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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: 9963)

AUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

Financial Highlights		
	2021	2020
	HK\$'000	HK\$'000
Revenue	155,945	262,623
Gross profit	19,494	42,607
(Loss)/profit attributable to equity holders of the Company	(87,321)	28,231
Basic (loss)/earnings per share (HK cents)	(33.59)	10.86

The Board has resolved not to pay final dividend for the year ended 31 December 2021.

Reference is made to the announcement of Transtech Optelecom Science Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 31 March 2022 in relation to (i) the delay in publication of audited annual results announcement for the year ended 31 December 2021; and (ii) unaudited annual results announcement for the year ended 31 December 2021 (the “**2021 Unaudited Annual Results Announcement**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

The Board is pleased to announce that, on 29 April 2022, Deloitte Touche Tohmatsu (“**Deloitte**”), the auditor of the Company (the “**Auditor**”) has completed its audit of the consolidated financial statements of the Group for FY2021. The 2021 Audited Annual Results have been reviewed by the Audit Committee and were approved by the Board on 29 April 2022.

MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS

Since the financial information contained in the 2021 Unaudited Annual Results Announcement was neither audited nor agreed with the Auditor as at the date of its publication and subsequent adjustments have been made to such information, shareholders and potential investors of the Company are advised to pay attention to the differences between the financial information contained in the 2021 Unaudited Annual Results and the 2021 Audited Annual Results. Set forth below are the principal details and reasons for the material differences in such financial information in accordance with Rule 13.49(3)(ii)(b) of the Listing Rules.

1. Loss allowance for trade receivables

	2021 Audited Annual Results <i>HK\$'000</i>	2021 Unaudited Annual Results Disclosure in the Announcements <i>HK\$'000</i>	Difference <i>HK\$'000</i>
Statement of Profit or Loss			
Loss allowance for trade receivables under expected credit loss model			
Customer C1	8,725	352	8,373
Customer C2	26,085	1,390	24,695
Customer C3	65,325	3,481	61,844
Customer C4	6,856	129	6,727
Customer C5	7,217	280	6,937
Customer C6	554	554	–
Customer Others	(485)	(485)	–
	<u>114,277</u>	<u>5,701</u>	<u>108,576</u>
Statement of Financial Position			
Trade receivables			
Customer C1	–	8,090	(8,090)
Customer C2	–	24,695	(24,695)
Customer C3	–	61,844	(61,844)
Customer C4	–	6,727	(6,727)
Customer C5	–	6,937	(6,937)
Customer C6	9,439	9,439	–
Customer Others	173,159	173,159	–
	<u>182,598</u>	<u>290,891</u>	<u>(108,293)</u>

Note: The additional loss allowance for trade receivables were based on management’s estimate of the lifetime expected credit losses, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables and customers’ repayment history, and taking into consideration forward-looking information that is reasonable and supportable available.

2. Licence Fee

	2021 Audited Annual Results	2021 Unaudited Annual Results Disclosure in the Announcements	Difference
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Statement of Profit or Loss			
Licence Fee	–	2,700	(2,700)
Depreciation of right-of-use asset	7,050	4,383	2,667
Statement of Financial Position			
Right-of-use assets	5,367	–	5,367
Other payables and accrued charges	13,951	17,740	(3,789)
Lease liabilities	9,174	–	9,174
	<u> </u>	<u> </u>	<u> </u>

Remark: The above Licence Fee in the fee payable by Transtech Optical Communication Company Limited (“**Transtech**”) to Futong Group International Limited (“**Futong Group International**”) in respect of the Premises Licence Agreement dated 7 July 2021 entered into between Transtech and Futong Group International in relation to the licence to use the premises at 3 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong. The licence permit is from 1 July 2021 to 30 June 2022.

Note: The above adjustments were made to recognize the licence fee in terms of right-of-use assets and lease liabilities from 1 January 2022 to 30 June 2022 in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

Save as disclosed in this announcement, all other information contained, in material aspects, in the 2021 Unaudited Annual Results Announcement remains unchanged.

**AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
REVENUE	3	155,945	262,623
Cost of sales		<u>(136,451)</u>	<u>(220,016)</u>
Gross profit		19,494	42,607
Other income	4	2,260	5,930
Other gains and losses	4	15,973	21,769
Loss allowance for trade receivables under expected credit loss model, net of reversal		(114,277)	(2,033)
Selling and distribution expenses		(3,416)	(3,251)
Administrative expenses		(21,787)	(26,089)
Finance costs	5	(2,127)	(1,175)
Professional expense on the application for the transfer from GEM to the Main Board of the Stock Exchange		<u>–</u>	<u>(4,753)</u>
(LOSS)/PROFIT BEFORE TAXATION	7	(103,880)	33,005
Income tax credit/(expense)	6	<u>16,559</u>	<u>(4,774)</u>
(LOSS)/PROFIT FOR THE YEAR		<u>(87,321)</u>	<u>28,231</u>
OTHER COMPREHENSIVE (EXPENSE) INCOME			
<i>Items that will not be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		<u>(34,259)</u>	<u>(659)</u>
Total comprehensive (expense) income for the year		<u>(121,580)</u>	<u>27,572</u>
(LOSS)/EARNINGS PER SHARE			
Basic (HK cents)	8	<u>(33.59)</u>	<u>10.86</u>

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		149,905	169,900
Right-of-use assets		5,367	4,383
Deposits for acquisition of property, plant and equipment	<i>10</i>	109,744	121,469
Deposits and prepayments	<i>10</i>	101,806	69
Deferred tax assets		13,820	106
		<u>380,642</u>	<u>295,927</u>
CURRENT ASSETS			
Inventories		70,178	38,360
Trade receivables	<i>9</i>	182,598	320,803
Tax receivables		486	–
Deposits, prepayments and other receivables	<i>10</i>	70,933	85,831
Bank balances and cash		14,000	28,620
		<u>338,195</u>	<u>473,614</u>
Assets classified as held for sale		355	–
		<u>338,550</u>	<u>473,614</u>
CURRENT LIABILITIES			
Trade payables	<i>11</i>	37,472	13,304
Other payables and accrued charges		13,933	7,117
Contract liabilities		2,604	11
Lease liabilities		9,174	6,479
Bank and other borrowings	<i>12</i>	59,246	18,733
Tax payable		–	1,622
		<u>122,429</u>	<u>47,266</u>
NET CURRENT ASSETS		<u>216,121</u>	<u>426,348</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>596,763</u>	<u>722,275</u>

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		–	3,517
Provision for long service payments		1,398	–
Bank and other borrowings	<i>12</i>	–	1,813
		<u>1,398</u>	<u>5,330</u>
NET ASSETS		<u>595,365</u>	<u>716,945</u>
CAPITAL AND RESERVES			
Issued share capital		2,600	2,600
Reserves		<u>592,765</u>	<u>714,345</u>
TOTAL EQUITY		<u>595,365</u>	<u>716,945</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

In addition, the Group has early applied the Amendment to HKFRS 16 Covid-19-related Rent Concession beyond 30 June 2021.

Moreover, the Group applied the agenda decision of the IFRS Interpretations Committee (the “Committee”) of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

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

2.1 Impacts on application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions and early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021

The Group has applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions for the first time and early applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021 in the current year retrospectively. The amendments introduce a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions that occurred as a direct consequence of the Covid-19 pandemic that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases (“**HKFRS 16**”) if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

For several Covid-19-related rent concessions provided by certain lessors prior to initial application, adjustments were made to right-of-use assets and lease liabilities of HK\$3,092,000 and the cumulative effect of initially applying the amendments was considered immaterial and comparative information has not been restated.

In addition, during the year, certain lessors agreed to waive/reduce lease payments on several leases in Hong Kong. The Group has derecognised the part of lease liabilities that have been extinguished using the discount rates originally applied to these leases respectively, resulting in a decrease in lease liabilities of HK\$2,867,000, which have been recognised as variable lease payments in profit or loss for the current year.

2.2 Impacts on application of the agenda decision of the Committee — Cost necessary to sell inventories (HKAS 2 Inventories)

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group’s accounting policy prior to the Committee’s agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee’s agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories. The new accounting policy has been applied retrospectively.

The application of the Committee’s agenda decision has had no material impact on the Group’s financial positions and performance.

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

Year ended 31 December 2021

Segments	Optical fibres <i>HK\$'000</i>	Optical fibre cables, optical cable cores and other related products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods			
Sales of goods — recognised at a point in time			
Optical fibre cables	–	67,216	67,216
Optical fibres	52,222	2,788	55,010
Optical cable cores	–	33,114	33,114
Other related products	–	605	605
	<u>52,222</u>	<u>103,723</u>	<u>155,945</u>
Total	<u>52,222</u>	<u>103,723</u>	<u>155,945</u>

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

For the year ended 31 December 2021					
	Optical fibre cables, optical cable cores and other related products <i>HK\$'000</i>	Optical fibres <i>HK\$'000</i>	Total segment revenue <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Sales of optical fibre cables	67,216	–	67,216	–	67,216
Sales of optical fibres	2,788	75,246	78,034	(23,024)	55,010
Sales of optical cable cores	33,114	–	33,114	–	33,114
Sales of other related products	605	–	605	–	605
	<u>103,723</u>	<u>75,246</u>	<u>178,969</u>	<u>(23,024)</u>	<u>155,945</u>
Segment revenue	<u>103,723</u>	<u>75,246</u>	<u>178,969</u>	<u>(23,024)</u>	<u>155,945</u>

Year ended 31 December 2020

Segments	Optical fibres <i>HK\$'000</i>	Optical fibre cables, optical cable cores and other related products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods			
Sales of goods — recognised at a point in time			
Optical fibre cables	–	94,528	94,528
Optical fibres	112,402	–	112,402
Optical cable cores	–	55,693	55,693
Total	<u>112,402</u>	<u>150,221</u>	<u>262,623</u>

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

For the year ended 31 December 2020

	Optical fibre cables, optical cable cores and other related products <i>HK\$'000</i>	Optical fibres <i>HK\$'000</i>	Total segment revenue <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Sales of optical fibre cables	94,528	–	94,528	–	94,528
Sales of optical fibres	–	118,625	118,625	(6,223)	112,402
Sales of optical cable cores	<u>55,693</u>	–	<u>55,693</u>	–	<u>55,693</u>
Segment revenue	<u>150,221</u>	<u>118,625</u>	<u>268,846</u>	<u>(6,223)</u>	<u>262,623</u>

Segment revenue and results

Year ended 31 December 2021

	Optical fibre cables, optical cable cores other related products <i>HK\$'000</i>	Optical fibres <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue					
External sales	103,723	52,222	155,945	–	155,945
Inter-segment sales	–	23,024	23,024	(23,024)	–
Segment revenue	<u>103,723</u>	<u>75,246</u>	<u>178,969</u>	<u>(23,024)</u>	<u>155,945</u>
Segment loss	<u>(1,239)</u>	<u>(96,885)</u>	<u>(98,124)</u>	<u>657</u>	<u>(97,467)</u>
Interest income					5
Unallocated corporate expenses					(4,291)
Finance costs					<u>(2,127)</u>
Loss before taxation					<u><u>(103,880)</u></u>

Year ended 31 December 2020

	Optical fibre cables, optical cable cores and other related products <i>HK\$'000</i>	Optical fibres <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue					
External sales	150,221	112,402	262,623	–	262,623
Inter-segment sales	–	6,223	6,223	(6,223)	–
Segment revenue	<u>150,221</u>	<u>118,625</u>	<u>268,846</u>	<u>(6,223)</u>	<u>262,623</u>
Segment profit	<u>7,061</u>	<u>36,295</u>	<u>43,356</u>	<u>(178)</u>	43,178
Interest income					75
Unallocated corporate expenses					(4,320)
Finance costs					(1,175)
Other expenses					<u>(4,753)</u>
Profit before taxation					<u><u>33,005</u></u>

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

Inter-segment sales are charged at prevailing market rates.

Information about major customer

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

	Year ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Customer A	N/A*	30,154
Customer B	20,560	N/A*
Customer C	N/A*	52,119
Customer D	33,114	55,693
Customer E	17,836	N/A*

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

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

4. OTHER INCOME, OTHER GAINS AND LOSSES

	Year ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Other income:		
Income from sales of scrap products	174	192
Bank interest income	15	129
Government grants (<i>Note (i)</i>)	244	3,147
Others (<i>Note (ii)</i>)	1,827	2,462
	<u>2,260</u>	<u>5,930</u>
Other gains and losses:		
Foreign exchange gains, net	9,517	21,769
Gain on disposal of property, plant and equipment	6,456	–
	<u>15,973</u>	<u>21,769</u>

Notes:

- (i) The Group recognised government grants of approximately HK\$244,000 (2020: HK\$3,147,000) in respect of Covid-19-related subsidies which provided by the Thailand government (2020: the Hong Kong government).
- (ii) Amount includes service fee income of approximately HK\$1,331,000 (2020: HK\$2,328,000) in respect of technical support provided to an independent third party for the production of masks in Hong Kong during the year ended 31 December 2021.

5. FINANCE COSTS

	Year ended 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank and other borrowings	2,073	710
Interest on lease liabilities	54	465
	<u>2,127</u>	<u>1,175</u>

6. INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax		
Current Tax	–	5,036
Overprovision in prior years	(79)	(27)
Thailand Corporate Income Tax		
Current Tax	496	–
	<u>417</u>	5,009
Thailand withholding tax	255	267
Deferred tax	(17,231)	(502)
	<u>(16,559)</u>	<u>4,774</u>

7. (LOSS)/PROFIT BEFORE TAXATION

	Year ended 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit before taxation has been arrived at after charging:		
Auditor's remuneration	1,090	1,050
Depreciation of property, plant and equipment	13,485	14,202
Less: amount capitalised in inventories	<u>(12,259)</u>	<u>(12,730)</u>
	1,226	1,472
Depreciation of right-of-use assets	7,050	8,872
Less: amount capitalised in inventories	<u>(7,050)</u>	<u>(8,872)</u>
	-	-
Directors' remuneration	4,552	4,638
Other staff costs		
Salaries and other benefits	24,592	26,827
Retirement benefits scheme contributions	676	619
Total staff costs	29,820	32,084
Less: amount capitalised in inventories	<u>(15,529)</u>	<u>(17,680)</u>
	14,291	14,404
Cost of inventories recognised as an expense	136,451	220,016
Professional expense on the application for the transfer from GEM to the Main Board of the Stock Exchange	<u>-</u>	<u>4,753</u>

8. (LOSS) EARNINGS PER SHARE

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

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit for the year attributable to owners of the Company for the purpose of basic (loss) earnings per share	<u>(87,321)</u>	<u>28,231</u>
	2021	2020
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<u>260,000</u>	<u>260,000</u>

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

9. TRADE RECEIVABLES

The Group grants credit terms of 0–365 days (2020: 0–365 days) to its customers from the date of invoice. The following is an aged analysis of the trade receivables, net of allowance for credit losses presented based on invoice date at the end of the reporting period.

	As at 31 December	
	2021	2020
	HK\$'000	HK\$'000
0–180 days	38,538	115,946
181–270 days	36,239	39,622
271–365 days	14,765	38,972
Over 365 days	93,056	126,263
	<u>182,598</u>	<u>320,803</u>

10. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	HK\$'000	HK\$'000
Electricity deposits	785	785
Other deposits	159	179
Prepayments (<i>note</i>)	159,059	79,545
Other receivable	733	1,141
Consideration receivable for the disposal of property, plant and equipment	7,849	–
Value-added tax receivables	4,154	4,250
Deposits for acquisition of property, plant and equipment	109,744	121,469
Total	<u>282,483</u>	<u>207,369</u>
Presented as non-current assets	211,550	121,538
Presented as current assets	<u>70,933</u>	<u>85,831</u>
Total	<u>282,483</u>	<u>207,369</u>

Note: As at 31 December 2021, HK\$158,378,000 (2020: HK\$78,730,000) of prepayment for purchase of raw material were included in the balance.

11. TRADE PAYABLES

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

	As at 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables:		
0–30 days	11,422	3,135
31–60 days	14,878	3,496
61–90 days	3,261	4,552
91–180 days	4,138	1,952
Over 180 days	3,773	169
	<u>37,472</u>	<u>13,304</u>

12. BANK AND OTHER BORROWINGS

	As at 31 December			
	2021		2020	
	<i>Effective interest rate</i>	<i>HK\$'000</i>	<i>Effective interest rate</i>	<i>HK\$'000</i>
Unsecured and unguaranteed:				
— Promissory notes	5.21%	52,928	5.00%	4,747
— Bank borrowings	3.25%	4,680	3.25%	10,360
— Other borrowing	2.00%	1,638	2.00%	5,439
		<u>59,246</u>		<u>20,546</u>
Less: Amounts due within one year shown under current liabilities		<u>(59,246)</u>		<u>(18,733)</u>
Amounts shown under non-current liabilities		<u>–</u>		<u>1,813</u>

The carrying amounts of the above borrowings are repayable*:

	As at 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	59,246	18,733
Within a period of more than 1 year and not later than 2 years	–	1,813
	<u>59,246</u>	<u>20,546</u>

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

For the year ended 31 December 2021

Promissory notes amounting to Renminbi (“**RMB**”) 42,529,000 (approximately equivalent to HK\$52,928,000) as at 31 December 2021 were interest bearing at Chinese Yuan 6-month Chinese Renminbi HIBOR plus 2% per annum.

A short-term loan amounting to Thai Baht (“**THB**”) 20,000,000 (approximately equivalent to HK\$4,680,000) as at 31 December 2021 was interest bearing at a rate of Minimum Lending Rate of Thailand minus 2% per annum.

Other borrowing of THB7,000,000 (approximately equivalent to HK\$1,638,000) was a loan from Thailand government due to COVID-19 which carried fixed interest rate at 2% per annum and was repayable with monthly payments from 29 May 2021 till 29 April 2022.

For the year ended 31 December 2020

Promissory notes amounting to RMB3,906,000 (approximately equivalent to HK\$4,747,000) as at 31 December 2020 were interest bearing at Chinese Yuan 6-month Chinese Renminbi HIBOR plus 2% per annum.

A short-term loan amounting to THB40,000,000 (approximately equivalent to HK\$10,360,000) as at 31 December 2020 was interest bearing at a rate of Minimum Lending Rate of Thailand minus 2% per annum.

Other borrowing of THB21,000,000 (approximately equivalent to HK\$5,439,000) was a loan from Thailand government due to COVID-19 which carried fixed interest rate at 2% per annum and was repayable with monthly payments from 29 May 2021 till 29 April 2022.

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

	RMB <i>HK\$'000</i>
As at 31 December 2021	52,928
As at 31 December 2020	4,747

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's total revenue decreased from HK\$262.6 million in the year ended 31 December 2020 to HK\$155.9 million in the year ended 31 December 2021. The decrease in total revenue of the Group was mainly due to the oversupply of optical fibre cables and optical fibres in the market and the persistent spread of COVID-19 which resulted in lower of selling prices and less demand from the Group's customers, as compared with the corresponding period in 2020, resulting in decrease in sales volume and selling prices of the Group's products (except for selling price of optical cable cores). The selling price of optical cable cores increased as compared with the corresponding period in 2020 because of more sales of a variety of higher price optical cable cores.

Cost of Sales

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

For the year ended 31 December 2021, the cost of sales of the Group decreased by about 38.0% to approximately HK\$136.5 million as compared with the corresponding period in 2020. Such decrease was mainly attributable to the generally lower sales volume of the Group's products and the decrease of the main raw materials purchase price for our products during the reporting period.

Gross profit and margin

The gross profit of the Group decreased from approximately HK\$42.6 million, for the year ended 31 December 2020 to approximately HK\$19.5 million for the year ended 31 December 2021.

The gross profit margin decreased from approximately 16.2% for the year ended 31 December 2020 to approximately 12.5% for the year ended 31 December 2021. This is mainly attributable to the decrease of the gross profit margin of optical fibres and optical fibre cables for the year ended 31 December 2021 by approximately 3.7% and approximately 7.0% respectively as compared to the year ended 31 December 2020. Nevertheless, the gross profit margin of optical cable cores increased by approximately 7.9%, which partially offset the decrease in gross profit margin mentioned above.

Loss allowance for trade receivables

Loss allowance for trade receivables represented impairment on trade receivables, which increased by approximately HK\$112.3 million, or approximately 5,615.0% from approximately HK\$2.0 million for the year ended 31 December 2020 to approximately HK\$114.3 million for the year ended 31 December 2021.

The increase in loss allowance for trade receivables for the year ended 31 December 2021 was mainly due to six debtors with a gross carrying amount of approximately HK\$124,655,000 (2020: Nil) defaulted and transferred to credit impaired.

Other income, gains, expenses and losses, net

The Group recognised a grant of approximately HK0.2 million in respect of Covid-19 related subsidies which provided by the Government of Thailand for the year ended 31 December 2021, while a grant of approximately HK\$3.1 million under the “Employment Support Scheme” from the Government of Hong Kong was recognised for the year ended 31 December 2020.

The Group recognised foreign exchange gains of approximately HK\$9.5 million for the year ended 31 December 2021 as compared with foreign exchange gains of approximately HK\$21.8 million for the year ended 31 December 2020, mainly due to the fluctuation of exchange rates among Renminbi (“**RMB**”), Hong Kong Dollar (“**HK\$**”), Thai Baht (“**THB**”), and United States dollar (“**US\$**”) during the year.

Selling and distribution expenses

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

The Group’s selling and distribution expenses increased from approximately HK\$3.3 million for the year ended 31 December 2020 to approximately HK\$3.4 million for the year ended 31 December 2021, representing a increase of approximately 3.0%.

The increase in the selling and distribution expenses for the year ended 31 December 2021 was mainly due to the increase in transportation expenses and export cost as there was increase in sales of optical fibre to ASEAN countries.

Administrative expenses

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

The Group's administrative expenses decreased from approximately HK\$26.1 million for the year ended 31 December 2020 to approximately HK\$21.8 million for the year ended 31 December 2021, representing a decrease of approximately 16.5%. The decrease in the administrative expenses for the year ended 31 December 2021 was mainly attributable to the effects of (i) the decrease of donation that Transtech donated approximately HK\$3.0 million to the Foundation of HKEX in 2020; and (ii) the decrease in electricity and water expense and travelling expense.

Finance costs

Finance costs represent the interest expense on bank borrowings and lease liabilities. The finance costs of the Group increased from approximately HK\$1,175,000 for the year ended 31 December 2020 to approximately HK\$2,127,000 for the year ended 31 December 2021 mainly attributable to the aggregate effects of (i) the increase in interest on bank borrowings and (ii) the decrease in interest on lease liabilities.

Taxation

The Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

Futong Thailand has been granted preferential tax treatments by the Board of Investment in Thailand relating to manufacturing of cables by virtue of the provisions of the Industrial Investment Promotion Act B.E.2520 of Thailand. The preferential tax treatments granted include: (i) the full 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 ended 28 February 2021 (“**Exemption Period**”). No Corporate Income tax has been provided within the Exemption Period; and (ii) the 50% exemption from payment of corporate income tax during the period from 1 March 2021 to 28 February 2025 (“**50% Exemption Period**”), 50% Corporate Income Tax has been provided by the direct application of Corporate Income Tax rate to the profit before tax of management account during the “50% Exemption Period”.

Income tax expense decreased by approximately 445.8% from approximately HK\$4.8 million for the year ended 31 December 2020 to a tax credit of approximately HK\$16.6 million for the year ended 31 December 2021. Such decrease was mainly caused by the deferred tax assets of tax losses recognised as a result of significant amount of loss allowance for trade receivables provided.

Loss for the year

Loss attributable to owners of the Company for the year ended 31 December 2021 amounted to approximately HK\$87.3 million (2020: profit approximately HK\$28.2 million).

The decrease in profit attributable to owners of the Company for the year ended 31 December 2021 was mainly attributable to the effect of the following factors: (i) significant amount of loss allowance for trade receivables provided; (ii) less revenue made given that the selling price and volume generally decreased because of the outbreak of COVID-19; and (iii) less foreign exchange gained resulting from the fluctuation of exchange rates among Renminbi, Thai Baht, United States Dollar and Hong Kong Dollar.

Liquidity, financial resources and capital structure

Cash position

The Group's principal sources of funds are used to finance working capital, and the growth and expansion of the Group's operations and sales network. The Group's principal sources of funds are cash generated from operations and bank borrowings. The Group had cash and cash equivalents of approximately HK\$14.0 million as at 31 December 2021 (31 December 2020: approximately HK\$28.6 million).

Bank and other borrowings on the Group

As at 31 December 2021, the Group had total bank borrowings of approximately HK\$59.2 million (31 December 2020: approximately HK\$20.5 million). Details of the bank and other borrowings are set out in note 12 to the consolidated financial statements of this annual results announcement.

Gearing ratio

Gearing ratio is calculated as total borrowings (including payables not incurred in the ordinary course of business of the Group) divided by the total equity as at the respective reporting dates.

Gearing ratio increased from approximately 2.9% as at 31 December 2020 to approximately 10.0% as at 31 December 2021. Such increase was primarily resulted from the new bank borrowings raised and total equity reduced mainly due to the increase of loss allowance for trade receivables.

Foreign currency risk

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

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits, lease liabilities and bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets, mainly restricted bank balances and bank balances which carried at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. The management of the Group maintains a balanced portfolio of fixed rate and variable rate borrowings.

Credit risk

As at 31 December 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to trade receivables arising from contracts with customers. In order to minimise the credit risk, the Directors have delegated the senior management to be responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. The management of the Group performs impairment assessment on individual debtor basis to estimate the amount of expected credit loss ("ECL") of trade receivables based on internal credit ratings, ageing, collateral, repayment history and/or past due status of respective debtors and adjusted for forward-looking information. For bank deposits and balances, the management of the Group placed it in reputable banks with higher internal credit ratings with reference to either international or local credit-rating agencies, and ECL is insignificant. The Directors have the opinion that the Group have taken appropriate action to manage the credit risk.

Liquidity risk

The Group's management monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Capital commitments

As at 31 December 2021, the Group has capital commitments of approximately HK\$11.1 million (31 December 2020: approximately HK\$19.5 million).

Future plans for material investments

Save as disclosed in the “Future Plans and Use of Proceeds” section of the Prospectus, the Group did not have other plans for material investments and capital assets.

Employee and emolument policies

As at 31 December 2021, the employee headcount (including Directors) of the Group was 178 (31 December 2020: 195) and the total staff costs, including directors’ emoluments, amounted to approximately HK\$29.8 million during the year ended 31 December 2021 (year ended 31 December 2020: approximately HK\$32.1 million). The Group recruits and promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff and to enable smooth operations within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis. The emoluments of the Directors and senior management are reviewed and approved by the Board of the Company, having regard to the Company’s operating results, market competitiveness, individual performance and achievement.

Contingent liabilities and litigation

As at 31 December 2021, the Group had no material contingent liabilities and litigation (31 December 2020: nil).

Capital structure

As at 31 December 2021, the Company’s authorized and issued share capital were HK\$10,000,000 and HK\$2,600,000 respectively. The number of its issued ordinary shares was 260,000,000 of HK\$0.01 each.

There has been no change in the capital structure of the Group since the Listing Date and up to the date of this announcement. The capital of the Company only comprises of ordinary shares.

Treasury policies

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

Charge of assets

As at 31 December 2021, the Group had not pledged its land, buildings and machinery to secure the banking facilities granted to the Group (31 December 2020: nil).

Charge of register

As at 31 December 2021, a charge was registered in the British Virgin Islands in relation to a bank facility with maximum limit of HK\$50 million.

Production Capacity Utilization

For the year ended 31 December 2021, the Group sold approximately 2.3 million fkm of optical fibre and approximately 0.8 million fkm of optical fibre cable and approximately 0.4 million fkm of optical cable cores. The production capacity of optical fibre, optical fibre cable and optical cable cores were approximately 9.6 million fkm in FY2020 and FY2021 respectively.

The utilization rate of optical fibre increased from 50.3% to 51.6% from FY2020 to FY2021 and that of optical fibre cable and optical cable cores decreased from 34.7% to 27.3% from FY2020 to FY2021. Both Transtech and Futong Thailand have adjusted their production volume based on the sales order.

Return on Assets (Revenue/Total Asset)

The Group's revenue amounted to HK\$262.6 million in FY2020 and HK\$155.9 million in FY2021 while the Group's total assets amounted to HK\$769.5 million and HK\$719.2 million as of 31 December 2020 and 2021 respectively.

Hence, the Group's return on assets decreased from approximately 34.1% in FY2020 to approximately 21.7% in FY2021. This was mainly because of the degree of sales revenue reduction 40.6% and total asset reduction 6.5% mainly due to the increase of approximately 5,615.0% loss allowance for trade receivables in FY2021.

Future plans for material investments and capital assets

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

Material acquisition and disposals of subsidiaries and affiliated companies

During the year ended 31 December 2021, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Performance guarantees

During the year ended 31 December 2021, the Group did not have any performance guarantee given to or received from a connected person or an independent third party.

Post balance sheet events

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2021 and up to the date of approval of this announcement.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reduce its impacts to the environment from its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to comply with related environmental laws and legislations, and continual improvement on its performance.

KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group aims to maintain a good relationship with its employees, customers and suppliers. The Group creates a motivated workplace for its employees, produce quality products to satisfy its customers' expectations and, establish long-term relationships with its suppliers.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2021, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

CONTINUING CONNECTED TRANSACTIONS

The Group has entered into certain continuing connected transactions (“**Continuing Connected Transactions**”) with the connected persons (as defined in the Listing Rules) of the Company. The Directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Details of the Non-exempt Continuing Connected Transaction and the Non-fully Exempt Continuing Connected Transaction are shown as follows:

(1) Non-Exempt Continuing Connected Transaction and Non-fully Exempt Continuing Connected Transaction

Sales of Optical Fibres to Futong China Group

During the five years ended 31 December 2021, Transtech sold optical fibres to Futong China Group. Futong China is one of the controlling shareholders of the Company and Futong China Group means Futong China and its subsidiaries from time to time. Futong China Group mainly procured optical fibres from the Group for on-selling, with or without further processing, to customers in the PRC. The actual sales amount during the five years ended 31 December 2021 and the annual cap for each of FY2017 and FY2018 as set out in the written agreements entered into between Transtech and Futong China on 16 June 2017 (the “**2017 Optical Fibre Framework Sales Agreement**”), the annual cap for FY2019 as set out in the Optical Fibre Framework Sales Agreement dated 18 March 2019 (the “**2019 Optical Fibre Framework Sales Agreement**”), the annual cap for FY2020 as set out in the Framework Sales Agreement dated 30 March 2020 (the “**2020 Optical Fibre Framework Sales Agreement**”) and the annual cap for FY2021 as set out in the Framework Sales Agreement dated 22 January 2021 (the “**2021 Optical Fibre Framework Sales Agreement**”) in relation to the sales of optical fibres to Futong China Group are set out below.

	Actual Sales Amount				
	FY2017 (HK\$ million)	FY2018 (HK\$ million)	FY2019 (HK\$ million)	FY2020 (HK\$ million)	FY2021 (HK\$ million)
Optical fibre	<u>36.6</u>	<u>37.4</u>	<u>17.9</u>	<u>11.2</u>	<u>17.8</u>

	Annual Caps For the year ending 31 December				
	2017 (HK\$ million)	2018 (HK\$ million)	2019 (HK\$ million)	2020 (HK\$ million)	2021 (HK\$ million)
Optical fibre	<u>40.0</u>	<u>38.0</u>	<u>18.0</u>	<u>12.5</u>	<u>18.0</u>

The actual sales amount for FY2017, FY2018, FY2019, FY2020 and FY2021 did not exceed the annual cap.

Listing Rules Implications

Given that the highest applicable percentage ratios in respect of the FY2021 annual cap for purpose of the Latest Optical Fibre Framework Sales Agreement dated 22 January 2021 is more than 0.1% and less than 5%, the transactions contemplated thereunder shall constitute partially-exempt continuing connected transactions under Rule 14A.76(2) of the Listing Rules and are subject to the annual review and disclosure requirements but are exempt from circular and Shareholders' approval requirement under Chapter 14A of the Listing Rules. Reference could be made to the announcement published on 22 January 2021.

(2) Non-fully Exempt Continuing Connected Transaction

Licensing of Premises from Futong Group International Limited (“Futong Group International”)

During the five years ended 31 December 2021, Transtech operated from the premises located at 3 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong (the “**Premises**”) which was leased by Futong Group International from Hong Kong Science and Technology Parks Corporation (“**HKSTP**”). Futong Group International was owned by Mr. Wang, the Controlling Shareholder, and Mr. He Xingfu (“**Mr. He**”), one of the executive Directors, as to 90% and 10%, respectively as at the Listing date. On 9 March 2018, Mr. He transferred all his shares to Mr. Wang, and Mr. Wang became the sole shareholder of Futong Group International at the same date. Therefore, Futong Group International is a connected person of the Group.

On 20 October 2016, a licence agreement was entered into between Transtech and Futong Group International in relation to the Premises (“**Licence Agreement**”). The term of the licence is five years, from 1 July 2016 to 30 June 2021.

On 7 July 2021, the Licence Agreement was renewed for a term of one year commencing on 1 July 2021 and terminating on the 30 June 2022 (both days inclusive) (“**Licence Period**”). During the Licence Period, the licence fee payable by Transtech to Futong Group International is HK\$900,000.00 per month. Management Fee and maintenance charge (if any) payable under the lease in respect of the said premises will be paid by Futong Group International. On the other hand, Government Rent, Government Rates and other outgoings in respect of the said premises will be paid by Transtech. According to the two Licence Agreements, the licence fees are set out in the paragraph headed “Annual Caps” below.

Actual Transaction Value

For FY2017, FY2018, FY2019, FY2020 and FY2021, Transtech has paid a sum of approximately HK\$10.8 million, HK\$11.9 million, HK\$11.9 million HK\$8.9 million and HK\$9.2 million respectively to Futong Group International, for its use of the Premises. For FY2020 and FY2021, Futong Group International waived three months rent in amount of HK\$2,970,000 and HK\$2,700,000 respectively to relieve the adverse impact from COVID-19.

Annual Caps

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

	Annual Caps for the year ended 31 December				
	2017	2018	2019	2020	2021
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Licence Fee	<u>10.8</u>	<u>11.9</u>	<u>11.9</u>	<u>11.9*</u>	<u>11.9*</u>

* *Futong Group International Limited waived licence fee from January to March in 2020 and October to December in 2021 to relieve the impact of COVID-19*

Listing Rules Implications

As certain applicable percentage ratios (other than profits ratio) in respect of the transaction under the Licence Agreement is, on an annual basis, expected to be less than 5% and the annual consideration is more than HK\$3 million, the transaction contemplated under the Licence Agreement dated 7 July 2021 constitutes a Non-fully Exempt Continuing Connected Transaction of the Company subject to the reporting, announcement and annual review requirements, but are exempt from the circular and independent shareholders’ approval requirements, pursuant to Rule 14A.76(2) of the Listing Rules.

Application for Waivers

Pursuant to Rule 20.103 of the GEM Listing Rules, our Directors have applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with the announcement requirement under Rule 20.33 of the GEM Listing Rules (i.e. Rule 14A.35 of the Main Board Listing Rules) in respect of such Non-fully Exempt Continuing Connected Transaction, subject to the aggregate amount of each of the Non-fully Exempt Continuing Connected Transaction for each financial year not exceeding the relevant annual caps as stated above.

Annual Review

The independent non-executive Directors have reviewed the Continuing Connected Transactions conducted for the year ended 31 December 2021 and confirmed that such Continuing Connected Transactions were carried out in the ordinary and usual course of business of the Group, were on normal commercial terms and were in accordance with the relevant agreement on terms that are fair and reasonable and in the interests of the shareholders as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transactions entered into by the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on the results of the work performed, the auditor has issued a letter containing an unmodified conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules in confirming that:

- a. Nothing has come to their attention that causes them to believe that the Continuing Connected Transactions have not been approved by the Board;
- b. Nothing has come to their attention that causes them to believe that the Non-exempt Continuing Connected Transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- c. Nothing has come to their attention that causes them to believe that the Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreement governing the transaction; and

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

A letter of Independent Assurance Report from auditor on Continuing Connected Transactions was provided to the Stock Exchange in April 2022.

The Company confirmed that the disclosure requirements for the Continuing Connected Transactions have been complied with in accordance with Chapter 14A of the Listing Rules.

The Audit Committee has reviewed the Continuing Connected Transactions conducted for the year ended 31 December 2021 and the letter from the auditor with conclusions in respect of the Continuing Connected Transactions set out above. On such basis, the Audit Committee was of the view that the Continuing Connected Transactions were carried out in compliance with Chapter 14A of the Listing Rules.

USE OF PROCEEDS

As the GEM Listing took place on 20 July 2017, part of the net proceeds from the Global Offering has been utilised by the Company during the five years ended 31 December 2021. The Company intends to utilise such net proceeds as disclosed in the “Future Plans and Use of Proceeds” section of the Prospectus.

Progress on achievement of business objective and Use of Proceeds

Business Strategies as Stated in the Prospectus	Proposed amount to be used (HK\$million)	Actual amount utilized up to 31 December 2021 (HK\$million)	Unused amount as at 31 December 2021 (HK\$million)	Explanation
Approximately 80% of the net proceeds will be used for implementing the expansion plan of new production facility in Thailand, including the construction of a factory in Thailand.	73.4	72.2	1.2	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 extend its production at the factory in June FY2023 due to the outbreak of COVID-19 globally.
Approximately 5% of the net proceeds will be used for strengthening the research and development capabilities and expanding the range of products.	4.6	0.3	4.3	The main reason for the delay in the use of proceeds for the research and development expenditure is that it depends on the change of market demand. For the period from the Listing Date to 31 December 2021, there are little change of customers' demand for new type of products. It is expected to utilize this proceeds by the end of FY2022.
Approximately 5% of the net proceeds will be used for enhancing the relationship with existing customers and exploring new customers in Hong Kong and the ASEAN.	4.6	2.6	2.0	In line of the business development in the ASEAN countries, it is estimated that most of the unused amount will be used in FY2022.
Approximately 10% of the net proceeds will be used as the general working capital and for general corporate purposes.	9.2	9.2	0	Fully utilized for factory rent and electricity fee in Hong Kong for the period from the Listing Date to 31 December 2017
Total	<u>91.8</u>	<u>84.3</u>	<u>7.5</u>	

As at 31 December 2021, HK\$9.2 million of the net proceeds from the Global offering has been utilised for settlement of payable for factory rent and utility fee in Hong Kong, HK\$2.6 million for developing customers relationship, HK\$0.3 million for research and development and HK\$72.2 million for the new factory construction in Thailand.

BUSINESS REVIEW

The Group has recorded dissatisfied financial results during the year ended 31 December 2021 (the “**Year**”). It recorded a decline of total revenue of approximately 40.6% as compared with the one for the year ended 31 December 2020 (the “**Last Year**”).

In general, the growth rate of the communication cable industry in the Year has slowed down as compared with Last Year. The main reason was that 4G construction in China has nearly come to the end while a scalable commercialisation of 5G is yet to come. Demand shrank because of few new communication network expansions, which led to an oversupply of goods and exerting a downward pressure on prices.

In addition, the outbreak of COVID-19 during the Year persistently interrupted the Group’s supply chains and sale activities, which adversely affected the Group’s business performance. In the second half of the Year, major communication network operators in China started to speed up communication network construction to fulfill a larger number of uncompleted sale orders placed in last year.

China’s policy of speeding up the resumption of production and expand domestic demand from consumption, traditional infrastructure and new infrastructure, including new infrastructure focusing on seven areas, namely, 5G, ultra-high voltage, high-speed rail, new energy vehicle charging piles, large data centers, artificial intelligence and industrial Internet. This policy clearly defined the development direction of the communications network industry. The new infrastructure policy closely links with the communication network industry, in particular optical fiber cables, communication copper cables and structured cabling system products industries, which is expected to stimulate the market demand.

OUTLOOK

We believe that the impact of COVID-19 on the Group’s operations and future prospect will depend on how long COVID-19 will last, the regulatory policies to be implemented, and the relevant protective measures that may affect the business environment where the Group operates its businesses in. The Group will closely monitor the development of COVID-19, continuously assess its impact on the Group and adopt necessary measures to minimise the business risk.

On 25 March 2021, the PRC Ministry of Industry and Information Technology released the “Dual Gigabit” Network Coordinated Development Action Plan (2021–2023), which proposes that by the end of 2021, the gigabit optical fibre network will reach the capacity to cover 200 million households; the ports of 10 gigabit passive optical network (10G-PON) and above will reach the scale of over 5 million; and the number of gigabit broadband subscribers will exceed 10 million. The 5G network will basically cover areas above the county level and some key villages and towns. More than 600,000 5G base stations will be constructed, and more than 20 gigabit cities will be built.

By the end of 2023, the gigabit optical fibre network will achieve the capacity to cover 400 million households, and the number of gigabit broadband subscribers will exceed 30 million. The 5G network will basically cover areas above the township level and key administrative villages, and 100 gigabit cities will be built. Currently, the Major PRC Telecommunication Network Operators are at the core of 5G industry development, and operators need to accelerate the progress that has been delayed by COVID-19 in 2021.

The “Dual Gigabit” Network Coordinated Development Action Plan (2021–2023) released by the Ministry of Industry and Information Technology encourages enterprises of optical fibre and optical fibre cables to strengthen the technology development and to improve the manufacturing capability and the technological level in the weak links such as 5G chips, high-speed PON chips, high-speed WLAN chips, high-speed optical transceivers and high- performance components.

Therefore, it is expected the Major PRC Telecommunication Network Operators will maintain a high level of capital expenditure and their demands for optical fibre and optical fibre cables will increase, thereby stimulating the prices of optical fibre and optical fibre cables to rebound from the current low levels. In the meantime, the support from national policies will facilitate 5G technology to develop at a faster pace, and it is expected that demands for optical fibre and optical fibre cables will recover in 2022. The Group will seek further opportunities for industry chain integration and improve the capability of controlling raw material costs, thereby reinforcing the cost control to improve its competitive strengths and profitability.

DIVIDENDS

The Board did not recommend a payment of any final dividend for the year ended 31 December 2021(year ended 31 December 2020:nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Directors confirm that during the period from the Listing Date to 31 December 2021, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase, cancel or sell any of such listed securities.

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2021. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code. The Company is committed to maintaining a high standard of corporate governance and believes that a good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the transparency of the Company; (iii) enhance risk management and internal control of the Company; and (iv) safeguard the interests of the shareholders of the Company and the Company as a whole.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the “**Model Code**”). The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code for the year ended 31 December 2021.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board comprises three independent non-executive Directors. The audit committee of the Board has reviewed with the management of the Group the accounting policies, discussed with the Board the auditing, internal control, risk management and financial reporting matters and reviewed the final results and the audited consolidated financial statements of the Group for the Year.

At the Board meeting held on 29 April 2022, the Board reviewed and approved, among other things, the publication of the 2021 Audited Annual Results of the Group for the year ended 31 December 2021.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this further announcement the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 29 April 2022. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on this further announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Company (www.transtechoptel.com) and the designated issuer website of the Stock Exchange (www.hkexnews.hk).

The Company's 2021 annual report will be despatched to the Company's shareholders and will be available on the above websites on 29 April 2022.

CLOSURE OF REGISTER OF MEMBERS

The date of the annual general meeting for the year ended 31 December 2021 is set to 17 June 2022 and the register of members of the Company will be closed from Tuesday, 14 June 2022 to Friday, 17 June 2022, both dates inclusive.

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

Hong Kong, 29 April 2022

As at the date of this announcement, the Board comprises of (1) Executive Directors: Mr. Hu Guoqiang, Mr. He Xingfu, Mr. Pan Jinhua, Ms. Sun Jing and Mr. Ren Guodong; (2) Independent Non-executive Directors: Mr. Lau Siu Hang, Mr. Li Wei and Mr. Leong Chew Kuan.