations could negatively affect the Group's financial condition and results of operations.

The Group's foreign currency exposures arise mainly from the exchange rate movements of the (i) US$ and RMB against THB and (ii) RMB against HK$. Any depreciation of THB will reduce the amount of revenue the Group generate from the sales of Futong Thailand in terms of its reporting currency and adversely impact the Group's results of operations. Similarly, Transtech might also suffer exchange loss if RMB depreciates against HK$ because some of its sales were denominated in RMB. In addition, the Group's purchase of raw materials also involves other currencies such as US$ and RMB.

During the Track Record Period, the Group recorded HK$19.3 million in foreign exchange gains for FY2017, HK$3.9 million, HK$4.4 million and HK$2.0 million, in foreign exchange losses for FY2018, FY2019 and 6M2020, which were mainly attributable to the fluctuation of exchange rates among RMB, THB, US$ and HK$ during the Track Record Period. Owing to exchange differences on translating foreign operations, the Group recognised other comprehensive income of HK$19.9 million, HK$1.2 million and HK$24.7 million for FY2017, FY2018 and FY2019, and recognised other comprehensive loss of HK$11.7 million for 6M2020. It is uncertain that the various currencies used in the Group's operations will not be subject to future depreciation, appreciation or volatility, or any depreciation of such currencies will reduce the amount of revenue the Group generate in terms of its reporting currency. As a result, the Group's financial condition and results of operations may be materially and adversely affected.

MATERIAL ACQUISITIONS AND DISPOSALS OF BUSINESSES

The Group did not have any material acquisition or disposals of corporate interests or businesses during FY2017, FY2018 and FY2019 and up to the date of this announcement.

INDUSTRY OUTLOOK, FUTURE PROSPECTS, RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Industry trend during the Track Record Period

While the global economy experienced a notable expansion in 2017, as the improving growth momentum in late 2016 evolved into a full-fledged upturn in 2017, in 2018, according to an industry consultancy company, the rate of growth in demand for optical communication products decelerated to 4% on a global scale, being the lowest year-on-year growth rate since the year 2003. Moreover, 2018 was a rocky year for the optical fibre and cable industry, while key markets such as western Europe, North America and India continued to grow strongly in 2018, spurred on by large-scale FTTx rollouts, according to an industry consultancy company, this was not enough to offset such declines in China. According to an industry consultancy company, the optical telecommunications product market downturn in China acted as a drag on global optical cable demand in 2018 and 2019. Furthermore, the export volume of optical fibres by Chinese manufacturers had risen substantially in 2018, and with such export of optical fibres to the international market, the price of optical fibres outside the Chinese market at the end of 2018 faced certain downward pressure, which was shown by the generally lower global optical fibre prices.

According to an industry consultancy company, the amount of optical cable installed worldwide decreased from 2018 to 2019 for the first time since 2002. Moreover, the demand for optical cable in China decreased by double-digits from 2018 to 2019. However, it was reported that 5G network services commenced in approximately 30 countries, with the vast majority of global carriers having construction programs underway or in planning stages.

In past years, main drivers for demand for the Group's products included construction of infrastructure projects relating to FTTx and 4G technology. However, in 2018, the payback period of 4G technology investments continued while telecommunication operators planned for the arrival of 5G technology. The Directors believe that the above factors during the Track Record Period and the anticipation for 5G technology has negatively affected the overall demand for optical communication products in the industry and has also caused competition in the market to intensify, which may have, in turn, had a negative effect on the performance of the Group. See "Management Discussion And Analysis — Revenue" above for details of such historical impact on the Group. Despite such factors, the Directors believe the Group's performance may pick up as the market demand for optical telecommunication products gradually improves. See "Prospects and drivers of demand for optical telecommunication products" for details of the relevant factors.

Prospects and drivers of demand for optical telecommunication products

Looking ahead to 2020, the global economic environment likely remains challenging. Nevertheless, the Directors consider that the overall financial position and operations of the Group remain sound and healthy and the Group is optimistic about the prospects of the optical fibre industry in Mainland China and ASEAN countries, including Thailand as one of the Group's major markets:

1. The expected demand growth brought along by the 5G technology

The 5G technology and its effect on the demand for optical telecommunication products

The implementation of the 5G technology is expected to bring about further demand for optical communication products, due to the need for voluminous infrastructural products. According to an industry consultancy company, the higher bandwidth and higher frequency of 5G transmission requires higher density of 5G base stations, which drive demand for new optical fibre and optical fibre cables to connect among base stations and replace existing ones.

Based on recent media reports, telecommunication operators have started launching 5G networks, which would require the construction of relevant equipment and fibre-based base stations to support the rollout of 5G networks. According to an industry consultancy company, 4G and 5G network connection infrastructure both generally require utilisation of optical telecommunication products. The Directors confirm that the Group's products are generally suitable for 4G and 5G network purposes and the purchase orders from the Group's customers do not usually specify whether those products are to be used in a 4G or 5G network, and certain of the Group's existing customers have been reported by the media as having a successful bid at the 5G licences auction in Thailand in February 2020 (the "**5G Licence Holders**"), which is one of the Group's key markets. See "3. The Group's endeavors to capture growth opportunities" below for the Group's relationship and sales efforts with those customers. The Company believes that the demand for the Group's optical communication products and its financial performance are expected to be positively affected by the above factors in the future as the Group's products are generally suitable for 4G and 5G network construction.

5G network rollout and its development in various regions

The Company understands that commercialisation of 5G technology is launching in various key markets as at the present. For instance, it has been reported that over 200 telecommunication operators across over 80 countries are expected to invest in 5G and that three Chinese state-owned telecommunications operators are projected to collectively spend US$25.5 billion on 5G equipment throughout 2020, and since the first quarter of the year 2020, Chinese telecommunication operators were reported to be ramping up their deployment targets, and aiming to have installed a total of 600,000 5G base stations by the end of 2020 in the PRC.

In respect of ASEAN, it has been reported that certain telecommunication operators in the ASEAN markets are in the process of trialing the 5G technology, and telecommunications operators investing in 5G are at a variety of stages, ranging from network deployments, to technology testing, demonstrations and pilot trials. For Thailand, it was reported in February 2020 that Thailand raised US$3.2 billion in 5G spectrum licence auctions for 5G network commercial rollouts in Thailand in 2020 and Customer K group, one of the Group's five largest customers during FY2019, obtained over 10 5G multi-band licenses. In terms of investments relating to the 5G technology deployment on a national level, it was reported in May 2020 that one of Thailand's largest mobile operator had set aside up to US$1.2 billion for investment in 5G network expansion, aiming to cover around 13% of the total Thai population by the end of this year. In July 2020, it was reported that Customer K and a major international provider of telecommunications, enterprise and consumer technology solutions will collaborate to construct commercial 5G networks in Thailand. As of the first half of 2020, it was reported that Thailand, one of the Group's key markets, has commenced commercial 5G services, while Vietnam plans to launch their commercial 5G services in 2020, Singapore issued two 5G licences and such license holders are required to provide coverage for at least half of Singapore by the end of the year 2022, scaling up to nationwide coverage by the end of the year 2025. In the Philippines, it was reported that 5G network was commercially available in key business districts of Metro Manila since July 2020. The Directors expect that these favourable regional factors will positively affect the demand of the Group's optical communication products. According to an industry consultancy company, beyond 2020, the pent-up demand for optical fibre cables is expected to be released in 2021. On that basis, the Directors expect that the demand for the Group's optical communication products to recover in or around 2021.

The Directors believe that the Group remains one of the key players in the market and maintains its relationship with major telecommunication operators. For instance, the Group has continued to receive orders from major telecommunication operators in 2020 despite the COVID-19 outbreak. Accordingly, the Group believes it is well positioned to capture potential market opportunities recently arising as a result of beginning of commercialisation of 5G technology in various key markets.

While competition in the telecommunication product manufacturing industry is set to continue in 2020, in light of the accelerating 5G deployment process, the market generally expects greater demand for optical telecommunication products in the near future. Nonetheless, given that the full roll-out of the 5G network will take years, the Company believes that such may contribute to the sluggish demand for optical communication products for production of 4G-related infrastructure at the present, and the demand may pick up with the implementation of commercialisation of 5G technology in various key markets. Therefore, despite the temporary slowdown on orders from some of the Group's customers for FY2019, and the weaken global economic environment in relation to COVID-19 as further discussed below, in light of the reasons above, the Company believes that the market demand will pick-up and remains optimistic about the demand for the Group's products in ASEAN markets.

2. ***The continuation on China's Belt and Road Initiative in the Southeast Asia***

Along with the driving effect of China's Belt and Road Initiative on the Southeast Asian market, the Group expects that the ASEAN countries will be able to maintain its momentum on future development. The "Digital Silk Road" (數字絲綢之路) was reported as one of the features of China's Belt and Road Initiative. As part of the

Digital Silk Road, China aims to extend coverage of its home-grown satellite-navigation system to the 60-plus countries along the Belt and Road. The Digital Silk Road envisages a common infrastructure for digital services (e.g. optical fibres, satellites) to achieve smooth information flow along the Belt and Road countries. It is expected that the Belt and Road Initiative will continue to bring business opportunities to the telecommunications industry through the promotion of relevant infrastructure developments.

Taking into account the above factors and the market potential, the Group will continue to increase its marketing effort and enhance its production efficiency in order to maximise the long term returns to the Shareholders by capturing the opportunities that arise. The Group will also explore other potential investment opportunities in order to diversify the Group's business and create new source of revenue to the Group in the long run.

3. *The Group's endeavors to capture growth opportunities*

Futong Thailand's expansion plan

The Company has started to use part of the net proceeds from the Global Offering for the expansion plan of construction of a new factory in Thailand (as disclosed in the "Future Plans and Use of Proceeds" section of the Prospectus) in July 2018. In order to further integrate the production of optical fibres and optical fibre cables, the Group has already started to expand the factory in Thailand to increase its production capacity. 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 and the manufacturing at the factory is scheduled to commence in the second half of FY2021 due to possible interruption in delivery of the relevant equipments from China in FY2020 in light of the outbreak of COVID-19, and as at 30 June 2020, around HK$58.2 million of the net proceeds, has been applied for the construction of factory and relevant facilities and purchase of equipment and machineries for Futong Thailand, and it is expected that an additional funding of HK$27.3 million will be required for the construction in future.

As disclosed in this section above, it is expected that the demand for the Group's products may increase along with the investment in 5G network and its rollout by telecommunications operators in ASEAN countries. Although the Group has an overall production capacity of around 4.8 million fkm for both of the optical fibres, and optical fibre cables and optical cable cores as at 31 December 2019, the Directors expect that after completion of the aforementioned expansion of Futong Thailand's Factory premises, the Group's relevant production capacity will be increased accordingly to cater for any future orders it receive.

Enhance the Group's relationships with its existing customers and potential demand from 5G Licence Holders

As stated in this section above, it is expected that the implementation of the 5G technology will bring about demand for optical communication products due to the need for voluminous infrastructural products, and the demand for the Group's products is expected to be supported by regional factors set out above. In order to translate the potential demand brought by the 5G development into actual demand for its products, the Group has made efforts in enhancing business relationships and entered into agreements with some of its major customers, including certain customers which are 5G Licence Holders. For instance, while a number of the 5G Licence Holders are already a customer of the Group, the Group has recently entered into two optical fibre cable framework sale and purchase agreements with Customer K's group, which is a 5G Licence Holder and one of the largest mobile operators in Thailand in terms of subscriber base in 2019. The framework agreements with Customer K's group set out the expected maximum order amount, payment terms and other conditions which the purchase orders from Customer K's group will be based on. Following the Track Record Period, the Group has also recently entered into framework agreements with Fareach, Customer I, and Customer N, being the Group's top five customers during various periods within the Track Record Period. Such framework agreements generally set out the exact or minimum order quantity, either a fixed price, ceiling price or price range, payment terms and other conditions which the purchase orders from those customers will be based on. The Directors believe the above signifies a solidification of the Group's existing business relationship with such customers, and as at the Latest Practicable Date, the Group has already received confirmed orders under all of those framework agreements entered into with such major customers set out above. Additionally, the Group has been selling optical fibre cables directly to Customer K since 2018 and continues to do so as of this year, and has also had direct sales relationships with certain other 5G Licence Holders (including Customer O, one of the Group's top five customers in 6M2020), which are state-owned telecommunications infrastructure operators based in Thailand since 2019. The Directors believe that the above factors illustrate the reach of the Group's sales network and the actual demand that could be brought along by the 5G network rollout. Taking into account (i) the Group's current and expected production capacities and its business plan to commence manufacturing at the expanded part of the Thailand factory in the second half of FY2021; (ii) the Group's intention to further enhance its trading relationships with its existing customers, which include major telecommunication operators in Thailand, and to also cultivate business relationships with new customers in Hong Kong and the ASEAN; and (iii) the expected utilisation of remaining listing proceeds of HK$4.3 million for purchase of new equipment for the Thailand factory for strengthening the research and development capabilities and expanding the range of products, the Company believes it is set to capture the demand brought by the introduction of 5G technology.

Other information relating to the Group's future prospects

The outbreak of COVID-19 which might delay the recovery of market demand

As at the Latest Practicable Date, there have been reports of a large number of confirmed cases of COVID-19 worldwide. As the Group is headquartered in Hong Kong, and its production facilities are located in Hong Kong and Thailand, the Directors believe that such areas do not experience any significant social or transportation disruption which would directly, adversely and materially affect the operation of the Group's production facilities. Moreover, while there have been reports of a halt in production across certain industries worldwide due to the outbreak of COVID-19, based on the information available to the Directors as at the Latest Practicable Date, the Directors believe that there will not be any material disruption to the Group's supply chain due to the outbreak of COVID-19 as at the Latest Practicable Date due to the following reasons: although there were reported cases of COVID-19 infections in countries and regions where the Group's five largest suppliers for 6M2020 were located (i.e. PRC, Hong Kong and Thailand), the Group was not notified by such suppliers of any significant production halt on the part of such suppliers, nor any substantial shortage of raw materials purchased by the Group, which will materially and adversely disrupt the Group's relevant raw materials procurement and affecting its production schedule. Barring unforeseen circumstances and based on information available to the Directors, the Directors believe that the possible impact on the Group's supply chain brought by the COVID-19 pandemic may gradually diminish as the daily-reported new cases of COVID-19 infections of those countries and regions have decreased. Nevertheless, in respect of COVID-19's impact on the Group, the Group made a downward adjustment in the average selling prices of its optical telecommunication products in 6M2020 as compared to that of 6M2019, partly in response to the worsened market environment in connection with the outbreak of COVID-19 in the first half of 2020. See ''Management Discussion And Analysis — Average Selling Prices and Sales Volume'' above for details of changes in the average selling price of the Group's products during the Track Record Period. According to an industry consultancy company, the overarching impact of COVID-19 relates to a unified sharp pullback in demand optical fibre cable across all regions, with the exception of the US in the first quarter of 2020. Accordingly, the demand for the Group's products may have been negatively affected. As at the Latest Practicable Date, the Group has not received any report of confirmed cases of COVID-19 from its employees which resulted in an absence from work.

From an operational perspective which does not represent any future projection in the Group's financial performance, assuming that the Group's operation and sales were suspended, the Group had a cash burn rate of approximately HK$6.2 million per month, based on the historical average monthly expenses mainly consisting of factory and office rental, wages, utility expenses and finance costs incurred by the Group in FY2019. As of 30 June 2020, the Group had cash and cash equivalents of HK$41.8 million. For information on the Group's liquidity and capital resources, please refer to the section headed ''Liquidity and Capital Resources''.

Although the Directors do not consider the Group's production or supply chain have been directly and materially affected by the outbreak of COVID-19, in order to cope with potential escalation in such outbreak and the resulting inconveniences or disruptions, the Group will consider to implement contingency arrangements where situation requires, including (i) applying alternative production methods, including arranging for production by suitable original equipment manufacturer(s) (OEM(s)); (ii) adopting a policy on maintaining sufficient inventory level that allows it to deliver upon receiving purchase orders from its customers; (iii) sourcing from alternative suppliers outside the area being affected by the outbreak of COVID-19; and (iv) implementing additional cost-saving measures to lower the Group's cash burn rate.

Worst case scenario business assessment

The Group has conducted a worst case scenario business assessment where the Group is forced to suspend all of its business operations, whether due to government policy or any other reasons beyond the Group's control, as a result of the COVID-19 outbreak. In the occurrence of this unlikely event, the Directors estimate that based on among other things, (a) the cash and cash equivalents as at 30 June 2020 (b) government subsidy relating to COVID-19 that the Group has already received in June 2020; (c) prudent estimates of settlement of account receivables based on historical settlement pattern; and (d) settlement of account payables and bank borrowings when due, the Group will have sufficient working capital and remain financially viable to maintain its minimal operation for at least 12 months. The key assumptions under this worst case scenario are: (i) the Group will not generate any income due to the suspension of business; (ii) where applicable, the Group will incur severance payment and payment in lieu of notice where appropriate for dismissing the staff in its operation team in accordance with the employment contract; (iii) minimal general operating expenses and staffs' remunerations will be incurred to maintain the Group's operation at a minimum level (including rental expenses, utilities expenses, bank loan interests, auditors remuneration and legal and professional fees); (iv) the Group will settle outstanding tax liabilities and listing expenses in relation to the Transfer of Listing; (v) there will be no further internal or external financing from the Shareholders or financial institutions; and (vi) no dividend will be declared and paid under such situation.

The abovementioned extreme situation is for illustrative purpose only and may or may not occur. The Directors currently assessed that the likelihood of such situation is remote. The Directors will continue to assess the impact of the COVID-19 on the Group's business operations and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the COVID-19. The actual impact caused by the outbreak of COVID-19 will depend on its subsequent development; therefore, it is possible that such impact to the Group is out of the Directors' control and beyond the Group's estimation and assessment.

For the risks that the Group may face in such connection, please refer to "Material Risks Associated with the Group's Business — An occurrence of a natural disaster, widespread health epidemic, pandemic such as COVID-19 or other outbreaks could have a material adverse effect on the Group's business, financial condition and results of operations".

Drop in profit attributable to owners of the Company for 6M2020 and the expected lower profit level for FY2020

As shown in the Company's annual results announcement for FY2019 dated 27 March 2020, the Group recorded a drop in profit attributable to owners of the Company for FY2019 by approximately 55.0% as compared to that of FY2018. The Directors believe that the global economic environment will likely remain challenging in 2020 and that the competition in the telecommunication product manufacturing industry is likely set to continue.

The Group has published its interim report with respect to the six months ended 30 June 2020 on 14 August 2020 (the "**2020 Interim Report**"). As mentioned in the 2020 Interim Report, the Group recorded (i) a total revenue of HK$127.0 million for 6M2020, as compared to the total revenue of HK$177.7 million for 6M2019, representing a decrease of approximately 28.5%; and (ii) a net profit of HK$2.8 million for 6M2020, as compared to the net profit of HK$20.9 million for 6M2019, representing a significant decrease of approximately 86.8% in net profit. The net profit of the Group for 6M2020 is inclusive of the government grant of HK$1.6 million received by Transtech under the Employment Support Scheme of the Hong Kong government in June 2020.

The Board considers that the decrease in total revenue and net profit of the Group for 6M2020 are mainly attributable to the disturbances of general business activities due to the outbreak of the COVID-19 pandemic and the overall unfavourable market conditions in the first half of the financial year of 2020, which negatively affected the sales of the Group's optical communication products. See "Industry Outlook, Future Prospects, Recent Development and No Material Adverse Change — The outbreak of COVID-19 which might delay the recovery of market demand" for details.

Despite the challenging economic conditions and the COVID-19 pandemic which generally slowed down the overall business growth across most industries, the Group's financial condition as at 30 June 2020 remains sound, and the Directors believe the Group is well positioned to take advantage of any upturn in the market. It has continued to receive orders from major telecommunication operators in 2020 despite the COVID-19 outbreak. As disclosed above, it was reported that one of the Group's five largest customers during FY2019 obtained several 5G multi-band licenses in February 2020 in Thailand, and the Group has recently entered into two optical fibre cable framework sale and purchase agreements in June 2020 with, and the Group has already received purchase orders in July 2020 from, such customer. In June, July and August 2020, the Group also made significant efforts in terms of its planned product sales in the second-half of 2020. The Group entered into a framework agreement with Customer N and Fareach, both of them are one of the Group's top five customers in 6M2020, in relation to sale and purchase of optical fibres to Customer N and Fareach by the Group from June 2020 to December 2020, and from July 2020 to December 2020, respectively. In respect of the Singapore market, which has recently picked up its pace on the grant of 5G licenses as stated above, the Group also entered into a framework agreement with a customer based in Singapore, namely Customer I, in respect of a planned sales of optical cable cores from August 2020 to December 2020. Moreover, the Group continued to receive purchase orders in July and August 2020 from its existing customers.

Expected revenue of the Group for the three months ended 30 September 2020

Based on the preliminary review of the Group's unaudited consolidated management accounts for the three months ended 30 September 2020 and the information currently available to the Board, the Group is expected to record an aggregate revenue of approximately HK$77.0 million for the three months ended 30 September 2020, which were together contributed by the sales to 56 customers of the Group during the three months ended 30 September 2020. As the Company is still in the process of finalising its unaudited consolidated financial results for the three months ended 30 September 2020, the information in the preceding paragraph is subject to adjustments upon further review and is provided for illustrative purposes only, and the information is only based on the preliminary assessment by the Board on the unaudited consolidated management accounts of the Group for the said period, which has neither been reviewed by the audit committee of the Company nor audited or reviewed by the Company's auditors. Shareholders and potential investors are advised to read carefully the annual results announcement of the Group for the year ended 31 December 2020 to be published by the end of March 2021 in accordance with the Main Board Listing Rules.

Against that background, the Company remains optimistic about the prospects of the optical communication products industry in the Group's major markets due to, among other factors, the expected growth in demand that will be brought along by the 5G technology and the growing importance of telecommunication services during the COVID-19 pandemic where social distancing measures have been put in place. Despite the fierce competition which the Directors believe that it negatively affected the average selling price of the products, the sales volume of optical fibre cables and optical fibres in 6M2020 are higher or comparable to the same period in 2019. See "Prospects and drivers of demand for optical telecommunication products" above for details.

For further details of the financial performance of the Group for 6M2020, please refer to the information disclosed in the 2020 Interim Report.

Sustainability of the Group's business and the Group's expected lower profit level for FY2020

Although the Group's financial results were negatively affected by the challenging global economic environment, the Directors believe that the Group will be able to sustain its business operation before the expected increase in demand to be brought about by the 5G technology based on the following reasons: (i) as disclosed above, 4G and 5G network connection infrastructure both generally require utilisation of optical telecommunication products, and optical fibre products are widely used for telecommunication, thus there will continue to be a demand for the Group's products prior to 5G rollout in its key markets; (ii) the Group continued to conduct sales with a number of its existing customers, including customers reported as licence holders for 5G in Thailand; (iii) the Group has received purchase orders from new customers in 2020, and for purpose of business development and conducting potential sales, the Group has from time to time reached out to potential customers (e.g. telecommunication companies or their suppliers) in ASEAN countries and applied for approval of the Group's product specification in order to qualify as one of the approved manufacturers for supply of goods to such telecommunications operators; (iv) the social distancing practices in place across the globe have increased the demand for telecommunications, as more people have to rely on digital services to work from home, manage their businesses and communicate remotely with friends and family, and telecommunication operators are faced with the need to accelerate investment in networks to address the surge in traffic; (v) the Group may implement cost-saving measures as and when appropriate to keep its operational and administrative costs to a minimum. Please refer to the key assumptions under the worst case scenario set out below for information relating to the possible measures that may be adopted by the Group; and (vi) as disclosed above, the Group's Thailand factory expansion is scheduled to commence manufacturing in the second half of FY2021 and it will allow the Group to, among other things, capture synergetic effects on manufacturing efficiency brought along by the vertical integration with a view to lowering its manufacturing costs.

In view of challenges that the industry players may face, the Directors believe that the Group has sufficient assets, and if the unfavourable market conditions persist, it will be able to operate in a cost-efficient manner to withstand such a prolonged period. For instance, as at 30 June 2020, the Group had non-current assets of HK$291.2 million and current assets of HK$449.2 million, of which, major current assets of the Group consisted of inventories of HK$66.8 million, trade receivables of HK$262.1 million and bank balances and cash of HK$41.8 million. Moreover, the Group may utilise its banking facilities as and when necessary. As at 30 June 2020, the Group's unutilised banking facilities amounted to HK$127.6 million. The Group recorded a relatively lower administrative expenses and selling and distribution expenses in 6M2020 as compared to the same period in 2019. In terms of cost efficiency, the Group has been considering the implementation of cost-saving measures, including measures to tighten cost controls over various operational expenses of the Group and to lower the Group's cash burn rate. Please refer to the key assumptions under the worst-case scenario set out above for information relating to the possible measures that may be adopted by the Group, including further minimising its general operating expenses and employees' remunerations.

Based on the foregoing reasons including that the global economic environment will likely remain challenging in 2020 and that the competition in the telecommunication product manufacturing industry is likely set to continue, and a preliminary review of the Group's recently available unaudited consolidated management accounts, the projected net profit based on management's expectations, its expected market conditions and the information currently available to the Board, the Group is expected to record a decrease in net profit for FY2020 as compared to that of FY2019 taking into account the aforementioned considerations as well as (i) the general decrease in selling price and volume contributed by the outbreak of the COVID-19 pandemic in the first half of 2020; and (ii) the foreign exchange loss resulting from the fluctuation of exchange rates among RMB, THB, US$ and HK$ in 6M2020.

Save as disclosed above, the Directors confirm that subsequent to the three years ended 31 December 2019 and up to the date of this announcement, there has been no material adverse change in the financial or trading position or prospects of the Group and there have been no trends or developments which may have a material adverse impact on the Group's business operations or financial performance. Moreover, based on the Group's management accounts for the six months ended 30 June 2020, the Directors confirm that there have been no material adverse changes to the sales and selling prices of the Group's major products.

FINANCIAL INDEPENDENCE

The Group has an independent financial system and makes financial decisions according to its own business needs. There was no financial assistance, guarantee and/or security provided by the Company's controlling shareholders and their respective associates of the Group since the Listing and up to the Latest Practicable Date. The Directors believe that the Company is capable of obtaining financing from third parties without reliance on its controlling shareholders.

SHAREHOLDING INFORMATION

The shareholding information of the Group as at the date of this announcement is set forth in the table below:

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

Notes:

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

2. The Company is directly owned as to 75% by Futong HK. Futong HK is wholly-owned by Futong Optical Communication which is in turn wholly-owned 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 held by Futong HK under the SFO.

3. The Company is directly owned as to 75% by Futong HK. Futong HK is wholly-owned by Futong Optical Communication which is in turn wholly-owned 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 held by Futong HK under the SFO.

4. The Company is directly owned as to 75% by Futong HK. Futong HK is wholly-owned by Futong Optical Communication which is in turn wholly-owned by Futong China. Therefore, Futong China is deemed to be interested in the same number of Shares held by Futong HK under the SFO.

5. The 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 held by Futong HK under the SFO.

COMPETING BUSINESS

Futong China Group is principally engaged in sales of optical fibre preforms, optical fibre, optical fibre cable as well as metal wires and cable, as well as providing services, including wireless broadband access, optical distribution network, Fibre-To-The-Home (FTTH) network access and overall network solutions to customers in the PRC, Hong Kong and the Asia region. Its optical fibre and optical fibre cables are principally sold to the leading telecommunications operators in the PRC. During the Track Record Period, based on the information provided by Futong China Group, over 90% of its total revenue in relation to the sales of optical communication products were generated from the State Grid Corporation of China, telecommunications operators and specialised network operators, such as public bodies and companies in broadcasting and transportation sectors, for their local telecommunications infrastructure projects in the PRC, with the remaining amount generated primarily from sales to network equipment companies in the PRC as well as consolidation of the Group's revenue from sales of optical communication products to external customers during the Track Record Period. As the Group is principally focused on, and is strengthening its market position in, the manufacture and sales of optical fibre, optical fibre cables, optical cable cores and related products to customers in Hong Kong and the ASEAN, while the Futong China Group principally focused on the PRC market, the Directors consider that there is a geographical delineation between the Group and the Futong China Group's respective businesses. For details, please refer to the section headed "Relationship with Controlling Shareholders" in the Prospectus. To formalise the delineation of the business between the Group and Futong China Group, a deed of non-competition dated 13 October 2016 as amended by a supplemental deed dated 23 June 2017 ("**Deed of Non-Competition**") was entered into by the Company's controlling shareholders in favour of the Company, particulars of which are set out under the section headed "Relationship with Controlling Shareholders-Non-competition Undertakings" in the Prospectus.

As disclosed in the Company's annual reports for FY2017, FY2018 and FY2019, each of the Company's controlling shareholders had provided declarations to the Company of his/its compliance with the Deed of Non-Competition for FY2017, FY2018 and FY2019. The Company's controlling shareholders are willing to continue to abide by the Deed of Non-Competition in the future. Each of 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 Company's controlling shareholders from the Listing date up to the date of this announcement.

As at the Latest Practicable Date, none of the executive Directors or the Company's controlling shareholders or their respective close associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to paragraph 10(11) of Appendix 28 of the Main Board Listing Rules.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT MEMBERS

The Board consists of 5 executive Directors and 3 independent non-executive Directors. The Board is responsible for and has general powers for the management and conduct of the business of the Group. The table below sets forth certain information in respect of the members of the Board:

Name	Age	Position/Title
HU Guoqiang (胡國強)	57	Executive Director and chairman
HE Xingfu (何興富)	60	Executive Director and chief executive officer
PAN Jinhua (潘金華)	56	Executive Director
XU Muzhong (徐木忠)	54	Executive Director
YU Jiangping (俞江平)	55	Executive Director
LEONG Chew Kuan (梁昭坤)	43	Independent non-executive Director
LAU Siu Hang (劉少恒)	65	Independent non-executive Director
LI Wei (李煒)	65	Independent non-executive Director

Executive Directors

HU Guoqiang (胡國強), aged 57, 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 China, one of the controlling shareholders of the Company. Mr. Hu's role in Futong China Group from time to time is mainly to coordinate with the joint venture partners of Futong China Group.

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 relevant experience, including 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.

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 the Group. Mr. He was the president of Futong Group (Hong Kong) and a director of Hong Kong Futong Optical Fibre Co., Ltd., 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 over 36 years of experience in the optical communication industry. Prior to joining Futong China Group in 2001, Mr. He was an 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 engaged in the research related matters. 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 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 operations of that department. Alcatel China 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.

PAN Jinhua (潘金華), aged 56, is an executive Director. Mr. Pan joined the Futong China Group in February 2007 and is responsible for managing the investment activities of the Group. Mr. Pan has been a director of Futong Thailand since August 2010.

Mr. Pan obtained the qualification of middle-level economist from the Agricultural Bank of China (Hangzhou Branch) in April 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 June 1987. Mr. Pan has approximately 27 years of relevant experience, including 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.

XU Muzhong (徐木忠), aged 54, 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, including in quality control, production technique, and 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. From July 1996 and December 2001, Mr. Xu served as vice supervisor of the production unit of Futong Cable Hangzhou Company Limited (杭州富通電線電纜有限公司) ("**Futong Cable**"), and he further served as supervisor of such production unit from January 2002 to April 2005. 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. From June 2007 to March 2010, Mr. Xu served as manager of the cable business department, and head of the communications cable production department at Futong China. Mr. Xu was the vice general manager of Futong Cable from April 2010 and April 2012 and was mainly responsible for production and manufacturing. Futong Cable is principally engaged in production and sales of optical fibres and related products.

YU Jiangping (俞江平), aged 55, joined the Group in January 2018 as deputy general manager of Futong Thailand, a subsidiary of the Company, and has been responsible for the daily operations and business development in Thailand and various countries in the 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 over 14 years of relevant experience, including experience in marketing, sales, customer development, after-sales service and corporate management. He received from Futong China Group the "Futong Contribution Award" and "Entrepreneurship and Innovation Award" in September 2007 and December 2017, respectively.

Between September 2002 and October 2008, Mr. Yu was a manager of the Fujian sales office of Futong China Group. From November 2008 to December 2012, 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 January 2018, 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, a member of the remuneration committee of the Board and the general manager of Futong Thailand on 1 July 2018.

Independent Non-Executive Directors

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 member of CPA Australia in

February 2000, was advanced to the status of certified practicing accountant of CPA Australia in February 2003, and was awarded a fellow membership in the CPA Australia in February 2014.

Mr. Leong has approximately 14 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 as audit senior 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 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 February 2015, and he resigned as an executive director in December 2018.

LAU Siu Hang (劉少恒), aged 65, 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, among other things, human resources matters and was once seconded to Security Bureau to assume the position of Assistant Secretary for Security. Mr. Lau became an insurance agent of The Prudential Assurance Company Limited in September 2010. He was 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.

LI Wei (李煒), aged 65, was appointed as an independent non-executive Director on 23 June 2017.

Mr. Li was educated in Beijing, the PRC, Kiel, Germany and Perth, Australia where he had studied German, commercial management and English, respectively. Mr. Li had working experience across a number of industries including education and broadcasting industry. From 2007 to present, he has been serving as an independent non-executive director of VSTECS Holdings Limited (formerly known as VST Holdings Limited), a listed company on the Main Board of the Stock Exchange (stock code: 856). He has also been appointed as an independent non-executive director 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) since 17 May 2016 and 25 May 2016, respectively. Furthermore, he has acted as a current affairs commenter in a broadcasting corporation 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

Senior management members and company secretary

The table below sets forth certain information in respect of the members of the Group's senior management:

Name	Age	Position/Title
REN Guodong (任國棟)	45	Operations manager and a director of Transtech
HO Cheuk Wai (何焯偉)	59	Chief financial officer and company secretary
WANG Yingzhong (王英忠)	59	Assistant engineering department manager of Transtech
LEE Yin Chun, Anthea (李妍臻)	42	Human resources and administration manager of Transtech

REN Guodong (任國棟), aged 45, 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, including quality control, equipment management and 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.

HO Cheuk Wai (何焯偉), aged 59, joined the Group and was appointed as the Group's 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 through long distance learning from the University of Wales, Bangor in cooperation with the Manchester Business School (now known as the Bangor University) in July 1997. 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 Boill Healthcare Holdings Limited (formerly known as 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 of Leepark Holdings Limited, a subsidiary of South West Eco Development Limited ("**South West**"), a company currently known as C & D International Investment Group Limited listed on the Main Board of the Stock Exchange (stock code: 1908). Upon the listing of South West on the GEM in December 2012, Mr. Ho was also appointed as the group financial controller and the company secretary of South West until May 2013. In addition, Mr. Ho served as the financial controller and/or management team member 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.

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.

LEE Yin Chun, Anthea (李妍臻), aged 42, 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 over 21 years of experience in the human resources and administration field. From August 1997 to August 2002, she took up various positions including human resources and administration officer in Standard Capital Brokerage Limited. She took up the position at Global Tech (Holdings) Limited as a human resources assistant in October 2002. 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.

Other information in relation to the Directors and senior management

Save as disclosed above, in relation to the biographical details of the Directors, each of the Directors has confirmed that there are no other matters that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to Rule 13.51(2) of the Main Board Listing Rules.

Save as disclosed in this announcement, none of the Director and senior management member hold any other positions within the Group.

Save as disclosed above, none of the Directors and senior management has been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this announcement. None of the Directors and senior management member is related to other Directors and senior management members.

On 1 July 2018, (i) Mr. Wei Guoqing resigned as an executive Director and ceases to be a member of the remuneration committee of the Board as he wishes to devote more time to his other business and personal commitments; and (ii) Mr. Yu Jiangping was appointed as an executive Director and a member of the remuneration committee of the Board. For information on the change of Director, see the Company's announcement dated 29 June 2018.

BOARD DIVERSITY POLICY

The Company has adopted a Board diversity policy in accordance with the requirement as set out in the CG Code. The Board diversity policy (the "**Policy**") of the Company sets out the approach and measure to diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. In particular, the selection of candidates will be based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Company discloses the composition of the

Board in corporate governance report every year and the nomination committee of the Board reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Directors.

While the Company recognises that the gender diversity of the Board can be improved given its current composition of all male Directors, the Company will continue to apply the principle of appointments based on merits with reference to the Policy. The Company will continue to take steps to promote gender diversity at the Board. In particular, the nomination committee of the Board is responsible for compliance with relevant codes governing board diversity under the CG Code. In recognising the importance of gender diversity of the Board, the nomination committee of the Board will use its best efforts, within three years from the Transfer of Listing, to identify and recommend at least one suitable female candidate as the Director for the Board's consideration by the end of 2023, subject to the Board (i) being satisfied with the competence and experience of the relevant candidate after a reasonable review of the necessary selection criteria in conjunction with the future development plan of the Group; and (ii) satisfying their fiduciary duties to act in the best interest of the Company and the Shareholders and a whole when making the relevant appointment. Such measurable objectives will be discussed and reviewed annually by the nomination committee in relation to selection of future Director candidates. While the Board lacks gender diversity, pursuant to the Policy, the nomination committee of the Board will (i) review from time to time the Board composition, and consider the balance of professional knowledge, skills, experience and diversity of perspectives (including but not limited to gender, age and cultural background) which are appropriate to the Company's business model and specific needs; (ii) in identifying suitable candidates for appointment to the Board, consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board; (iii) review the Policy, as appropriate, to ensure the effectiveness of the Policy; and (iv) discuss any revisions that may be required and recommend any such revisions to the Board for approval. The Company will continue to make its efforts to retain, train and recommend suitable female candidates to the Board to improve its gender diversity. The ultimate decision on Directors' appointment will be based on merit and contribution that selected candidates will bring to the Board. The Company will disclose in its corporate governance report a summary of the Policy and the related objectives the Company have set and the progress on achieving the objectives on an annual basis.

BOARD COMMITTEES

Audit Committee

The Company established an audit committee with written terms of reference in compliance with the CG Code. The audit committee consists of three independent non-executive Directors, being Mr. Leong Chew Kuan, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Main Board Listing Rules, serves as the chairman of the audit committee, Mr. Lau Siu Hang and Mr. Li Wei. The primary duties of the audit committee are to assist the Board in providing an independent view of the effectiveness of the Group's financial reporting process, internal control and risk management systems, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

Remuneration Committee

The Company established a remuneration committee with written terms of reference in compliance with paragraph B.1.2 of the CG Code. The remuneration committee consists of two executive Director, namely Mr. He Xingfu and Mr. Yu Jiangping, and three independent non-executive Directors, being Mr. Lau Siu Hang, Mr. Leong Chew Kuan and Mr. Li Wei, Mr. Lau Siu Hang serves as the chairman of the remuneration committee. The primary duties of the remuneration committee include but without limitation, (i) making recommendations to the Directors on the Policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) making recommendations to the Board on the terms of the individual remuneration package of the Directors and senior management of the Group; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

Nomination Committee

The Company established a nomination committee with written terms of reference in compliance with paragraph A.5.2 of the CG Code. The nomination committee 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 includes, without limitation, reviewing the structure, size and composition of the Board at least once annually; identify individuals suitably qualified to become Directors; assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

For FY2019, the aggregated remuneration (including fees, salaries, contribution to defined contribution benefit plans and performance bonuses) paid to the Directors was in aggregate HK$5.1 million.

For FY2019, the aggregate remuneration (including fees, salaries, contribution to defined contribution benefit plans and performance bonuses) paid to the five highest paid individuals, including the Directors, was in aggregate HK$4.9 million.

As at the date of this announcement, the Company does not have a share option scheme.

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

Pursuant to Rule 9A.12 of the Main Board Listing Rules, the general mandates granted by the Shareholders at the annual general meeting of the Company held on 28 May 2020 to allot and issue new Shares and repurchase Shares will continue to be valid and remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law of the Cayman Islands to be held; and

(c) the date on which the authority given to the Directors is revoked or varied by a resolution of the Shareholders in general meeting.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for viewing on the respective websites of the Company at transtechoptel.com and of the Stock Exchange at http://www.hkexnews.hk:

(a) the Directors' report and annual report of the Company for each of FY2017, FY2018 and FY2019;

(b) the interim report of the Company for 6M2017, the third quarterly report of the Company for 9M2017, the first quarterly report of the Company for 3M2018, the interim report of the Company for 6M2018, the third quarterly report of the Company for 9M2018, the first quarterly report of the Company for 3M2019, the interim report of the Company for 6M2019, the third quarterly report of the Company for 9M2019, the first quarterly report of the Company for 3M2020 and the interim report of the Company for 6M2020;

(c) the memorandum and the articles of association of the Company;

(d) the circular of the Company dated 28 March 2018 in relation to, among other things, general mandates to issue and repurchase shares and notice of general meeting;

(e) the circular of the Company dated 28 March 2019 in relation to, among other things, general mandates to issue and repurchase shares and notice of general meeting;

(f) the circular of the Company dated 27 March 2020 in relation to, among other things, general mandates to issue and repurchase shares and notice of general meeting; and

(g) a copy of each of announcements and other corporate communications made by the Company before the date of this announcement as required under the GEM Listing Rules and the Main Board Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH THE MAIN BOARD LISTING RULES

Pursuant to Rule 8.12 of the Main Board Listing Rules, the Group must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Due to the business requirements of the Group, it is expected that the Group will not have at least two executive Directors to be ordinarily based in Hong Kong after the Transfer of Listing.

Accordingly, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Main Board Listing Rules. In order to maintain effective communication with the Stock Exchange, the Company has or will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and the Company:

(a) the Company has appointed two authorised representatives pursuant to Rule 3.05 of the Main Board Listing Rules, who will act as the Company's principal channel of communication with the Stock Exchange. The two authorised representatives are Mr. He Xingfu, an executive Director and chief executive officer and Mr. Ho Cheuk Wai, the Company's company secretary. The authorised representatives will provide their usual contact details to the Stock Exchange and will be readily contactable by telephone, facsimile and email by the Stock Exchange, if necessary, to deal with enquiries from the Stock Exchange from time to time;

(b) each of the authorised representatives has the means to contact all the Directors (including the independent non-executive Directors) promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters;

(c) all the Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and would be able to come to Hong Kong and meet with the Stock Exchange upon reasonable notice; and

(d) each Director will provide their respective mobile phone numbers, office phone numbers, email addresses and fax numbers to the Stock Exchange.

DEFINITIONS

In this announcement, the following definitions shall have the meanings as set out below unless the context requires otherwise:

"3M2018", "3M2019" and "3M2020"	three months period ended 31 March 2018, 2019 and 2020, respectively
"6M2017", "6M2018", "6M2019" and "6M2020"	six months period ended 30 June 2017, 30 June 2018, 30 June 2019 and 30 June 2020, respectively
"ASEAN"	Association of Southeast Asian Nations, whose membership consists of Thailand, Malaysia, Indonesia, the Philippines, Singapore, Brunei, Vietnam, Lao P.D.R., Myanmar and Cambodia
"Board"	the board of directors of the Company
"BOI"	the Board of Investment of Thailand
"BVI"	British Virgin Islands

"Capitalisation Issue"	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to in "History and Development — Our Reorganisation — (6) Changes to our authorised share capital and Capitalisation Issue" of the Prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Main Board Listing Rules
"Company"	Transtech Optelecom Science Holdings Limited (高科橋光導科技股份有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed and traded on GEM
"Company S"	a Japan-based company with principal businesses in cables, mechanical materials and energy, an Independent Third Party
"Company S Subsidiary"	a limited liability company incorporated in Hong Kong on 11 February 1977, a subsidiary of Company S and an Independent Third Party
"Deed of Non-Competition"	deed of non-competition dated 13 October 2016 as amended by a supplemental deed dated 23 June 2017 entered into by the controlling shareholders in favour of the Company
"Director(s)"	director(s) of the Company
"Existing Agreement"	the optical fibre framework sales agreement entered into between Transtech and Futong China on 16 June 2017
"Futong China"	富通集團有限公司 (Futong Group Co., Ltd.*), a company incorporated in the PRC and one of the Company's controlling shareholders
"Futong China Group" or "Parent Group"	Futong China and its subsidiaries from time to time (which, depending on the context where it is described in this announcement, excludes the Group)
"Futong Group (Hong Kong)"	Futong Group (Hongkong) Co., Limited (富通集團(香港)有限公司), a company incorporated in Hong Kong on 22 November 2007 and is wholly-owned by Futong China
"Futong Group International"	Futong Group International Limited, a company incorporated in the BVI on 13 March 2003 which is wholly-owned by Mr. Wang, one of the controlling shareholders

"Futong HK"	Hong Kong Futong Optical Fiber Company Limited (富通光纖(香港)有限公司), a company incorporated in Hong Kong, and one of the Company's controlling shareholders
"Futong Investments"	杭州富通投資有限公司 (Hangzhou Futong Investments Co., Ltd*), a company established in the PRC on 27 February 2012 and one of the Company's Controlling Shareholders
"Futong Optical Communication"	杭州富通光通信投資有限公司 (Hangzhou Futong Optical Communication Investments Co.*), Ltd., a company incorporated in the PRC and one of the Company's controlling shareholders
"Futong Thailand"	Futong Group Communication Technology (Thailand) Co., Ltd, a company incorporated in Thailand and is wholly beneficially owned by the Company
"FY2017", "FY2018", "FY2019", "FY2020" and "FY2021"	financial years ended or ending (as the case may be) 31 December 2017, 2018, 2019, 2020 and 2021, respectively
"FY2020 Annual Cap"	the annual cap of HK$12.5 million for the transactions contemplated under the optical fibre framework sales agreement entered into between Transtech and Hangzhou Futong on 30 March 2020 for FY2020
"GEM"	GEM operated by the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM (as may be amended, supplemented or otherwise modified from time to time)
"Global Offering"	the global offering of the Company's Shares as described in the Prospectus, which comprises of the Hong Kong Public Offer and the International Offering
"Group"	the Company and its subsidiaries
"Hangzhou Futong"	Hangzhou Futong Communication Technology Co., Ltd. (杭州富通通信技術股份有限公司*), a company established in the PRC and a subsidiary of Futong China
"HK$"	Hong Kong Dollar
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSTP"	Hong Kong Science and Technology Parks Corporation
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"Hong Kong Public Offer"	the offer of the Hong Kong Offer Shares by the Company for subscription by members of the public in Hong Kong
"Hong Kong Public Offer Shares"	the 6,500,000 Shares offered by the Company for subscription under the Hong Kong Public Offer
"Independent Third Party"	party(ies) which is/are independent of and not connected with any of the directors, chief executive, or substantial shareholders of the Company or any of the Company's subsidiaries or any of their respective associates
"International Offering"	the conditional placing of the International Offer Shares outside the United States (including to professional, institutional and corporate investors and excluding retail investors in Hong Kong) in reliance on Regulation S under the U.S. Securities Act
"International Offer Shares"	the 58,500,000 Shares offered by the Company for subscription under the International Offering
"Latest Practicable Date"	15 October 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this announcement prior to its publication
"Licence Agreement"	the licence agreement entered into between Transtech and Futong Group International in relation to the Premises on 20 October 2016
"Listing"	the listing of the Shares on GEM on 20 July 2017
"Listing Committee"	the listing committee of the Stock Exchange
"Main Board"	the stock market (excluding the options market) operated by the Stock Exchange which is independent from and in parallel with GEM and which, for avoidance of doubt, excludes GEM
"Main Board Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as may be amended, supplemented or otherwise modified from time to time)
"Mr. Wang"	Mr. Wang Jianyi (王建沂), one of the Company's controlling shareholders
"New Optical Fibre Framework Sales Agreement"	the optical fibre framework sales agreement entered into between Transtech and Hangzhou Futong on 30 March 2020

"PRC" or "China"	the People's Republic of China which shall, for the purpose of this announcement, exclude Hong Kong, the Macau and Taiwan
"Premises"	the premises located at 3 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong
"Prospectus"	the prospectus of the Company dated 30 June 2017 in connection with the Global Offering and Listing of the Shares on GEM
"RMB"	Renminbi
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as may be amended, supplemented or otherwise modified from time to time)
"Share(s)"	share(s) of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"THB"	Thai Baht
"Track Record Period"	FY2017, FY2018, FY2019 and 6M2020
"Trademark Licence Agreement"	trademark licence agreement with Futong China and Futong Group (Hong Kong) on 16 June 2017
"Transfer of Listing"	the proposed transfer of the listing of the Shares from GEM to the Main Board pursuant to Chapter 9A and Appendix 28 of the Main Board Listing Rules
"Transtech"	Transtech Optical Communication Company Limited (高科橋光通信有限公司), a company incorporated in the BVI and a wholly-owned subsidiary of the Company.
"US$"	U.S. dollars, the lawful currency of the United States of America

In this announcement, the terms "associate", "close associate", "connected person", "controlling shareholder" and "subsidiary" have the meanings given to such terms in the Main Board Listing Rules, unless the context otherwise requires.

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

Hong Kong, 27 October 2020

As at the date of this announcement, the executive Directors of the Company are Mr. Hu Guoqiang, Mr. He Xingfu, Mr. Yu Jiangping, Mr. Xu Muzhong and Mr. Pan Jinhua and the independent non-executive Directors of the Company are Mr. Li Wei, Mr. Leong Chew Kuan, and Mr. Lau Siu Hang.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules and the Main Board Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement 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 announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at http://www.hkgem.com for at least seven days from the date of its publication and will also be published on the "Listed Company Information" page of the Stock Exchange's website of www.hkexnews.hk and on the website of the Company at transtechoptel.com.

Certain amounts and percentage figures included in this announcement have been subject to rounding adjustments, or have been rounded to one decimal place. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

The English text of this announcement shall prevail over the Chinese text in case of inconsistencies.

* *If there is any inconsistency between the Chinese names of the PRC entities mentioned in this announcement and their English translation, the Chinese version shall prevail.*