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

2021
Annual Report

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Guoqiang *(Chairman)*
Mr. He Xingfu *(Chief Executive Officer)*
Mr. Pan Jinhua
Mr. Yu Jiangping (resigned with effect on 1 July 2021)
Miss Sun Jing (newly appointed with effect on 1 July 2021)
Mr. Xu Muzhong (resigned with effect on 1 July 2021)
Mr. Ren Guodong (newly appointed with effect on 1 July 2021)

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

Mr. Lau Siu Hang *(Chairman)*
Mr. He Xingfu
Mr. Yu Jiangping (resigned with effect on 1 July 2021)
Miss Sun Jing (newly appointed with effect on 1 July 2021)
Mr. Leong Chew Kuan
Mr. Li Wei

Nomination Committee

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

AUTHORISED REPRESENTATIVES

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

COMPLIANCE OFFICER

Mr. He Xingfu

COMPANY SECRETARY

Mr. Ho Cheuk Wai *(CPA)*

REGISTERED OFFICE

Windward 3, Regatta Office Park
PO Box 1350
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

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

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

AUDITOR

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

PRINCIPAL BANKER

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

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

STOCK CODE

9963

COMPANY'S WEBSITE

www.transtechoptel.com

COMPANY PROFILE

Transtech Optelecom Science Holdings Limited (the "Company") (stock code: 9963) (together with its subsidiaries, collectively referred to as the "Group"). The Company owns two major operating subsidiaries, namely Transtech Optical Communication Company Limited ("Transtech") and Futong Group Communication Technology (Thailand) Co., Ltd. ("Futong Thailand") in Hong Kong and Thailand respectively. The Group's parent group (namely, Futong Group Co., Ltd. ("Futong China"), together with its subsidiaries, "Futong China Group" or "Parent Group") has business operations in the PRC and its customers include major PRC telecommunications operators.

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

In addition to the manufacturing and sales of optical fibre cables with various standard specifications that are widely used in the telecommunications industry, Futong Thailand also designs and manufactures specialty optical fibre cables pursuant to requests from our customers, including rodent resistant optical fibre cable, flame-retardant optical fibre cable and non-metallic optical fibre cable. Transtech manufactures optical fibres for Futong Thailand's 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 Group is highly regarded in the optical fibre products markets. The Group was awarded ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 certificates in relation to manufacturing of optical fibre products. The Group believes that, by leveraging the Group's strengths on product quality and research ability, the Group has successfully enhanced the Group's product recognition in the market.

The Shares have been listed on the GEM of the Stock Exchange by way of the Global Offering since 20 July 2017 (the "Listing Date") and then were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 November 2020 (the "Transfer Date"). As of 31 December 2021, the Company had 260,000,000 issued shares.

FINANCIAL HIGHLIGHTS

The Group encountered difficulty in its business in 2021 and the Group's operating results for the year ended 31 December 2021 were listed as follows:

- Total revenue reduced by approximately 40.6% to approximately HK$155.9 million (2020: approximately HK$262.6 million)

- Gross profit decreased by approximately 54.2% to approximately HK$19.5 million (2020: approximately HK$42.6 million)

- Gross profit margin decreased by approximately 3.7% to approximately 12.5% (2020: approximately 16.2%)

- Profit and total comprehensive income for the year attributable to owners of the Company decreased by approximately 540.6% to an expense of approximately HK$121.6 million (2020: approximately HK$27.6 million)

- The Board did not recommend the payment of final dividend (2020: nil)

FIVE-YEAR FINANCIAL SUMMARY

RESULT

	For the year ended 31 December				
	2021	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**155,945**	262,623	370,763	510,083	556,539
Cost of sales	**(136,451)**	(220,016)	(286,096)	(380,308)	(413,626)
Gross profit	**19,494**	42,607	84,667	129,775	142,913
(Loss)/profit for the year	**(87,321)**	28,231	35,763	79,558	104,350

ASSETS AND LIABILITIES

	As at 31 December				
	2021	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**380,642**	295,927	283,928	193,942	136,800
Current assets	**338,550**	473,614	516,661	524,452	575,525
Non-current liabilities	**1,398**	5,330	10,504	3,811	4,550
Current liabilities	**122,429**	47,266	100,712	83,588	156,594
Net current assets	**216,121**	426,348	415,949	440,864	418,931
Net assets	**595,365**	716,945	689,373	630,995	551,181

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

The Shares were listed on the GEM of the Stock Exchange by way of the Global Offering on 27 July 2017; hence the summary was prepared as if the current structure of the Group had been in existence throughout the year ended 31 December 2017.

* *The fourth annual general meeting after Listing was held on 28 May 2021*

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Transtech Optelecom Science Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I am pleased to present the audited consolidated results of the Group for the year ended 31 December 2021.

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.

CHAIRMAN'S STATEMENT

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, communication optical fiber cables and structured cabling system products industries, which is expected to stimulate the market demand.

The subsidiary company in Thailand continued the construction of the new factory building for business expansion but its commencement dated of production is estimated to be postponed to June 2023.

During the year ended 31 December 2021, the Group recorded:

- revenue decreased by 40.6% to approximately HK$155.9 million (2020: approximately HK$262.6 million);

- gross profit decreased by 54.2% to approximately HK$19.5 million (2020: approximately HK$42.6 million);

- profit and total comprehensive income for the year attributable to owners of the Company reduced by approximately 540.6% to an expense of approximately HK$121.6 million (2020: approximately HK$27.6 million); and

- the Company's basic loss per share to be approximately HK$0.34 (2020: earning approximately HK$0.11).

Performance Analysis

For the year ended 31 December 2021, the Group reported its revenue of approximately HK$155.9 million (year ended 31 December 2020: approximately HK$262.6 million), representing a decrease of approximately 40.6% as compared to that of the same period in 2020. The gross profit margin of the Group decreased by approximately 3.7% to approximately 12.5% for the year ended 31 December 2021 as compared to a gross profit margin of 16.2% for the year ended 31 December 2020.

During the year ended 31 December 2021, the Group recorded a loss attributable to the owners of the Company of approximately HK$87.3 million (year ended 31 December 2020: profit approximately HK$28.2 million) representing decrease of approximately 409.6%. By excluding the effect of non-recurring expenses related to the transfer of listing of equity securities from GEM to the Main Board of approximately HK$4.8 million during the year ended 31 December 2020, the profit attributable to the owners of the Company for the year ended 31 December 2020 will be adjusted to approximately HK$33.0 million representing decrease of approximately 364.6% from the year ended 31 December 2020 to the year ended December 2021.

(i) Futong Thailand

The economies in the ASEAN countries were hit hard by the sustained COVID-19 pandemic in 2021. The businesses of Futong Thailand were being greatly affected, in which it witnessed a slowdown in market demand and suffered from a long operation suspension in the upstream and downstream industrial chains. As a result of the continued over-supply of optical fibre cable in the market, the selling price is unlikely to be increased until the consumption resume on condition the adverse factors such as the control of COVID-19 and the settlement of international commercial conflict.

(ii) Transtech

Transtech has reported its revenue and net loss in amount of approximately HK$75.2 million and HK$80.7 million respectively for the year ended 31 December 2021 (for the year ended 31 December 2020: approximately HK$118.6 million and net profit HK$31.3 million respectively), representing decrease of approximately 36.6% and 357.8% respectively. The main reasons for the worsen performance is mainly attributable to the weak demand in PRC.

CHAIRMAN'S STATEMENT

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.

APPRECIATION

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

Hu Guoqiang
Chairman
Hong Kong, 29 April 2022

Mr. Hu Guoqiang	**Mr. He Xingfu**
Director	*Director*

A. 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 asset 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 24 to the consolidated financial statements.

Gearing ratio

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

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 report. The capital of the Company only comprises of ordinary shares.

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the 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 report.

B. 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. The Company will attach the Environmental, Social and Governance Report in this Annual Report in compliance with the Appendix 27 of the Listing Rules.

C. KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group aims to maintain a good relationship with its employees, customers and suppliers. For more details on how it creates a motivated workplace for its employees, produce quality products to satisfy its customers' expectations and, establish long-term relationships with its suppliers, please refer details to the Environmental, Social and Governance Report in this Annual Report.

D. 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.

E. 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	36.6	37.4	17.9	11.2	**17.8**

	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	40.0	38.0	18.0	12.5	**18.0**

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 HK$ million	2018 HK$ million	2019 HK$ million	2020 HK$ million	**2021** **HK$ million**
Licence Fee	10.8	11.9	11.9	11.9*	**11.9***

* 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 on 8 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.

F. RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2021 are set out in note 31 to the Consolidated Financial Statements. Save as disclosed in section headed "E. Continuing Connected Transaction" above, certain of these transactions also constitute connected transactions/continuing connected transactions under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

G. 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	91.8	84.3	7.5	

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.

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.

INSURANCE ON DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged for liability insurance cover to indemnify the Board against liability for compensation arising from their corporate activities. Purchase of liability insurance can enhance the Company's ability to reduce exposure to risks. The insurance coverage is reviewed by the Company on an annual basis. Save as disclosed, no permitted indemnity provision (whether made by the Company or otherwise) is in force for the benefit of one or more Directors.

PUBLICATION OF THE ANNUAL REPORT

The Company's 2021 annual report will be despatched to the Company's shareholders on or before 29 April 2022 and will be available at the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.transtechoptel.com).

ANNUAL GENERAL MEETING

The AGM will be held on 17 June 2022 (Friday) and the Notice of AGM will be published and despatched in the manner as required by the Listing Rules.

CORPORATE GOVERNANCE REPORT

THE BOARD

Board Composition

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

Executive Directors

Mr. Hu Guoqiang *(Chairman)*	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Mr. He Xingfu *(Chief Executive Officer)*	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Mr. Yu Jiangping	(appointed as executive director on 1 July 2018 and resigned on 1 July 2021)
Mr. Xu Muzhong	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and resigned on 1 July 2021)
Mr. Pan Jinhua	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Ms. Sun Jing	(appointed as executive director on 1 July 2021)
Mr. Ren Guodong	(appointed as executive director on 1 July 2021)

Independent Non-executive Directors

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

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive Directors, together with the requirements of Rule 3.10(2) of the Listing Rules stipulating that at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. The Board considers that each independent non-executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules.

The Company has received from each independent non-executive Director an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

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

Number of Meetings and Directors' Attendance

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

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

During the year ended 31 December 2021, the Company held one Annual General Meeting, six Board meetings, five Audit Committee meetings, two Remuneration Committee meetings, two Nomination Committee meeting and one meeting between the Board Chairman and the independent non-executive directors. All minutes of the Board meetings and meetings of Board committees were recorded in sufficient detail the matters considered by the Board and the decisions reached. Details of the attendance of Directors are as follows:

	Attendance/Number of Meetings					
Name of Directors	Annual General Meeting	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Chairman and INED Meeting
Executive Directors:						
Mr. Hu Guoqiang	0/1*	6/6	N/A	N/A	2/2	1/1
Mr. He Xingfu	1/1	6/6	N/A	2/2	N/A	N/A
Mr. Yu Jiangping (resigned on 1 July 2021)	0/1*	3/6	N/A	1/2	N/A	N/A
Mr. Xu Muzhong (resigned on 1 July 2021)	0/1*	3/6	N/A	N/A	N/A	N/A
Mr. Pan Jinhua	0/1*	6/6	N/A	N/A	2/2	N/A
Ms. Sun Jing (appointed on 1 July 2021)	N/A	3/6	N/A	1/2	N/A	N/A
Mr. Ren Guodong (appointed on 1 July 2021)	N/A	3/6	N/A	N/A	N/A	N/A
Independent Non-executive Directors:						
Mr. Leong Chew Kuan	1/1	6/6	5/5	2/2	2/2	1/1
Mr. Lau Siu Hang	1/1	6/6	5/5	2/2	2/2	1/1
Mr. Li Wei	1/1	6/6	5/5	2/2	2/2	1/1

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

* Four of the Executive Directors from PRC and Thailand did not attend the annual general meeting of the Company held in May 2021 due to the travelling risks of infecting COVID-19. The Chief Executive Officer, Mr. He Xingfu, was appointed to be the Chairman of the annual general meeting.

ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Group. The Board oversees the Group's business operation, strategic development and financial performance. Directors of the Board take decisions objectively in the interests of the Group. All board members have a broad range of valuable business experience and competence to contribute to the Board.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's business to the executive Directors, senior management and certain specific responsibilities to the Board Committees (as defined below).

Practice and Conduct of Meetings

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

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

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

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

Appointment and Re-election of Directors

According to Code provision A.4.1 of the CG Code, non-executive Directors shall be appointed for a specific term, subject to re-election. CG Code provision A.4.2 states that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. Each of the Directors is appointed for a specific term of three years and is subject to retirement by rotation at least once every three years. The Articles require that at each annual general meeting at least one-third of the Directors shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

In accordance with the Articles, Mr. Leong Chew Kuan, Ms. Sun Jing and Mr. Ren Guodong shall retire from office, and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

According to Code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company.

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2021 to the Company.

The Company has also continuously updated the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

BOARD MEETING

The Board is committed to holding regular board meetings at least four times a year at approximately quarterly intervals. The Group establishes an effective communication among all the Directors.

The attendance record of each director at the above-mentioned board meeting and the annual general meeting held in 2021 has been set out below:

Name of Directors	Attendance/ Number of Board meeting	Annual general meeting held in 2021
Executive Directors:		
Mr. Hu Guoqiang *(Chairman)*	6/6	0/1*
Mr. He Xingfu *(Chief Executive Officer)*	6/6	1/1
Mr. Yu Jiangping (resigned on 1 July 2021)	3/6	0/1*
Mr. Xu Muzhong (resigned on 1 July 2021)	3/6	0/1*
Mr. Pan Jinhua	6/6	0/1*
Ms. Sun Jing (appointed on 1 July 2021)	3/6	N/A
Mr. Ren Guodong (appointed on 1 July 2021)	3/6	N/A
Independent Non-executive Directors:		
Mr. Leong Chew Kuan	6/6	1/1
Mr. Lau Siu Hang	6/6	1/1
Mr. Li Wei	6/6	1/1

* Four of the Executive Directors from PRC and Thailand did not attend the annual general meeting of the Company held in May 2021 due to the travelling risks of infecting COVID-19. The Chief Executive Officer, Mr. He Xingfu, was appointed to be the Chairman of the annual general meeting.

BOARD COMMITTEES

The Board has established three committees, namely Audit Committee, Remuneration Committee and Nomination Committee (collectively, "Board Committees"), to oversee different aspects of the Group's affairs and to assist in the execution of the Board's responsibilities.

AUDIT COMMITTEE

The Company established the Audit Committee on 23 June 2017 with written terms of reference during the year ended 31 December 2021 in compliance with Rule 3.21 of the Listing Rules after listing in Main Board. The full terms of reference setting out details of the authority, duties and responsibilities of the Audit Committee is available on the websites of the Stock Exchange and the Company.

The Audit Committee will hold at least two meetings a year and will also meet the external auditor at least twice a year without the presence of the executive Directors. Terms of reference adopted by the Audit Committee are aligned with the Code Provisions set out in the CG Code.

During the year ended 31 December 2021, the Audit Committee held five meetings. Each committee meeting has been supplied with the necessary financial information of the Group for members to consider, review and access significant issues arising from the work conducted.

Names of members	Attendance/ Number of meetings
Mr. Leong Chew Kuan *(Chairman)*	5/5
Mr. Lau Siu Hang	5/5
Mr. Li Wei	5/5

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 23 June 2017 in compliance with Rule 3.25 of the Listing Rules during the year ended 31 December 2021.

Written terms of reference in compliance with paragraph B.1.2 of the CG Code have been adopted. The primary roles of the Remuneration Committee include, but are not limited to, (a) making recommendations to the Board on the policy and structure for the remuneration of all of the Directors and senior management personnel and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (c) making recommendations to the Board on the remuneration of non-executive Directors.

The Remuneration Committee consists of five members which comprises, two executive Directors, namely Mr. He Xingfu and Ms. Sun Jing, and three independent non-executive Directors, namely Mr. Lau Siu Hang, Mr. Leong Chew Kuan and Mr. Li Wei. Mr. Lau Siu Hang is the chairman of the Remuneration Committee.

The quorum of meetings of Remuneration Committee shall be any two members. The terms of reference of the Remuneration Committee are currently made available on the websites of the Stock Exchange and the Company. The Remuneration Committee will meet at least once a year to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management of the Group and other related matters. Terms of reference adopted by the Remuneration Committee are aligned with the Code Provisions set out in the CG Code.

During the year ended 31 December 2021, the Remuneration Committee held two meetings for reviewing the remuneration policy of the Company.

Names of members	Attendance/ Number of meetings
Mr. Lau Siu Hang *(Chairman)*	2/2
Mr. He Xingfu	2/2
Ms. Sun Jing	1/2
Mr. Leong Chew Kuan	2/2
Mr. Li Wei	2/2

NOMINATION COMMITTEE

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

Written terms of reference in compliance with A.5.2 of the CG Code have been adopted.

The primary roles of the Nomination Committee include, but are not limited to, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become the Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; and (c) assessing the independence of the independent non-executive Directors.

The quorum of meetings of the Nomination Committee shall be any two members. The terms of reference of the Nomination Committee are currently made available on the websites of the Stock Exchange and the Company. The Nomination Committee will meet at least once a year to review the structure, size and diversity of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at annual general meetings. Terms of reference adopted by the Nomination Committee are aligned with the Code Provisions set out in the CG Code. During the year ended 31 December 2021, the Nomination Committee reviewed the composition of the Board and the retirement and re-election of Directors. The Committee held two meetings during the year and the attendance records of the members at the meeting are set out below:

Names of members	Attendance/ Number of meetings
Mr. Hu Guoqiang *(Chairman)*	2/2
Mr. Pan Jinhua	2/2
Mr. Leong Chew Kuan	2/2
Mr. Li Wei	2/2
Mr. Lau Siu Hang	2/2

Nomination Policy

The Board has adopted the nomination policy (the "Nomination Policy") which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

1. identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;

2. evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

3. reviewing the profiles of the shortlisted candidates and interview them; and

4. making recommendations to the Board on the selected candidates. The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

Board Diversity Policy

The Board adopted its Board Diversity Policy in June 2017. A summary of the policy is as follows:

In designing the Board's composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, or professional experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee will disclose annually, in the corporate governance report, on the Board's composition under diversified perspectives (including gender, age, cultural and educational background, or professional experience), and monitor the implementation of this policy. The Nomination Committee will also review the diversity policy, as appropriate, to ensure the effectiveness of the diversity policy. The Nomination Committee will discuss any revisions which may be required, and recommend any such revisions to the Board for consideration and approval.

The Board diversified its composition in respect of age and gender by appointing a young lady, Ms. Sun Jing, to be an executive Director effective from 1 July 2021.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company on their reporting responsibilities for the Group's consolidated financial statements for the year ended 31 December 2021 is set out in the section headed "Independent Auditor's Report" in this report.

The fees paid/payable to the Company's external auditor in respect of audit and non-audit services for the year ended 31 December 2021 are as follows:

Nature of services	Amount (HK$'000)
Total audit services	1,090
Total non-audit services	99
Total fees	1,189

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has adopted full disclosure of remunerations of Directors with disclosure in note 7 to the financial statements.

The remuneration of the members of senior management by bands in 2021 is set out below:

Remuneration bands	Number of individuals
Nil–HK$1,000,000	3
HK$1,000,001–HK$1,500,000	–

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results of operations and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2021, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The Directors acknowledge their responsibility to prepare the consolidated financial statements as set out on page 30 of this report. The statement of the external auditor about their reporting responsibilities on the consolidated financial statements is set out in the paragraph headed "Independent Auditor's Report" on pages 74 to 77 of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective risk management and internal control system to safeguard the Group' assets against unauthorized use or disposition, and to protect the interests of shareholders of the Company. Internal audit function of the Company has been carried out under the leadership of the Board and the Audit Committee.

During the year ended 31 December 2021 and up to the date of this report, the Board, through the Audit Committee meetings which were held five times during the year, conducted a review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance as well as risk management. The Board considers the Group's risk management and internal control is adequate and effective.

COMPANY SECRETARY

During the year ended 31 December 2021, the company secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

COMMUNICATION WITH THE SHAREHOLDERS

Communication between the Company and its shareholders are achieved through various means including the convening of general meetings, the dispatch of annual reports, interim reports and circulars. The Chairman of the Board also proposes separate resolution for each substantive issue including re-election of Directors.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Articles 64 of the Articles, an extraordinary general meeting ("EGM") may be convened by the Board on a written requisition of any one or more shareholders of the Company holding not less than 10% of the paid up capital of the Company carrying the right of voting at general meeting of the Company. The EGM shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene the EGM, the requisitionist(s) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) of the Company.

Enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong for the attention of the company secretary.

DIVIDEND POLICY

The Board has adopted the dividend policy (the "Dividend Policy") which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of interim and annual reports, the publishing and posting of notices, announcements and circulars on the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.transtechoptel.com) in a timely manner in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2021, the Company did not make any changes to the content of the constitutional documents.

(I) ABOUT THE GROUP

Transtech Optelecom Science Holdings Limited (the "Company" together with its subsidiaries, hereinafter to as the "Group", "We" or "Us") was listed on the GEM of the Stock Exchange by way of the Global Offering since 20 July 2017 (the "Listing Date") and then were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") on 5 November 2020 (the "Transfer Date").

The Company owns two major operating subsidiaries, namely Transtech Optical Communication Company Limited ("Transtech") and Futong Group Communication Technology (Thailand) Co., Ltd. ("Futong Thailand") in Hong Kong and Thailand respectively. Transtech is principally engaged in the manufacturing and sales of optical fibres, and its production facilities are located in Hong Kong. Futong Thailand is principally engaged in the manufacturing and sales of optical fibre cables, optical cable cores and other related products, and its production facilities are located in Thailand.

The unexpected and rapid outbreak of the pandemic has brought long-term impacts to the whole world. Global economics and livelihoods have been severely hit, with the business operation of the Group also being affected. Although the Group's solid operation experiences help the formulation and adaptation of corresponding measures to reduce the impacts within a short period of time, certain level of threats have still been posed to the operations of factories. In the year of 2021, the Group reduced its manufacturing and sales business due to the operation difficulties caused by the declining demand of the optical fibre products.

Under the pressures brought by the pandemic to the corporate operation, the Group is still committed to helping the society and local economy at its best and facilitating the industry to go back on the track of sustainable development.

(II) ABOUT THE REPORT

The Group is pleased to present its fifth Environmental, Social and Governance Report (the "Report"), which aims to show the performance in the environmental, social and governance ("ESG") aspects. The Report is prepared in both Chinese and English and is available as part of this 2021 Annual Report on both the websites of the Stock Exchange of Hong Kong Limited (the "SEHK") (http://www.hkexnews.hk) and the Group (http://www.transtechoptel.com).

Reporting Boundary

The Report discloses the Group's core business operation which are the manufacturing and sales of optical fibres in Hong Kong and optical fibre cables, optical cable cores and other related products in Thailand during the period of 1 January 2021 to 31 December 2021 (the "Reporting Period"). The scope of data covers the factories and offices of Transtech and Futong Thailand.

Reporting Principles

The Report has been prepared in accordance with the ESG Reporting Guide as set out in the Appendix 27 of the Rules governing the listing of securities on the SEHK (the "Listing Rules") (the "Reporting Guide"). The four principles, namely materiality, consistency, balance and quantitative, are adopted as the core reporting principles.

(i) Materiality

The Group invited the board of directors (the "Board") to participate in the identification of material issues which are disclosed in the Report.

(ii) Consistency

Unless otherwise specific, the Group adapts consistent methodologies for data collection, analysis and disclosure.

(iii) Balance

The Report is prepared in an objective manner to ensure the fairness of the data.

(iv) Quantitative

Quantitative data and methodologies are disclosed in the Report.

The Board's Statement

This report was considered and approved by the Board on 29 April 2022. The Board and all the Directors of the Company undertake that this report contains no false record, misleading statement or material omission.

Independent Assurance

The Group seeks no independent assurance to strengthen the credibility of the information disclosed in this Report because the Group's operations produce small amount of pollutants and the production process are not complicated to collect raw data for this report. However the Board will continue to monitor the Group's ESG performance to review the independent assurance policy from time to time to ensure the quality of this Report.

Opinions

The Group welcomes stakeholders' feedback on its ESG approach and performance. If you have any inquiry or comments on the Report's content or any other aspects related to sustainability, you are welcome to share with the Group at:

Address: 3 Dai Kwai Street, Tai Po Industrial Estate, Taipo, New Territories, Hong Kong
Telephone: (852) 2665 7799
Fax: (852) 2665 7881
Email: enquiry@transtechoptel.com

(III) SUSTAINABILITY GOVERNANCE

The Group has appointed core members from different departments to establish the ESG Taskforce (the "Taskforce") to be responsible for the collection of the Group's ESG relevant information to conduct the Report. Besides, it identifies and analyses the relevant risks and mechanisms, and reports to the Board regularly to monitor and analyse the internal performance.

The Board determines the strategic directions relevant to ESG aspects to achieve a sustainable and stable corporate development according to factors such as market changes and operation strategies. At the same time, the Board would also confirm the effectiveness of its risk management and internal control mechanisms based on the report prepared by the Taskforce, and adjust the relevant mechanisms and measures in accordance to the report content.

(IV) STAKEHOLDER ENGAGEMENT

The Group attaches great importance to stakeholder engagement. Stakeholders of different groups are regularly communicated through various channels. The stakeholder engagement does not only allow the Group to gain insight into ESG-related issues, but also help us to identify business growth opportunities to cope with future challenges.

Stakeholder groups	Regular engagement channels
Employees	• Regular meetings • Intranet platform • WeChat group • Training sessions and talent development programmes • Employee engagement activities
Customers and business partners	• Regular meetings • After-sales services • Customer service hotline • Customer satisfaction surveys • Product training sessions • Site visits by quality control technicians
Suppliers	• Tendering processes • Audits and performance reviews • Site visits • Telephone and e-mail communications • Annual and interim reports • Company website
Shareholders and investors	• Annual general meetings • Annual and interim reports • Company website • Annual and interim results announcements
Government bodies	• Government visits • Seminars

Stakeholder groups	Regular engagement channels
Market Industry	• Site visits • Seminars • Annual and interim reports • Company website
Local community	• Company website • E-mails • Community events

Materiality Assessment

The Group invited the Directors to participate in the identification of material issues during the Reporting Period. After consolidating the Directors' level of attentions to the issues of the four aspects, namely "environmental protection", "employment practices", "operational practices" and "community investment", four issues including "child & forced labor, "product responsibility", "occupational health" & "safety and anti-corruption" are found to be the most material issues to the Group among all.

In according to the analysis result of the materiality assessment, key disclosures are made in the Report to respond to the expectation of stakeholders towards the Group.

(V) EMPLOYMENT PRACTICES

The Group believe that employees are the indispensable part of a company's sustainable development. It is obvious that the secured working environment and system can increase their sense of belonging to the corporate and enhance the working performance, which can further facilitate the company's long-term development. The Group understands the importance of ensuring employees' health and safety during work, the quality of employment system, and the potential of career development.

Employment system

The Group has been committed to providing employees with reasonable and good working conditions and environment to ensure that the employees' contributions to the Group are rewarded. By establishing internal policies, such as "Policy on Remuneration Management" and "Employee Handbook", and clearly stating the welfares and requirements of work for the employees, the Group can effectively protect both parties' rights and interests. At the same time, the Group has also determined policies to supervise the fairness and compliance of recruitment, onboarding and departure.

(i) Recruitment, Promotion and Termination

- Only the applicant's education level, work experience and other relevant issues would be considered for the recruitment of all positions;

- Employees are categorized and managed according to their entry positions for future arrangement, such as promotions, transfers and rank adjustment; and

- In accordance with internal rules and regulations, it is ensured that the employees are treated equally during promotions by conducting fair and just performance appraisals.

(ii) Salary and Welfares

- Remuneration comprises of basic salary, performance bonus, overtime payment, position subsidy, related subsidies and other various bonuses; and

- Employees' remuneration, welfare and relevant arrangements are clearly stated in the employment contract.

(iii) Working Hours and Holidays

- Employees' working hours, annual leave and holidays are clearly stated in the employment contract;

- Employees are entitled with various family leaves, including marriage leaves, maternity leaves, bereavement leaves and other national holidays etc.; and

- The arrangements, such as leave policy and employee benefits, are clearly stated in the staff handbook.

(iv) Equal Opportunity, Diversity and Anti-corruption

- We respect people of different races, genders, colours, age, family background, religions, sexual orientations, and nationalities, which these factors would not affect the employees' welfare and remuneration, including employment and promotions; and

- Diversified values are integrated into the considerations of employment and promotions, considering from the aspects of capability, personal performance and attitude.

The Group is committed to protecting the opportunities and rights of school children to receive education. We strictly prohibit the employment of child labour, which only individuals aged 18 or above would be hired. Policies such as the "Personnel Recruitment Process" are utilised to ensure that relevant operations comply with internal policies and local laws and regulations. During the recruiting process, the Human Resources Department will carefully check the identity documents of each applicant to ensure that his age meets the minimum working age stipulated by the law.

At the same time, employees' legal right is an aspect that the Group attaches great importance to. The Group does not tolerate any form of forced labour, which all employees are ensured to work voluntarily, and are supervised by the policies and measures such as that stated in the "Employee Handbook". It is strictly prohibited to use threats, coercion, imprisonment, detention of documents, etc., to force the employees to work during non-office hours or involuntarily. If production employees need to work overtime, the Group shall provide compensation based on their overtime records to ensure that they receive their pay backs and have no forced labour.

As of 31 December 2021, the Group had a total of 171 full-time employees and 1 part-time employee, of which 59.6% were men and 40.4% were women. Among the employees employed, 27.5% are from Hong Kong, while the others are from Thailand. The total turnover rate of the Group is 14.92%.

An overview of the employment profile is as follows:

Workforce 2021 As at 31 December 2021	No. of Staff
By Gender	
Male	102
Female	70
By Age Group	
Below 30	40
30–50	120
Over 50	12
By Employment Type	
Full time	171
Part time	1
By Geographical Region	
Hong Kong	48
Thailand	124
Total	172

In addition, the Group had a total turnover rate of 14.92% during the Reporting Period, including 11.05% of male and 3.87% of female. The detailed turnover numbers and percentage are as follow:

Turnover	No. of Staff	2021 Turnover Rate
By Gender		
Male	20	11.05%
Female	7	3.87%
By Age Group		
Below 30	5	2.76%
30–50	20	11.05%
50 or over	2	1.1%
By Geographical Region		
Hong Kong	8	4.42%
Thailand	19	10.5%
Overall	27	14.92%

The Group complies with laws and regulations related to employment and labour standards, both in Hong Kong and Thailand. The Group understands that violating relevant laws and regulations will bring civil and/or criminal consequences to the Group, as well as negative effects to the operations and corporate reputation.

To the best of our Directors' knowledge, the Group was not aware of any significant non-compliance case in this regard during the Reporting Period.

Occupational health and safety

The Group has established policies and relevant measures to monitor daily operations and protect employee's safety to ensure the health and safety of employees during work. At the same time, the Group insists the safe production approach of "Safety First, Precaution Crucial, Participated by all Employees and Comprehensive Control" to implement the overall monitoring for all employees to ensure all procedures and employees are protected. Furthermore, the Group has established procedures such as the "Environmental, Occupational Health and Safety Operations Control Procedures" in accordance with the OHSAS18001 international standard to further monitor and protect various parties' occupational safety.

In order to further protect the personal safety of employees, the Group has established a series of measures to supervise and provide guidance to employees in their daily work to reduce the chance of accidents are shown as follows:

Policies

(i) Safety and Health Policy

- Safety Manual
  - ➢ We require our workers to strictly comply with the safety manual for understanding the safety precautions for each type of works, such as the instruction of using basic protective equipment.

- Safety Training
  - ➢ We offer sponsorship to external training and on-site safety training for workers. Some main training activities are as follows:

    1. Complying General In-house Safety Rules
       We set up rules applying to all persons entering the construction site, such as safe use guide on ladders, hand tools, portable electric tools, electricity, and chemicals and proper storage.

    2. Strengthening On-site Inspections
       We hold regular safety walks on the production site to monitor the condition of the materials, works area, and site office. Remedial actions are instantly suggested for improvement, recorded and approved by the factory manager and safety officer.

    3. Fire Drills
       According to the Group's fire arrangements stated on Work Instruction, fire drill shall be conducted at least once every year. After any drill, a meeting comprising of all responsible parties shall be held to review every aspect.

    4. Safety Training and Education
       Valid basic safety training is ensured for all employees. We also provide health and safety training including safety induction training, toolbox talks, and specific health and safety training designed by the safety committee.

    5. Emergency Plan
       We appointed an emergency response team to ensure a proper response on different types of hazards. Emergency case procedure plans are constructed in responding issues such as adverse weather, flooding, infectious disease, and heat stress.

- The Safety Committee
  - ➢ Our safety committee evaluates the safety policies and programmes for each project; and
  - ➢ We design suitable safety policies to ensure compliance with legal requirements, implemented by safety committee and reported to our executive director directly.

(ii) Occupational Health and Safety Management System

- ISO 45001:2018 Occupational health and safety management system standard applicable to manufacture of optical Fibre Cable.

Due to the nature of the Group's operation, employees are required to operate a large number of equipment or machinery during their work as well as process machinery and driving machines. The equipment used in the production line is large or dangerous machinery, which can cause serious injury to users. Therefore, the Group has formed a special team which is mainly responsible for handling, leading and directing the emergency issues.

The Group has established relevant measures to protect the personal safety of employees when they use steam and hot matters, such as conducting regular maintenance and inspections, placing equipment in restricted areas for employee, implementing automated operations, etc., to ensure that employees would not work in places with safety threats. At the same time, the Group hold no less than one emergency drill every year to ensure that all departments and employees understand the importance of safety and are familiar with emergency handling protocols. If an employee has an accident during work, the medical staff will immediately provide treatment to the injured employee or send the seriously injured one to the hospital for further treatment. The Group would subsequently investigate relevant departments and cases and adopt improvement measures to avoid recurrence.

The Group complies with laws and regulations relevant to occupational health and safety, both in Hong Kong and Thailand.

The Group also understands the violation of laws and regulations would bring civil and/or criminal consequences, as well as negative effects on operations and corporate reputation. During the Reporting Period, the Group did not violate any laws and regulations related to occupational health and safety.

Training and Development

The Group supports all-round and sustainable development of employees and provides them with various supports, including internal and external trainings and supports. Through the implementation of the following to various levels and disciplines of staff:

(i) Training and Education Sponsorship Policy

- Continuous development is encouraged by monetary sponsorships, depending on the nature and duration of learning.
- Employees may be required to continue employment for a certain period of time after completion of such courses.

(ii) Professional Membership Fee Sponsorship

- Full-time employees are entitled to reimbursement of Fellow/Full grade membership fees of the professional institutions in full or in part.

The Group ensures that the arrangement of career development and training management for the employees are well supervised. Besides, the management is responsible for determining the training plan for the year, and the Human Resources Department will notice various department with the relevant arrangement to be implemented. The Group would also provide training to employees to fulfil the development needs of different departments and employees.

Under the guidance of different regulations and systems, the Group has established an integrated training system covering knowledge trainings, skills training, and attitude training. Different trainings are provided to employees to help them to understand different responsibilities and knowledge. They would receive different trainings according to different purposes. For instance, employees from production line would receive trainings on equipment operation and skill training to ensure that they understand the operation method to use the equipment safely. New employees would also receive induction training to understand the job content, daily operations of the group, etc., which can help them to engage in the working environment as soon as possible to perform their duties. In addition, the Group arranges team leaders, group leaders or experienced employees to guide the newcomers at work, emphasizing learning and growth through practice.

Apart from providing internal training, employees can also participate in training activities provided by colleges and universities, industry management departments and government agencies entrusted by the Group. Employees with outstanding performance would be recommended to relevant colleges or institutions for training to enhance their working abilities and career development, which can provide assistance to the Group's operations. At the same time, the Group also encourages employees to participate in external training and obtain relevant professional qualifications by providing education benefits, which helps the Group and themselves to develop in an all-round way.

Employees can also take the initiative to propose written applications of job transfers based on their own development intentions and work abilities. After obtaining the approval of the department head, the Human Resources Department will evaluate and handle the applications in accordance with the employment approval procedures. Relevant transfers will be considered and respond to their applications based on factors such as employees' development intentions, abilities, and job vacancies.

(VI) OPERATION PRACTICES

The Group has always upheld a clean operation and extended the principle of openness and fairness to the supply chain because the Group understands the importance of compliance and is committed to maintaining the quality of products to ensure that the rights and interests of customers are protected.

Product Responsibility

The Group understands the importance of maintaining product quality and has established a sound internal supervision and quality control system through the formulation of policies, such as "Quality Management Policies", "Production Process Quality and Safety Control Policy", and the introduction of ISO 9001 quality control system. Meanwhile, the quality of the Group's products complies with the international standard.

In order to ensure product quality, the Group has also formulated detailed monitoring procedures to supervise the procurement, production and delivery process to ensure that the products meet the standards from the preparation of raw materials to the delivery of the products. The procedures are implemented in the following manner:

(i) Ensure the quality of raw materials

- Strictly select suppliers who meet the selection criteria in terms of product quality, delivery and cost, and maintain a good relationship with them. At the same time, quality control personnel will also conduct tests to ensure that the raw materials meet the described quality and the Group's standards.

- If the quality of raw materials does not meet the standards, the relevant raw materials will be returned and the supplier will be required to re-deliver the raw materials that meet the standards.

(ii) Supervise the production process

- Set up inspection points on the production line, and conduct checks and tests in accordance with internal supervision regulations. Related tests include pressure rating, thickness measurement, and formaldehyde emissions. The quality control personnel will fill in the test log of the production process based on the test results to ensure that the product quality meets the relevant standards.

- If unqualified products are found during the process, the relevant products will be stored in isolation according to the label and waiting for further processing.

(iii) Inspect the final product

- Quality Control Inspectors are responsible for testing products according to the Quality Inspection Standards and preparing the Product Quality Report. The products undergone inspections will be accepted or handled in regard to the Control Procedures for Defective Products according to their condition of qualified or defected.

During the Reporting Period, the Group did not recall any products sold or shipped due to safety and health reasons. The Group will strive to maintain the quality of its products and provide customers with high-quality products.

In addition to policies and measures to ensure product quality and related processes, the Group provides outstanding services and products according to the policies such as "Customer Credit Evaluation Policy" and "Contract Review Policy". If there are any customer complaints, the sales department will be responsible for receiving and handling related complaints and will continue to follow up the feedback information to ensure the quality of the products and customer satisfaction. The Group will also conduct annual customer satisfaction surveys to collect their feedbacks and conduct continuous follow-up and improvement. In terms of product promotion, the Group employs a professional advertising team to design promotional information and prohibits any statements that mislead customers.

At the same time, in order to protect the security of customers' information, the Group requires relevant employees to sign the confidential agreement to ensure all of them abiding the regulations.

The Group complies with laws and regulations relevant to product responsibility, and understands that violating relevant laws and regulations will bring civil and/or criminal consequences to the Group, as well as negatively affect operations and corporate reputation. During the Reporting Period, the Group did not violate any laws and regulations related to product responsibility.

Anti-corruption

The Group has always upheld a clean and fair operation and established a comprehensive internal control system, including a set of policies and systems including the "Employee Handbook" and "Regulations on Fraud and Violations" to prevent any form of unethical behaviour, such as corruption, malpractice, bribery, fraud, and misappropriation of funds, etc.

All employees would be issued an "Employee Handbook" and explained by the Human Resources Department upon the entry to ensure that they understand the requirements of the Group and avoid violations due to insufficient understanding. To promote the importance of anti-corruption and its relevant information, the Group has organised anti-corruption conferences and other educative events, and publicised related codes of conduct, etc., to create a clean corporate culture. Besides, the Group has provided anti-corruption trainings to the Board and employees to further enhance the level of awareness to anti-corruption among the internal personnel.

The Group has also established policies to supervise daily operations and ensure compliance. Telephone hotlines, e-mails, and mailboxes are used to receive reports from insiders or those directly or indirectly related to operations. Whistle-blowers can file their cases through different channels with real name or anonymously, and leave written records and reports to the management or the Board.

If the case is found to be true after investigation, the Group would apply the penalties, including transferring the case to the domestic law enforcement agency for further investigation and handling. At the same time, the Group would also take improvement measures to evaluate and enhance the affected department's regulatory measures and policies, reducing the chance of recurrence of violations. The secretariat will disclose the case accordingly, including the process, participants, evaluation etc. Throughout the whole process, the personal data and other relevant information of the whistle-blowers will be kept strictly confidential to ensure that their personal safety and position will not be negatively affected by reporting the case.

The Group complies the laws and regulations relevant to anti-corruptions. It also understands that violating relevant laws and regulations will bring civil and/or criminal consequences to the Group, as well as negatively affect operations and corporate reputation. During the Reporting Period, the Group did not violate any laws and regulations related to anti-corruption.

Supply Chain

The Group has formulated policies and measures such as the Purchasing Management System, Supplier Management System, Supplier Information Sheet, Supplier's Environmental Commitment Agreement, and other policies and measures to help regulate supply chain related matters, including the procurement and hiring process, etc.

To ensure that the process of engaging raw material suppliers meets the needs of the Group, it would first evaluate its own needs, and then compare and evaluate the prices of various suppliers to ensure that the prices are reasonable and appropriate. In addition, the past performance of relevant suppliers would also be taken into consideration. The Group would use public channels to inquire whether these suppliers have been punished due to environmental issues, violations of laws and regulations and other factors. If related violations are found, they would not be considered by the Group for further cooperation.

Along the cooperation, if the pollutants produced during the production of raw materials purchased by the Group exceed the relevant standard, the supplier must take appropriate measures, including putting up alarming signs at where hazardous wastes and objects are placed, and prioritising the handling of recyclable materials, to avoid a waste of resource. If the relevant suppliers are likely to cause or have already caused serious environmental pollution and harm, the Group would terminate the cooperation between the two parties. It would also evaluate the performance and awareness of suppliers in social aspects, such as the issues of employment and occupational health and safety, to ensure that they comply with relevant laws and regulations and standards set by the Group.

The Group is committed to maintaining equality and fairness in the selection of suppliers. Under the standard of united and transparent, the Group conducts fair procurement and ensures that no discriminatory matters arise during the process. To further maintain the equality, employees or individuals who have interests in the relevant suppliers are not allowed to participate in the procurement procedures to avoid potential conflicts of interest.

During the Reporting Period, the Group had approximately a total of 27 major suppliers, all of which were from Mainland China, Hong Kong SAR, Japan, Thailand, India and Malaysia. Among them, 12 were suppliers of raw materials and 15 were suppliers of water, electricity and other materials.

	Ratio of suppliers by category
Water, electricity and other materials	56%
Raw materials	44%

(VII) ENVIRONMENTAL PROTECTION

The environment has already been affected to a certain extent by various human and corporate activities. To maintain the sustainable development of the society, environment and corporates, the Group understands the importance of balancing the operations and environmental performance. It has committed to reducing the negative impacts brought by operations to the environment by determining relevant policies and measures.

Use of Resources

Energy

The Group's operations involve different types of energy use, including non-renewable energy sources such as diesel and gasoline. At the same time, it would also purchase electricity from the third party to support the operation of network systems and other equipment and systems. To reduce the impact of daily operations on the environment, the Group has formulated relevant internal policies and measures such as "Regulations for Boiler Operation and Management" to achieve the goals of electricity saving and efficient resource consumption, as well as supervising the implementation of energy relevant policies and measures.

Operation Equipment	Daily Operations
Use energy-saving equipment;	Strictly prohibit the idling of machinery; equipment and mismatch of power distribution;
Strengthen the maintenance and inspection of equipment to ensure efficient energy consumption;	Turn on and use the equipment according to actual needs, and turn it off when it is not in use or not in office hours; and
Install energy-saving lights; and	Set the air-conditioner to be no less than 25ºC during Summer, and not higher than 20ºC during Winter.
Post energy-saving slogan and notices.	

During the Reporting Period, the Group's energy consumption data were as follows.

Energy	Amount used	Intensity of energy usage
Purchased electricity	9,237,529 KWh	2.4316 Kwh per kilometer of fibre
Diesel	27,936 litres	0.007354 litres per kilometer of fibre
Lead-free gasoline	17,434 litres	0.004589 litres per kilometer of fibre

Water

The Group complies with laws and regulations related to water resources. It has installed water meters for related equipment to ensure that there are clear records of its consumption. In addition, the Group has also formulated relevant measures to promote water conservation information and to effectively monitor and consume water resources.

Office Equipment	Cultivation of habits
• Install water-saving appliances;	• Put up water saving notices in conspicuous places; and
• Conduct regular inspection and maintenance of equipment; and	• Turn off the pipe when it is not in use or after use.
• Relevant department should repair the equipment as soon as possible if abnormal condition is found.	

The Group's water consumption mainly comes from the groundwater in the plants and tap water for domestic use in the staff dormitories. During the Reporting Period, the Group's water consumption was 24,581 m^3, showing a significant decrease from the previous year.

Water Consumption	Amount used	Intensity of water usage
Purchased water	24,581 m^3	0.006471 m^3 per kilometre of fibre

Emissions

Air Pollutants and Greenhouse Gas Emissions

Different equipment are used for the Group's business operations, which generates a certain degree of greenhouse gas and air emissions. To standardise the environmental management work in daily operations, the subsidiaries of the Group have also established the ISO 14001 environmental management system. Through a standardised management system, employees can more clearly understand and comply with relevant regulations. In addition, the Group has formulated the "Pollution Control Procedure for Sewage, Exhaust Gas, Noise and Waste" to monitor the emission of greenhouse gases and pollutants caused by operations, thereby reducing related environmental impacts.

The Group's emissions are mainly saw dust, volatile organic compounds, boiler exhaust gas and vehicle exhaust gas. As related emissions are inevitable by-products of the Group's operations, employees and administrative personnel would strictly monitor the implementation of corresponding measures and policies to reduce the negative impacts on the environment. The person in charge of environmental issues will regularly review the implementation of measures and policies and report to the management. If an emergency occurs during the production period that causes problems with the sewage system, the person in charge would immediately take measures to avoid further expansion of the affected area and report to the management to establish improvement measures.

Working System

- Use a central dust removal system to suck the gas into a bag filter or cyclone separation system, and have regular checking and cleaning to remove blockages;
- Ensure the effectiveness of the ventilation system of the workshops to avoid potential risks caused by dust accumulation;
- Conduct regular equipment inspection and maintenance to ensure its operating status and safety;
- Cover the chip storage area, and use wind barriers, water sprays or adhesives for materials stacked outdoors to reduce their emissions;
- Use UV photolysis to remove volatile organic compounds; and
- Optimise the working system and increase the loading rate.

Equipment Selection

- Use products certified with environmentally friendly labelling, such as environmentally friendly adhesives and cleaning agents;
- Classify vehicles and conduct regular inspections to eliminate vehicles that fail to fulfil the national emission policy.

Through these measures, the Group ensures that the control of air emissions meets the international emission requirements. During the Reporting Period, the Group's emissions of Nitrogen dioxide, Sulphur oxides and inhalable particulate matter were 149.23 kg, 0.71 kg and 13.76 kg, respectively. Due to the outbreak of the epidemic and the reduction of production in the factories, the production line and operations have been affected, resulting in a decrease of air pollutant emissions.

Air emission	Quantity (kg)
Nitrogen dioxide	149.23
Sulphur oxide	0.71
Respirable suspended particulates	13.76

Throughout the Reporting Period, the Group's business operations contributed to Greenhouse Gas ("GHG") emissions of 4,656.84 tonnes of carbon dioxide equivalent ("$tCO_2eq.$"), mainly carbon dioxide and nitrous oxide. The overall intensity of the GHG emissions of the Group was 0.14 $tCO_2eq./m^2$ (last year 0.14) with reference to the total floor area of the Group's business operations, or 27.07 $tCO_2eq.$/employee with reference to total number of employees. In view of the business nature of the Group as a high-tech product provider, a significant amount of purchased electricity was consumed for its daily operations which accounts for 97.36% (last year 97%) of total GHG emission.

Scope of Greenhouse Gas Emissions	Emission Sources	GHG Emission (in $kgCO_2eq.$)	Total GHG Emission (in percentage)
Scope 1 Direct Emission			
Combustion of fuels in mobiles sources	Petrol	123.13	2.64%
Scope 2 Energy Indirect Emission			
Purchased electricity	Electricity	4,533.72	97.36%
TOTAL		4,656.85	100%

Note1: Emission factors were made by reference to Appendix 27 to the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

Note 2: Margin emission factor of 0.51 $kgCO_2$ /kWh and 0.462 $kgCO_2$ /kWh were used for purchased electricity in Hong Kong and Thailand respectively.

Waste and Wastewater Management

The Group acknowledges possible environmental impacts of waste generated during its operations. The Group is committed to reducing its impact on the environment by managing its waste in an efficient and sustainable manner. Each member of the Group took reasonable steps to avoid the generation of waste by well planning of the works. We carry out waste segregation processes to facilitate further waste management processes and ensure proper disposal complying with statutory and regulatory regulations.

Measures have been taken to ensure proper handling of waste. We conduct staff training to ensure appropriate handling of waste and promote the sense of recycling. Moreover, the categories and amounts of waste disposed of are recorded in the waste disposal system for further analysis and audit trail. In FY2021, the major hazardous waste produced by the Group was non-halogenated solvents which amounted to 0.2 tonnes, as well as waste oil including printing ink and engine oil which amounted to 0.27 tonnes. All of them were collected and handled according to the Waste Disposal Ordinance of Hong Kong and other relevant laws and requirements and were subsequently transported to qualified suppliers for disposal, thus preventing further pollution resulting from improper treatment.

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

In FY2021, the details of the non-hazardous waste management in the Group's factories in Hong Kong and Thailand are listed as follows:

Category of the non-hazardous wastes	Amount Produced (tonnes)	Amount recycled (tonnes)	Recycling rate
Metal compounds	27.86	24.86	89.23%
Glass rod	4.89	0	0%[Note1]
Paper	6.38	5.83	91.38%
Plastics and plastic compounds	24.12	15.19	62.98%
Scrapped optical fibres and optical fibre cables	54.88	40.2	73.25%[Note1]
Wood	11.58	0	0%[Note2]

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

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

To the best of our Directors' knowledge, the Group was not aware of any significant amount of wastewater and hazardous wastes generated in our projects and offices. Going forward, the Group will continue refining its wastes reduction measures and disclose relevant results where appropriate. The Group will perform sample testing regularly to ensure the parameters following the wastewater discharge license if needed. We will also seek continuous improvement in waste and wastewater management performance by setting appropriate goals and objectives in future after further assessment.

The Group complies with the laws and regulations relevant to emissions, both in Hong Kong and Thailand. The Group understands that violating relevant laws and regulations will bring civil and/or criminal consequences to the Group, as well as negatively affect operations and corporate reputation. During the Reporting Period, the Group did not violate any laws and regulations related to emissions in both Hong Kong and Thailand.

Environment and Natural Resource

The Group believes its operation is not a major source of environmental pollution and poses minimal impacts to the environment. Nevertheless, the Group has set out a series of guidelines detailed environmental initiatives on energy and water use and promotes low carbon living, which in turn raises employees' awareness on carbon and waste reduction. Through fostering an environmentally friendly culture in the workplace, the Group believes its business is evolving into a more sustainable development model.

The Group's business relies on natural resources in its packing materials, including forest resources. To reduce the actual or potential impacts brought by the operation to natural resources, the Group complies with relevant laws and regulation, and implement them into operations.

The Group is committed to reducing the impact of the production process and would also reject or terminate the cooperation with suppliers that cause significant impacts on forest resources to ensure the sustainability of resources.

(i) Utilisation of Packaging Materials and Material Consumption

The Group consumed 72.64 tonnes of optical fibre spools, 43.43 tonnes of cardboard boxes and 650.5 tonnes of wooden planks for the use of packaging materials in FY2021. The use of biodegradable and recyclable packaging materials has demonstrated our commitment to minimising unnecessary packaging materials. We have actively cooperated with customers and recyclers regarding the recycling and treatment of packaging materials such as cardboard boxes and optical fibre trays. During the Reporting Period, we recycled 1.55 tonnes of optical fibre trays and 3.65 tonnes of paper boxes.

We also consume papers in our office for our clerical work. To mitigate the environmental impacts of material consumptions, we implement the following practices in office and site projects:

- We purchase reusable products such as refillable pens and rechargeable batteries.
- We promote digitalization on clerical works by avoid faxes and unnecessary printing and photocopying to reduce the paper consumption.
- We avoid the use of materials that may lead to severe pollution or harmful impact on the Environment.

(ii) Noise Control

Our manufacturing process did not make much noise to the surrounding areas and we normally adhere to the regular production working at daytime and seldom have operation at night-time and any time on general holidays (including Sunday). Hence, our production complied with noise emissions standards.

(iii) Bio-diversity

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

(iv) Sewage Management

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

Climate Change

Years of economic and social development have increased the burden on the environment, causing significant impacts on various places' environment and ecology. It leads to climate changes that would have taken multiple generations or civilisations within decades. Subsequent problems such as extreme weather and rising water temperature threaten the lives of human and other species, and affect the economic performance.

Frequent natural disasters may also have a negative impact on the Group's own operations. To reduce the impact, the Group is committed to formulating relevant systems to identify issues and responding actions to ensure that it would not cause indelible impacts on operations and employees. For example, extreme weathers, such as heavy rains and extreme heat, may affect the production schedule and bring safety and health hazards to employees. The Group plans to formulate responding actions to problems caused by climate change in the future and is committed to ensuring the safety of employees and assets.

(VIII) COMMUNITY INVESTMENT

The Group understands that helping the society to develop and giving back to the society in different ways are the basic social responsibilities of an enterprise. The Group ensures it has fulfilled its social responsibility by undertaking a number of activities. During the Reporting Period, Transtech organized and participated in a variety of philanthropic, environmental protection and epidemic prevention activities in collaboration with different charity institutions, environmental protection agency and government bodies. For instance, we donated masks to Seeds of Art Charity Foundation in Hong Kong, participated "Community Health Ambassador" 2.0 Personnel Scheme which organized by HKQAA. We also participated in "Save 10 Litres a day 2.0" activity hosed by the Water Supplies Department. Due to our contribution to society in the year 2021, we received a 3+ year Caring Certificate presented by Federation of Hong Kong Industries Corporate Social Responsibility (CSR) Recognition Scheme "Industry Cares" 2021.

(IX) APPENDIX

Key Performance Indicators Summary

Environmental Key Performance Indicators

	2021	2020	Unit
Air Pollutants			
Nitrogen dioxides	149.23	159.8	kg
Sulphur oxides	0.71	0.78	Kg
Respirable suspended particulates	13.76	14.71	kg
GHG Emissions			
Scope 1 — Direct GHG emissions	123.13	136.61	tonnes of carbon dioxide equivalent
Scope 2 — Energy indirect GHG emissions	4,533.72	4,414.54	tonnes of carbon dioxide equivalent
Total GHG emissions	4,656.84	4,551.14	tonnes of carbon dioxide equivalent
GHG intensity (by number of employees)	27.07	23.95	tonnes of carbon dioxide equivalent
Waste			
Total non-hazardous waste generation	2,139.13	2,127.16	tonnes
Non-hazardous waste intensity (by number of employees)	12.44	11.2	tonnes/employee
Energy Consumption			
Diesel	27,936	30,445	Litres
Petrol	17,434	19,928	Litres
Electricity	9,238	9,074	MWh
Water Consumption			
Total water consumption	24,581	49,008	m^3
Water consumption intensity (by number of employees)	142.91	257.94	m^3/employee
Packaging Material			
Total packaging material	116.07	77.13	tonnes
Wood			
Total wood consumption	6.50	6.00	tonnes

Social Key Performance Indicators

		2021	2020
By gender	Male	102	116
	Female	70	74
By age group	Below 30 years old	40	47
	30–40 years old	83	91
	41–50 years old	37	39
	Above 50 years old	12	13
By employment type	Full time	171	190
	Part time	1	0
By geographical region	Hong Kong	48	55
	Thailand	124	135
By employment category	General employee	151	165
	Middle management	13	14
	Director & Senior management	8	11
Total		172	190

Employee Turnover Rate

		2021	2020
By gender	Male	20	16
	Female	7	7
By age group	Below 30 years old	5	9
	30–40 years old	12	10
	41–50 years old	8	2
	Above 50 years old	2	2
By geographical region	Hong Kong	8	5
	Thailand	19	18
Total		14.92%	12.04%

Occupational

		2021	2020
Health and Safety	Work-related injuries	0	2
	Lost days due to work-related injuries	0	16
	Work-related fatalities for the year ended 31 December	0	0

		2021	2020
Training			
No. of trainees by Gender	Male	69	93
	Female	53	55
No. of training courses	Hong Kong	14	12
	Thailand	38	16
Average training hours		5	5
By employment category	General employee	105	121
	Middle management	9	18
	Director & senior management	8	9
Supplier			
By Nature	Raw material	12	14
	Water, electricity and other services	15	16
Total		27	30

SEHK ESG REPORTING GUIDE CONTENT INDEX

Material Aspects	Content	Page Index/ Remarks
A1 Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	46, 47
A1.1	The types of emissions and respective emissions data.	47, 51
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and, where appropriate, intensity.	46, 51
A1.3	Total hazardous waste produced and, where appropriate, intensity.	46, 47
A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	46, 47
A1.5	Description of emission target(s) set and steps taken to achieve them.	47
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	47
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	44, 45, 49
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	44
A2.2	Water consumption in total and intensity.	45
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	44
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	45
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	49
A3 The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	44
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	49
A4 Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	50
A4.1	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	50

Material Aspects	Content	Page Index/ Remarks
B1 Social		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	35–36
B1.1	Total workforce by gender, employment type, age group and geographical region.	36–37
B1.2	Employee turnover rate by gender, age group and geographical region.	37
B2 Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	36–40
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	There is no work-related fatalities related occurred in each of the past three years.
B2.2	Lost days due to work injury.	52
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	38–39
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	39–40
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	53
B3.2	The average training hours completed per employee by gender and employee category.	53
B4 Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	35–36
B4.1	Description of measures to review employment practices to avoid child and forced labour.	35
B4.2	Description of steps taken to eliminate such practices when discovered.	36

Material Aspects	Content	Page Index/ Remarks
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	34, 43
B5.1	Number of suppliers by nature.	53
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	43
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	43
B5.4	Description of practices used to promote environmentally preferable products and service when selecting suppliers, and how they are implemented and monitored	43
B6 Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	40–42
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	41
B6.2	Number of products and service related complaints received and how they are dealt with.	41
B6.3	Description of practices relating to observing and protecting intellectual property rights.	The issue is not material to the Group's business.
B6.4	Description of quality assurance process and recall procedures.	41
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	42
B7 Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	42
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	42
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	42
B7.3	Description of anti-corruption training provided to directors and staff.	42
B8 Community Investment		
General Disclosure		50
B8.1	Focus areas of contribution.	50
B8.2	Resources contributed to the focus area.	50

DIRECTORS

Executive Directors

Mr. Hu Guoqiang (胡國強), aged 58, is an executive Director and Chairman of the Board. Mr. Hu joined the Group in April 2003 as a director of Transtech and is responsible for devising development strategies and business strategies for the Group. After joining the Group, Mr. Hu is principally responsible for devising development strategies and business strategies for the Group, Mr. Hu is currently a director and deputy/standing president of Futong Group Co., Ltd. ("Futong China"). Mr. Hu's role in Futong China and its subsidiaries from time to time ("Futong China Group") is mainly to coordinate with the joint venture partners of Futong China Group. Please refer to the section headed "Relationship with Controlling Shareholders — Management Independence" in the Prospectus.

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

Mr. He Xingfu (何興富), aged 62, is an executive Director and the chief executive officer of the Group. Mr. He joined the Group in April 2003 as a director and general manager of Transtech and is responsible for managing the daily operations and business development of our Group. Mr. He was the president of Futong Group (Hong Kong) Co., Ltd. ("Futong Group (Hong Kong)") and a director of Hong Kong Futong Optical Fibre Co., Ltd. ("Futong HK"), and he has resigned from such positions in these two companies upon Listing.

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

Mr. Yu Jiangping (俞江平), aged 57, joined our Group in January 2018 as deputy general manager of Futong Group Communication Technology (Thailand) Company Limited, a subsidiary of our Group, and has been responsible for the daily operations and business development in Thailand and various countries in the Association of Southeast Asian Nations (ASEAN).

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

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

Mr. Yu was appointed as an executive Director and a member of the remuneration committee of the Board on 1 July 2018. Mr. Yu resigned as an executive Director and ceased to be a member of the remuneration committee of the Board on 1 July 2021.

Mr. Pan Jinhua (潘金華), aged 57, is an executive Director. Mr. Pan joined the Group in February 2007 and is responsible for managing the investment activities of the Group. Mr. Pan has been a director of the Futong Thailand since August 2010.

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

Mr. Xu Muzhong (徐木忠), aged 55, 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 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 resigned the position of director of Futong Thailand in January 2021.

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

Mr. Xu resigned as an executive Director on 1 July 2021.

Ms. Sun Jing (孫菁), aged 33, obtained a bachelor's degree in Japanese from Zhejiang University of Technology (浙江工業大學) in June 2011. Ms. Sun has over eight years of experience in business management and human resources management. Prior to joining the Group, Ms. Sun served as the secretary of the chairman, the human resources management committee, the secretary-general and the senior deputy general manager of human resources department of Futong Group Co., Ltd.* (富通集團有限公司) from December 2012 to June 2021. She also served as the deputy general manager of Hangzhou Futong Hotel Management Co., Ltd.* (杭州富通旅業管理有限公司) from April 2016 to June 2021. From December 2020 to June 2021, she served as the legal representative, executive director and the general manager of Hangzhou Futong JinZhong Information Technology Co., Ltd.* (杭州富通金中信息技術有限公司). It is expected that Ms. Sun will be responsible for the human resources affairs of the Group.

Ms. Sun was appointed as an executive Director and a member of the remuneration committee of the Board on 1 July 2021.

Mr. Ren Guodong (任國棟), aged 46, joined the Group in October 2003 and is a senior management member of the Group, the operations manager and a director of Transtech Optical Communication Company Limited (高科橋光通信有限公司) ("**Transtech**"). He 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 20 years of experience in optical communication product manufacturing process quality control, equipment management and enterprise cost control. Prior to joining the Group, Mr. Ren has been the head of production department of Futong Cable Hangzhou Company Limited (杭州富通電線電纜有限公司).

Mr. Ren was appointed as an executive Director on 1 July 2021.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Mr. Leong Chew Kuan (梁昭坤), aged 44, was appointed as an independent non-executive Director on 23 June 2017.

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

Mr. Leong has approximately 16 years of experiences in accounting, finance and enterprises management. From June 2004 to May 2006, Mr. Leong was employed by KPMG (Malaysia), a firm of certified public accountants, serving first as audit senior and then senior associate, in which he was responsible for performing audit works. Mr. Leong was then employed by KPMG (Hong Kong) in November 2006, and was a manager responsible for auditing and advisory works when leaving in January 2010. From May 2011 to February 2014, Mr. Leong worked as a senior manager in the risk advisory services department of BDO Financial Services Limited, a firm of certified public accountants in Hong Kong. He joined Clifford Investment Company Limited as financial controller from March 2014. Mr. Leong was appointed as an executive director of Clifford Modern Living Holdings Limited, a listed company on the Main Board of the Stock Exchange (stock code: 3686), in December 2015, and he resigned as an executive director in December 2018. From December 2018 to February 2020, Mr. Leong worked as Group Financial Controller in Chairman's office, at Glorious Sun Holdings Limited. From February 2020 onwards, Mr. Leong has been working as Group Finance Director at Tricor Group.

Mr. Lau Siu Hang (劉少恒), aged 66, was appointed as an independent non-executive Director on 23 June 2017.

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

Mr. Li Wei (李煒), aged 66, was appointed as an independent non-executive Director on 23 June 2017.

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

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

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

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

Save as disclosed in this report, none of the Directors has any other directorships in listed companies during the three years immediately prior to the date of this report and there are no other matters in respect of each of the Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other material matter relating to the Directors that need to be brought to the attention of the shareholders.

SENIOR MANAGEMENT

Mr. Ho Cheuk Wai (何焯偉), aged 60, joined the Group and was appointed as our chief financial officer and company secretary in October 2016. Mr. Ho is responsible for overseeing the financial and accounting operations and carrying out company secretarial functions of the Group. He graduated with a degree of master of science in business information technology from Middlesex University in January 2003 and a degree of master of business administration from the University of Wales, Bangor in cooperation with the Manchester Business School (now known as the Bangor University) in July 1997, both of which were distance learning programmes. He has been admitted as an associate of the Hong Kong Society of Accountants since December 1994 and was admitted an associate of the Association of Chartered Certified Accountants of the United Kingdom since January 1995 and a fellow of the Association of Chartered Certified Accountants of the United Kingdom since January 2000.

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

Mr. Wang Yingzhong (王英忠), aged 61, joined the Group in January 2005 and is currently the assistant engineering department manager of Transtech, in charge of the engineering matters. Mr. Wang obtained a Bachelor's degree in Electronic Engineering from Zhejiang Radio and Television University (浙江廣播電視大學) in August 1983 and the qualification of Middle-level Engineer from Hangzhou Enterprise Middle-level Engineering Technician Assessment Committee (杭州市鄉鎮企業工程技術人員中級職務評審委員會) in the PRC in October 1999.

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

Ms. Lee Yin Chun, Anthea (李妍臻), aged 43, joined the Group in August 2005 and is currently the human resources and administration manager of Transtech, responsible for human resources and administrative matters. Ms. Lee completed the Bachelor of Business (Management) Human Resource Management Specialization Degree program (long-distance course) offered by RMIT University in Australia in 2008 and a Professional Diploma in Human Resources Management from Hong Kong Management Association in March 2002.

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

REPORT OF DIRECTORS

The Directors are pleased to present their report together with the audited consolidated financial statements of the Company for the year ended 31 December 2021.

CORPORATE REORGANISATION AND SHARE OFFER

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

The Shares have been listed on the GEM of the Stock Exchange by way of the Global Offering on 20 July 2017 and transferred from GEM to Main Board on 5 November 2020.

In connection with the Listing, the companies comprising the Group underwent a reorganisation (the "Reorganisation"). Pursuant to the Reorganisation, the Company became the holding company of the other members of the Group on 7 October 2016. Further details of the Reorganisation are set out in the section headed "History and Development" of the Prospectus dated 30 June 2017 (the "Prospectus").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 34 to the consolidated financial statements. The Group is principally engaged in the manufacturing and sale of optical fibre in Hong Kong and optical fibre cable, optical cable cores and related products in Thailand.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 and the Group's financial position at that date are set out in the consolidated financial statements of the Group on pages 78 to 80 of this report.

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2021.

BUSINESS REVIEW

Details of which, are set out in the section headed "Chairman's Statement" of this report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, the aggregate amount of revenue attributed to the Group's largest and the five largest customers accounted for approximately 21% and 61% (2020: 21% and 63%) of the total revenue of the Group,respectively. For the year ended 31 December 2021, the Group's purchase from the largest and the five largest suppliers accounted for approximately 69% and 94% (2020: 72% and 91%) of the total purchases of the Group, respectively. At no time during the year ended 31 December 2021 did the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) have any interest in the Group's major customers or suppliers as disclosed above.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2021 are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2021, the Company's reserves available for distribution to the shareholders, calculated in accordance with the Company Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to approximately HK$41.9 million comprising accumulated loss of approximately HK$53.6 million and the share premium of approximately HK$95.5 million (2020: approximately HK$45.2 million).

DIRECTORS

The Directors of the Company during the year ended 31 December 2021 and up to the date of this report were as follows:

Executive Directors

Mr. Hu Guoqiang *(Chairman)*	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Mr. He Xingfu *(Chief Executive Officer)*	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Mr. Yu Jiangping	(appointed as executive director on 1 July 2018 and resigned on 1 July 2021)
Mr. Xu Muzhong	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017 and resigned on 1 July 2021)
Mr. Pan Jinhua	(appointed as director on 6 September 2016, redesignated as executive director on 23 June 2017)
Ms. Sun Jing	(appointed as executive director on 1 July 2021)
Mr. Ren Guodong	(appointed as executive director on 1 July 2021)

Independent Non-executive Directors

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

Pursuant to article 108(a) of the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one- third) shall retire from office by rotation and that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

In accordance with the articles of association of the Company (the "Articles"), Mr. Leong Chew Kuan, Ms. Sun Jing and Mr. Ren Guodong retire from office and, being eligible, offer themselves for re-election at the forthcoming AGM.

The Company has received annual confirmation of independence from each of the independent non-executive Directors and as at the date of this report still considers them to be independent.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

(a) Executive Directors

	1st contract period	2nd contract period	3rd contract period	4th contract period
Hu Guoqiang	23/6/2017–22/6/2020	23/6/2020–30/6/2021	Nil	1/7/2021–30/6/2022
He Xingfu	23/6/2017–22/6/2020	23/6/2020–30/6/2021	Nil	1/7/2021–30/6/2022
Yu Jiangping	1/7/2018–22/6/2020	23/6/2020–31/12/2020	1/1/2021–30/6/2021	Nil
Xu Muzhong	23/6/2017–22/6/2020	23/6/2020–31/12/2020	1/1/2021–30/6/2021	Nil
Pan Jinhua	23/6/2017–22/6/2020	23/6/2020–30/6/2021	Nil	1/7/2021–30/6/2022
Sun Jing	Nil	Nil	Nil	1/7/2021–30/6/2022
Ren Guodong	Nil	Nil	Nil	1/7/2021–30/6/2022

All of the above contracts may be terminated by not less than three months' notice served by either party on the other. The term of service of a Director is subject to retirement by rotation of Directors as set out in the Articles.

(b) Independent Non-executive Directors

	1st contract period	2nd contract period	3rd contract period
Leong Chew Kuan	23/6/2017–22/6/2020	23/6/2020–30/6/2021	1/7/2021–30/6/2022
Lau Siu Hang	23/6/2017–22/6/2020	23/6/2020–30/6/2021	1/7/2021–30/6/2022
Li Wei	23/6/2017–22/6/2020	23/6/2020–30/6/2021	1/7/2021–30/6/2022

All of the above contracts may be terminated by not less than one month's notice served by either party on the other. The term of service of a Director is subject to the provisions on retirement by rotation of Directors as set out in the Articles.

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

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five years is set out in the section "Five-Year Financial Summary" of this report.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2021, the Group did not hold any significant investment of equity interest in other company. Except for those included in the section headed "Future Plans and Use of Proceeds" in the Prospectus, the Group had no definite future plans for material investments and capital assets.

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

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2021 are set out in note 13 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group at 31 December 2021 are set out in note 24 to the consolidated financial statements.

INTEREST CAPITALISED

The Group has not capitalised any interest during the year ended 31 December 2021.

RESERVES

Details of movements in reserves of the Group during the year ended 31 December 2021 are set out in the consolidated statement of changes in equity to the consolidated financial statements.

DIVIDEND POLICY

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Directors confirm that during the year ended 31 December 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.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set in section "Biographical Details of Directors and Senior Management" of this report.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in "Disclosure of Directors' and Substantial Shareholders' interests" section of this report, none of the Directors or an entity connected with any of them had any material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries, parent company or subsidiaries of the parent company was a party and subsisting at any time during or at the end of the year ended 31 December 2021.

As at 31 December 2021, no contract of significance had been entered into between the Company, or any of its subsidiaries and the controlling shareholders of the Company or any of their subsidiaries.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed in this report, at no time during the year ended 31 December 2021 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its specified undertakings as defined in the Companies (Directors' Report) Regulation (Chapter 622 of the Laws of Hong Kong) or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2021 and up to the date of this report, save as disclosed in the section headed "Relationship with Controlling Shareholders" in the Prospectus, none of the Directors, and the controlling shareholders of the Company and their respective close associates has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

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

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

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

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

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

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

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

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

The following corporate governance measures have been adopted by the Group to monitor the compliance of the Deed of Non-competition for the year ended 31 December 2021:

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

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

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

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

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

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

Each of the Controlling Shareholders has provided a declaration to the Company of his/its compliance with the Deed of Non-Competition from the period from the year ended 31 December 2021 up to the date of this report. The Controlling Shareholders also stated in the declaration that they are willing to abide by the Deed of Non-Competition in the future. The independent non-executive Directors have reviewed the relevant information and the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied by each of the Controlling Shareholders from the period from the year ended 31 December 2021 to the date of this report.

DISCLOSURE OF DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

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

As the period from the year ended 31 December 2021 and up to the date of this report, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Security Transactions by Directors of Listed Issuers (the "Model Code").

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

So far as is known to the Directors, as the period from the year ended 31 December 2021 and up to the date of this report, the following persons, other than a Director or a chief executive of the Company, had interest or short position in the shares and/or the underlying shares which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

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

Notes:

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

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

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

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

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

Save as disclosed above, as the period from the year ended 31 December 2021 and up to the date of this report, the Directors were not aware of any other persons or companies who had any interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO. None of the substantial shareholders have pledged all or part of their interest in the Company's Shares for the year ended 31 December 2021.

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).

SHARE OPTION SCHEME

The Company has no share option scheme.

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.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Appendix 10 to the Listing Rules. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct from the Listing Date up to the date of this report.

COMPETING INTERESTS

As at 31 December 2021, save as disclosed in "Relationship with Controlling Shareholders" section of the Prospectus, none of the Directors, and the controlling shareholders of the Company and their respective close associates has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float during the year ended 31 December 2021.

PRE-EMPTIVE RIGHTS

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

PERMITTED INDEMNITY PROVISION

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

The Company has maintained a directors and officers liability insurance for the year ended 31 December 2021. To the extent as permitted by the Companies Ordinance, a directors' liability insurance is currently in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

RELATIONSHIP WITH STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its key stakeholders, including its employees, customers and suppliers, to meet its immediate and long-term business goals. During the year ended 31 December 2021, there were no material and significant disputes between the Group and its employees, customers and suppliers.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report, which forms part of this report, is set out on pages 32 to 56 of this report.

DONATION

During FY2021, the Group did not make any donation for charitable purposes (2020: HK$3,003,000).

ANNUAL GENERAL MEETING

The next annual general meeting ("AGM") of the Company will be held on 17 June 2022, the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the Listing Rules and other applicable laws and regulations.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain entitlements to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from 14 June 2022 to 17 June 2022, both days inclusive, during which period no transfer of Shares will be registered.

Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, not later than 4:30 p.m. on Monday, 13 June 2022.

EVENTS AFTER THE REPORTING PERIOD

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 report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2021 have been audited by Deloitte Touche Tohmatsu, who is also the auditor of Transtech for the five years ended 31 December 2021 and shall retire at the forthcoming annual general meeting and, being eligible, offered themselves for re-appointment.

AUDIT COMMITTEE

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

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

The Group's audited consolidated annual results for the year ended 31 December 2021 have been reviewed by the Audit Committee pursuant to the relevant provisions contained in the Corporate Governance Code (the "CG Code") and was of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosure has been made in respect thereof.

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

Hong Kong, 29 April 2022

Mr. Hu Guoqiang
Director

Mr. He Xingfu
Director

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Transtech Optelecom Science Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 78 to 140, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of trade receivables

We identified the impairment assessment of trade receivables as a key audit matter due to the use of judgement and estimates by the management of the Group in the measurement of expected credit losses.

As set out in notes 4 and 30 to the consolidated financial statements, loss allowance for trade receivables are determined 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 available without undue costs or effort, all of which involve a significant degree of management judgment.

As at 31 December 2021, the carrying amount of trade receivables is HK$182,598,000 with loss allowance for trade receivables of HK$114,277,000, net of reversal, was recognised in profit or loss for the year.

Our procedures in relation to the recoverability of trade receivables included:

- Obtaining an understanding of the Group's trade receivables impairment policy and the controls govern credit control, debt collection and estimate of impairment losses;
- Testing the accuracy of the Group's trade receivables past due ageing analysis, on a sample basis; and
- Assessing the reasonableness of the loss allowance estimated by management with reference to the current economic conditions, credit history of its customers, including default or delay in payments and settlement records and ageing analysis of trade receivables, and evaluating whether the loss rates are appropriate.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 April 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2021 HK$'000	2020 HK$'000
Revenue	5	**155,945**	262,623
Cost of sales		**(136,451)**	(220,016)
Gross profit		**19,494**	42,607
Other income	6	**2,260**	5,930
Other gains and losses	6	**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	8	**(2,127)**	(1,175)
Professional expense on the application for the transfer from GEM to the Main Board of the Stock Exchange	9	**–**	(4,753)
(Loss)/profit before taxation	9	**(103,880)**	33,005
Income tax credit/(expense)	10	**16,559**	(4,774)
(Loss)/profit for the year		**(87,321)**	28,231
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(34,259)**	(659)
Total comprehensive (expense) income for the year		**(121,580)**	27,572
(Loss)/earnings per share	12		
Basic (HK cents)		**(33.59)**	10.86

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	The Group As at 31 December 2021 HK$'000	 2020 HK$'000
Non-current assets			
Property, plant and equipment	13	**149,905**	169,900
Right-of-use assets	14	**5,367**	4,383
Deposits for acquisition of property, plant and equipment	17	**109,744**	121,469
Deposits and prepayments	17	**101,806**	69
Deferred tax assets	26	**13,820**	106
		380,642	295,927
Current assets			
Inventories	15	**70,178**	38,360
Trade receivables	16	**182,598**	320,803
Tax receivables		**486**	–
Deposits, prepayments and other receivables	17	**70,933**	85,831
Bank balances and cash	18	**14,000**	28,620
		338,195	473,614
Assets classified as held for sale	19	**355**	–
		338,550	473,614
Current liabilities			
Trade payables	20	**37,472**	13,304
Other payables and accrued charges	21	**13,933**	7,117
Contract liabilities	22	**2,604**	11
Lease liabilities	23	**9,174**	6,479
Bank and other borrowings	24	**59,246**	18,733
Tax payable		**–**	1,622
		122,429	47,266
Net current assets		**216,121**	426,348
Total assets less current liabilities		**596,763**	722,275
Non-current liabilities			
Deferred tax liabilities	26	**–**	3,517
Provision for long service payments	27	**1,398**	–
Bank and other borrowings	24	**–**	1,813
		1,398	5,330
Net assets		**595,365**	716,945

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	The Group As at 31 December 2021 HK$'000	 2020 HK$'000
Capital and reserves			
Issued share capital	25	**2,600**	2,600
Reserves		**592,765**	714,345
Total Equity		**595,365**	716,945

The consolidated financial statements on pages 78 to 140 were approved and authorised for issue by the board of directors on 29 April 2022 and are signed on its behalf by:

Mr. Hu Guoqiang
Director

Mr. He Xingfu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 (Note)	Foreign exchange reserve HK$'000	Accumulated profits HK$'000	Equity attributable to owners of the Company HK$'000
At 1 January 2020	2,600	95,534	289,031	24,630	277,578	689,373
Profit for the year	–	–	–	–	28,231	28,231
Other comprehensive expense	–	–	–	(659)	–	(659)
Total comprehensive (expense) income for the year	–	–	–	(659)	28,231	27,572
At 31 December 2020	2,600	95,534	289,031	23,971	305,809	716,945
At 1 January 2021	**2,600**	**95,534**	**289,031**	**23,971**	**305,809**	**716,945**
Loss for the year	**–**	**–**	**–**	**–**	**(87,321)**	**(87,321)**
Other comprehensive expense	**–**	**–**	**–**	**(34,259)**	**–**	**(34,259)**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**(34,259)**	**(87,321)**	**(121,580)**
At 31 December 2021	**2,600**	**95,534**	**289,031**	**(10,288)**	**218,488**	**595,365**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(103,880)**	33,005
Adjustments for:		
Depreciation of property, plant and equipment	**13,485**	14,202
Depreciation of right-of-use assets	**7,050**	8,872
Rent concession	**(2,687)**	–
Interest income	**(15)**	(129)
Interest expenses	**2,127**	1,175
Gain on disposals of property, plant and equipment	**(6,456)**	–
Provision for long service payment	**1,449**	–
Loss allowance for trade receivables under expected credit loss model, net of reversal	**114,277**	2,033
Operating cash flows before movements in working capital	**25,350**	59,158
(Increase)/Decrease in inventories	**(35,503)**	29,955
Decrease/(Increase) in trade receivables	**9,692**	(46,303)
Increase in other receivables, deposits and prepayments	**(84,452)**	(50,721)
Increase/(Decrease) in trade payables	**35,474**	(30,962)
Increase/(Decrease) in other payables and accrued charges	**3,097**	(1,710)
Increase/(Decrease) in contract liabilities	**2,685**	(364)
Cash used in operations	**(43,657)**	(40,947)
Tax paid	**(2,800)**	(9,822)
NET CASH USED IN OPERATING ACTIVITIES	**(46,457)**	(50,769)
INVESTING ACTIVITIES		
Interest received	**15**	146
Deposits paid for acquisition of property, plant and equipment	**–**	(16,953)
Purchases of property, plant and equipment	**(2,105)**	(20,557)
NET CASH USED IN INVESTING ACTIVITIES	**(2,090)**	(37,364)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2021 HK$'000	2020 HK$'000
FINANCING ACTIVITIES		
New bank and other borrowings raised	**147,692**	78,869
Repayments of bank and other borrowings	**(105,583)**	(85,728)
Repayments of lease liabilities	**(5,352)**	(8,555)
Interest paid	**(2,127)**	(1,175)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	**34,630**	(16,589)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(13,917)**	(104,722)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**28,620**	135,920
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(703)**	(2,578)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**14,000**	28,620

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated as an exempted company in the Cayman Islands with limited liability on 6 September 2016. The Company's shares were listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of global offering on 20 July 2017. Then, the Company successfully transferred its share listing from GEM to Main Board on 5 November 2020. Its immediate holding company is Hong Kong Futong Optical Fiber Company Limited ("Futong HK"), a Private company incorporated in Hong Kong, and ultimate holding company is Hangzhou Futong Investments Co., Ltd., a private company incorporated in the People's Republic of China ("PRC"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in this annual report.

The Company is an investment holding company. Details of the principal activities of its subsidiaries are set out in note 34.

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

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

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 Concessions 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. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

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

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

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 (e.g. transportation 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.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[2]
Amendments to HKFRS 3	Reference to the Conceptual Framework[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretations 5 (2020)[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[1]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[1]

1 Effective for annual periods beginning on or after 1 January 2022.
2 Effective for annual periods beginning on or after 1 January 2023.
3 Effective for annual periods beginning on or after a date to be determined.

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

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

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

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies. The impacts of application, if any, will be disclosed in the Group’s future consolidated financial statements.

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group’s consolidated financial statements.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies

Basis of consolidation

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

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

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

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

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

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

Revenue from contracts with customers

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Existence of significant financing component

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

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

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

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

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

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

Lease liabilities

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

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

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

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

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease modifications (Continued)

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

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

When the modified contract contains one or more additional lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component. The associated non-lease components are included in the respective lease components.

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- 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 if the changes are 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Property, plant and equipment

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

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated and is measure at cost, less subsequent accumulated impairment loss.

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

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

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

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

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Impairment on property, plant and equipment and right-of-use assets (Continued)

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

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

Inventories

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

Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 *Revenue from Contract with Customers* ("HKFRS 15"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, deposits and other receivables and bank balances) which are subject to impairment assessment under HKFRS 9 *Financial Instruments ("HKFRS 9")*. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on trade receivables are assessed on individual basis.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

(ii) Definition of default

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

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

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

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

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

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

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 2 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Derecognition of financial liabilities

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

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Retirement benefit costs

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

Short-term and other long-term employee benefits

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

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

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies (Continued)

Taxation (Continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Current and deferred tax are recognised in profit or loss.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign exchange reserve.

Borrowing costs

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Impairment assessment for trade receivables

The Group uses individual assessment to assess impairment and calculate ECL for trade receivables. The provision rates are based on internal credit ratings and based on the credit loss experience, ageing of overdue trade receivables and customers' repayment history that are reasonable and supportable and taking into consideration forward-looking information available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates.

In respect of the credit-impaired trade receivables amounted to HK$114,638,998 as at 31 December 2021, the Group has taken follow-up actions to recover the overdue trade receivables. Subsequent to the end of the reporting period, the management took further actions to proactively follow up with these debtors for the settlement of the overdue accounts receivables and negotiated for a revised repayment schedule and/or any collateral or other credit enhancements from these debtors. Despite of continuous follow-up actions, only certain debtors agreed to sign a revised repayment schedule with the Group. However, the Group was not able to obtain any credit enhancements from these debtors and no subsequent settlement from these debtors was noted. In addition, without further information came to the attention of the management about the financial ability of these debtors to settle the overdue trade receivables, management is of the opinion that such overdue trade receivables were credit impaired, the chance of collecting the outstanding balances from these debtors is remote. As a result, the Group recognised full allowance for these credit-impaired trade receivables as at 31 December 2021.

5. REVENUE AND SEGMENTAL INFORMATION

(i) Disaggregation of revenue from contracts with customers

Year ended 31 December 2021

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

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 HK$'000	Optical fibres HK$'000	Total segment revenue HK$'000	Elimination HK$'000	Consolidated HK$'000
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
Segment revenue	103,723	75,246	178,969	(23,024)	155,945

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

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

Year ended 31 December 2020

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

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 HK$'000	Optical fibres HK$'000	Total segment revenue HK$'000	Elimination HK$'000	Consolidated HK$'000
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	55,693	–	55,693	–	55,693
Segment revenue	150,221	118,625	268,846	(6,223)	262,623

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

(ii) Performance obligations for contracts with customers

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

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

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives a 15%–50% (2020: 15%–50%) deposit depending on the contract terms.

Following the delivery, the customers have full discretion over the manner of distribution and price to sell the goods, have the primary responsibility when on selling the goods and bear the risks of obsolescence and loss in relation to the goods. The normal credit term is 0 to 365 days (2020: 0 to 365 days) upon delivery.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2021 and 2020 and the expected timing of recognising revenue are as follows:

	2021 **HK$'000**	2020 HK$'000
Sale of optical fibre cables within one year	**5,208**	22

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

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

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Segment revenue and results

Year ended 31 December 2021

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

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Segment revenue and results (Continued)

Year ended 31 December 2020

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

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

Inter-segment sales are charged at prevailing market rates.

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

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Other information

Year ended 31 December 2021

	Optical fibre cables, optical cable cores and other related products HK$'000	Optical fibres HK$'000	Total HK$'000
Other segment information (included in the measure of segment profit or loss or regularly provided to CODM)			
Additions to non-current assets (Note)	**8,571**	**319**	**8,890**
Depreciation of property, plant and equipment	**8,202**	**5,283**	**13,485**
Depreciation of right-of-use assets	**–**	**7,050**	**7,050**
Gain on disposal of property, plant and equipment	**6,456**	**–**	**6,456**
Loss allowance for trade receivables	**9,018**	**105,259**	**114,277**

Year ended 31 December 2020

	Optical fibre cables, optical cable cores and other related products HK$'000	Optical fibres HK$'000	Total HK$'000
Other segment information (included in the measure of segment profit or loss or regularly provided to CODM)			
Additions to non-current assets (Note)	19,453	1,104	20,557
Depreciation of property, plant and equipment	8,701	5,501	14,202
Depreciation of right-of-use assets	–	8,872	8,872
Loss allowance for trade receivables	97	1,936	2,033

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

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Geographical information

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

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

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
PRC (excluding Hong Kong)	**17,882**	11,235
Hong Kong	**21,774**	100,158
Thailand	**57,971**	77,594
Singapore	**33,114**	55,693
Indonesia	**7,910**	–
Malaysia	**2,041**	–
Laos	**874**	7,204
The Philippines	**1,436**	3,627
Myanmar	**5,993**	7,062
India	**5,081**	–
Italy	**1,785**	–
Others	**84**	50
	155,945	262,623

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

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Hong Kong	**61,164**	30,046
Thailand	**319,478**	265,881
	380,642	295,927

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Information about major customers

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

	Year ended 31 December	
	2021 HK$'000	2020 HK$'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.

6. OTHER INCOME, OTHER GAINS AND LOSSES

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

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.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to the directors and chief-executive of the Company by entities comprising the Group during the year are as follows:

	Hu Guoqiang HK$'000	He Xingfu HK$'000 (Note i)	Yu Jiangping HK$'000 (Note iii)	Pan Jinhua HK$'000	Xu Muzhong HK$'000 (Note iii)	Sun Jing HK$'000 (Note ii)	Ren Guodong HK$'000 (Note ii)	Li Wei HK$'000 (Note iv)	Leong Chew Kuan HK$'000 (Note iv)	Lau Siu Hang HK$'000 (Note iv)	Total HK$'000
Year ended 31 December 2021											
Fees (Note v)	600	360	–	560	–	60	60	240	240	240	2,360
Other emoluments											
Salaries and other benefits	–	1,414	–	–	101	–	641	–	–	–	2,156
Retirement benefits scheme contributions	–	18	–	–	–	–	18	–	–	–	36
Total emoluments	600	1,792	–	560	101	60	719	240	240	240	4,552

	Hu Guoqiang HK$'000	He Xingfu HK$'000 (Note i)	Yu Jiangping HK$'000	Pan Jinhua HK$'000	Xu Muzhong HK$'000	Li Wei HK$'000	Leong Chew Kuan HK$'000	Lau Siu Hang HK$'000	Total HK$'000
Year ended 31 December 2020									
Fees (Note v)	600	360	–	560	–	240	240	240	2,240
Other emoluments									
Salaries and other benefits	–	1,411	300	–	669	–	–	–	2,380
Retirement benefits scheme contributions	–	18	–	–	–	–	–	–	18
Total emoluments	600	1,789	300	560	669	240	240	240	4,638

Notes:

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

(ii) Ms. Sun Jing and Mr. Ren Guodong were appointed as executive directors on 1 July 2021.

(iii) Mr. Yu Jiangping and Mr. Xu Muzhong resigned as executive directors on 1 July 2021.

(iv) Mr. Li Wei, Mr. Leong Chew Kuan and Mr. Lau Siu Hang act as independent non-executive directors for the year ended 31 December 2021 and 2020.

(v) The executive directors' emoluments shown above were for their services in connection with management of the affairs of the Company and Group. The emoluments of non-executive directors shown above were for their services as the directors of the Company.

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

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees' emoluments

The five highest paid individuals of the Group during the year included four directors (2020: three directors) whose emoluments are included in the disclosures in (a) above. The emoluments of the remaining one (2020: two) individuals who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2021 HK$'000	2020 HK$'000
Salaries and other benefits	**891**	1,447
Discretionary bonus	**65**	240
Retirement benefits scheme contributions	**18**	36
	974	1,723

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

	Year ended 31 December	
	2021 Number of individuals	2020 Number of individuals
Nil to HK$1,000,000	**4**	3
HK$1,000,001–HK$1,500,000	**–**	1
HK$1,500,001–HK$2,000,000	**1**	1
	5	5

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

8. FINANCE COSTS

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Interest on bank and other borrowings	**2,073**	710
Interest on lease liabilities	**54**	465
	2,127	1,175

9. (LOSS)/PROFIT BEFORE TAXATION

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
(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	**(12,259)**	(12,730)
	1,226	1,472
Depreciation of right-of-use assets	**7,050**	8,872
Less: amount capitalised in inventories	**(7,050)**	(8,872)
	–	–
Directors' remuneration (Note 7)	**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	**(15,529)**	(17,680)
	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	**–**	4,753

10. INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Hong Kong Profits Tax		
Current Tax	**–**	5,036
Overprovision in prior years	**(79)**	(27)
Thailand Corporate Income Tax		
Current Tax	**496**	–
	417	5,009
Thailand withholding tax	**255**	267
Deferred tax (Note 26)	**(17,231)**	(502)
	(16,559)	4,774

Under the two-tiered profits tax rates regime, the first HK$2 million of taxable profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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".

10. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

The tax expense for both years can be reconciled to the (loss) profit before taxation as follows:

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
(Loss) profit before taxation	**(103,880)**	33,005
Tax at the applicable income tax rate of 16.5% (2020: 16.5%)	**(17,140)**	5,446
Tax effect of income not taxable for tax purpose	**(1,578)**	(1,488)
Overprovision in prior years	**(79)**	(27)
Tax effect of expenses not deductible for tax purpose	**708**	1,554
Effect of tax exemption granted	**1,275**	(813)
Withholding income tax for income derived from the subsidiary in Thailand of 15%	**255**	267
Tax effect of two-tiered tax rate regime	**–**	(165)
Tax (credit) expense for the year	**(16,559)**	4,774

11. DIVIDEND

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

12. (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
	HK$'000	HK$'000
(Loss) profit for the year attributable to owners of the Company for the purpose of basic (loss) earnings per share	**(87,321)**	28,231

	2021	2020
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**260,000**	260,000

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

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST									
At 1 January 2020	30,830	48,551	55,494	123,238	6,818	1,932	3,390	45,872	316,125
Additions	–	–	–	1,104	149	–	–	19,304	20,557
Disposals	–	–	–	(6)	(3)	–	–	–	(9)
Exchange realignment	(83)	(131)	(65)	(157)	(11)	(3)	(7)	741	284
At 31 December 2020	30,747	48,420	55,429	124,179	6,953	1,929	3,383	65,917	336,957
Additions	**–**	**–**	**–**	**310**	**264**	**12**	**–**	**8,304**	**8,890**
Disposals	**–**	**–**	**–**	**(8,542)**	**–**	**(6)**	**–**	**–**	**(8,548)**
Transfer to assets classified as held for sales	**–**	**–**	**–**	**(3,292)**	**–**	**–**	**–**	**–**	**(3,292)**
Exchange realignment	**(2,968)**	**(4,674)**	**(2,338)**	**(5,300)**	**(633)**	**(111)**	**(261)**	**(6,644)**	**(22,929)**
At 31 December 2021	**27,779**	**43,746**	**53,091**	**107,355**	**6,584**	**1,824**	**3,122**	**67,577**	**311,078**
DEPRECIATION									
At 1 January 2020	–	15,250	54,358	72,838	5,480	1,583	3,192	–	152,701
Provided for the year	–	2,317	230	10,751	555	238	111	–	14,202
Eliminated on disposals	–	–	–	(6)	(3)	–	–	–	(9)
Exchange realignment	–	63	(64)	150	10	6	(2)	–	163
At 31 December 2020	–	17,630	54,524	83,733	6,042	1,827	3,301	–	167,057
Provided for the year	**–**	**2,263**	**209**	**10,351**	**498**	**87**	**77**	**–**	**13,485**
Eliminated on disposals	**–**	**–**	**–**	**(7,406)**	**–**	**(6)**	**–**	**–**	**(7,412)**
Transfer to assets classified as held for sales	**–**	**–**	**–**	**(2,937)**	**–**	**–**	**–**	**–**	**(2,937)**
Exchange realignment	**–**	**(1,778)**	**(2,338)**	**(3,982)**	**(558)**	**(108)**	**(256)**	**–**	**(9,020)**
At 31 December 2021	**–**	**18,115**	**52,395**	**79,759**	**5,982**	**1,800**	**3,122**	**–**	**161,173**
CARRYING AMOUNTS									
At 31 December 2021	**27,779**	**25,631**	**696**	**27,596**	**602**	**24**	**–**	**67,577**	**149,905**
At 31 December 2020	30,747	30,790	905	40,446	911	102	82	65,917	169,900

The above items of property, plant and equipment other than construction in progress and freehold land, after taking into account the residual value, are depreciated on a straight-line basis at the following rates per annum:

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

No depreciation is provided on freehold land and construction in progress.

14. RIGHT-OF-USE ASSETS

	Leased properties HK$'000
Carrying amount	
1 January 2021	4,383
31 December 2021	5,367

Amounts recognised in profit or loss

	Year ended 31 December	
	2021 HK$'000	2020 HK$'000
Depreciation expense on right-of-use assets	**7,050**	8,872
Less: amount capitalised in inventories	**(7,050)**	(8,872)
	–	–
Expense relating to short-term leases	**644**	710
Additions of right-of-use assets	**10,734**	–

The total cash outflow for leases amount to HK$6,050,000 during the year ended 31 December 2021 (2020: HK$9,730,000).

For both years, the Group leases a plant and office premises for its operations. Lease contracts are entered into for a fixed term of 1 year (2020: 5 years), with termination option as described below.

The Group regularly entered into short-term leases for staff quarters. As at 31 December 2021 and 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense as disclosed above.

Termination option

The Group has a termination option in a lease for plant and office premises. This is used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The termination option held are exercisable only by the Group and not by the respective lessor. The Group was reasonable certain not to exercise the termination option, therefore, lease liabilities have been recognised for the remaining term of the lease as at 31 December 2021 and 2020.

14. RIGHT-OF-USE ASSETS (CONTINUED)

Rent concessions

During the year ended 31 December 2021, lessor of the leased properties provided rent concessions to the Group through rent reductions at HK$900,000 (2020: HK$990,000) for three months from October to December 2021 (2020: January to March), totaling HK$2,687,000 (2020: HK$3,092,000). During the year ended 31 December 2020, the Group opted not to early apply the practical expedient under HKFRS 16.46A and concluded the changes in lease payments constitute lease modifications. The reduction of the Group's lease liabilities of HK$3,092,000 and a corresponding adjustment of the same amount to the right-of-use assets were recognised.

During the year ended 31 December 2021, the rent concessions occurred as a direct consequence of Covid-19 pandemic and met of all the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. The effect on changes in lease payment due to forgiveness or waiver by the lessors for the relevant leases of HK$2,687,000 over recognised as negative variable lease payments.

15. INVENTORIES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Raw materials and consumables	**32,034**	26,621
Work in progress	**12,227**	6,711
Finished goods	**23,084**	4,326
Goods-in-transit	**2,833**	702
Total	**70,178**	38,360

16. TRADE RECEIVABLES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Trade receivables		
— sales of goods	**300,270**	324,760
Less: Loss allowance	**(117,672)**	(3,957)
Total trade receivables	**182,598**	320,803

As at 1 January 2020, trade receivables from contracts with customers amounted to HK$277,043,000.

16. TRADE RECEIVABLES (CONTINUED)

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
	182,598	320,803

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$116,994,000 (2020: HK$188,868,000) which are past due as at the reporting date. Out of the past due balances, HK$78,935,000 (2020: HK$129,221,000) has been past due 90 days or more and is not considered as in default. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables for the years ended 31 December 2021 and 2020 are set out in Note 30.

17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Electricity deposits	**785**	785
Other deposits	**159**	179
Prepayments (note)	**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	**282,483**	207,369
Presented as non-current assets	**211,550**	121,538
Presented as current assets	**70,933**	85,831
Total	**282,483**	207,369

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.

18. BANK BALANCES AND CASH

Bank balances carry interest at market interest rates ranging from 0.01% to 0.35% per annum as at 31 December 2021 (2020: 0.01% to 2.15%).

Details of impairment assessment of bank balances for the year ended 31 December 2021 and 2020 are set out in Note 30.

19. ASSETS CLASSIFIED AS HELD FOR SALE

In November 2021, the Group entered into a sale and purchase agreement with an independent third party for the disposal of certain machinery of the Group with carrying amount of approximately HK$355,000 at a consideration of approximately HK$2,602,000 (the "Disposal"). The Disposal was subsequently completed in January 2022.

20. TRADE PAYABLES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Trade payables	**37,472**	13,304
	37,472	13,304

The credit period on purchases of raw materials is 30 to 180 days (2020: 30 to 180 days). The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
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
	37,472	13,304

21. OTHER PAYABLES AND ACCRUED CHARGES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Accrued charges	**7,049**	6,775
Payable for acquisition of property, plant and equipment	**6,785**	–
Other payables	**99**	342
	13,933	7,117

22. CONTRACT LIABILITIES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Sales of optical fibre cables	**2,604**	11

As at 1 January 2020, contract liabilities amounted to HK$393,000.

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

	Sales of optical fibre cables
	HK$'000
For the year ended 31 December 2021	
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	11
For the year ended 31 December 2020	
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	393

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives a 15%–50% (2020: 15%–50%) deposit depends on the contract terms.

23. LEASE LIABILITIES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Lease liabilities payable:		
Within one year	**9,174**	6,479
	9,174	6,479
Less: Amount due for settlement within 12 months shown under current liabilities	**(9,174)**	(6,479)
Amount due for settlement after 12 months shown under non-current liabilities	**–**	–

All the lease obligations were denominated in HK$ as at 31 December 2021 and 2020.

As at 31 December 2021 and 2020, the weighted average incremental borrowing rate applied to lease liabilities was 1.66% and 4.05%.

24. BANK AND OTHER BORROWINGS

	As at 31 December			
	2021		2020	
	Effective interest rate	**HK$'000**	Effective interest rate	HK$'000
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
		59,246		20,546
Less: Amounts due within one year shown under current liabilities		**(59,246)**		(18,733)
Amounts shown under non-current liabilities		**–**		1,813

Based on scheduled repayment dates set out in the loan agreement, all the bank borrowings are repayable within one year as at 31 December 2021 and 2020.

The carrying amounts of the above borrowings are repayable*:

	As at 31 December	
Other borrowings	**2021 HK$'000**	2020 HK$'000
Within one year	**1,638**	3,626
Within a period of more than 1 year and not later than 2 years	**–**	1,813
	1,638	5,439

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

24. BANK AND OTHER BORROWINGS (CONTINUED)

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 HK$'000
As at 31 December 2021	**52,928**
As at 31 December 2020	4,747

25. ISSUED SHARE CAPITAL

	Number of shares	HK$'000
Authorised		
Ordinary shares of HK$0.01 each		
As at 1 January 2020, 31 December 2020 and 2021	1,000,000,000	10,000
Issued and fully paid		
As at 1 January 2020, 31 December 2020 and 2021	260,000,000	2,600

26. DEFERRED TAXATION

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

Deferred tax

	Tax loss HK$'000	Long service payment HK$'000	ECL provision HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1 January 2020	–	–	98	(4,011)	(3,913)
Credit to profit or loss	–	–	8	494	502
At 31 December 2020	–	–	106	(3,517)	(3,411)
Credit to profit or loss	**15,738**	**298**	**598**	**597**	**17,231**
At 31 December 2021	**15,738**	**298**	**704**	**(2,920)**	**13,820**

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

	As at 31 December 2021 HK$'000	2020 HK$'000
Deferred tax assets	**13,820**	106
Deferred tax liabilities	**–**	(3,517)
	13,820	(3,411)

27. PROVISION FOR LONG SERVICE PAYMENT

	HK$'000
At 1 January 2021 and 31 December 2020	–
Amount provided during the year	1,449
Exchange difference	(51)
At 31 December 2021	1,398

The Group provides for the probable future long service payments expected to be made to employees under the Employment Ordinance in Thailand. The provision represents management's best estimate of the probable future payments which have been earned by the employees from their service to the Group up to the end of the reporting period.

28. CAPITAL COMMITMENT

	2021 **HK$'000**	2020 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**11,090**	19,482

29. CAPITAL RISK MANAGEMENT

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

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

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

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Financial assets		
Financial assets at amortised cost	**206,125**	351,528
Financial liabilities		
Amortised cost	**112,677**	33,850

Financial risk management objectives and policies

The Group's financial instruments include trade receivables, deposits and other receivables, bank balances and cash, trade payables, other payables, lease liabilities and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

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

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

Assets

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
RMB	**149,277**	284,002
US$	**14,357**	32,675
Intra group balance		
US$	**47,421**	27,942

30. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk (Continued)

Liabilities

	As at 31 December	
	2021 **HK$'000**	2020 HK$'000
RMB	**86,062**	8,074
US$	**2,448**	1,168
Intra group balance		
US$	**48,764**	28,330

Sensitivity analysis

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

The following table details the Group's other sensitivity to a 5% (2020: 5%) increase and decrease in the relevant foreign currencies against the functional currency of the entity (i.e. HK$ and THB) to which they relate. 5% (2020: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, including inter-company balances, and adjusts their translation at the end of the reporting period for a 5% (2020: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the relevant foreign currencies strengthen 5% (2020: 5%) against HK$. For a 5% (2020: 5%) weakening of the relevant foreign currencies against HK$, there would be an equal and opposite impact and the numbers below would be negative.

	RMB Impact Year ended 31 December		US$ Impact Year ended 31 December	
	2021 **HK$'000**	2020 HK$'000	**2021** **HK$'000**	2020 HK$'000
Profit after tax	**2,615**	12,312	**1,608**	258

30. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk

The Group is exposed to cash flow interest rate risk relating to the variable rate bank balances and bank and other borrowings.

The Group is also exposed to fair value interest rate risk in relation to the certain bank balances and other borrowing which are interest bearing at fixed interest rate as at 31 December 2021 and 2020.

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to variable interest rates for bank borrowings at the end of the reporting period. The analysis is prepared assuming the bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2020: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For the year ended 31 December 2021, if interest rates had been 100 basis points (2020: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately HK$518,000 (2020: decrease/increase by HK$151,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

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

30. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, bank balances and other receivables. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group performed impairment assessment for financial assets under ECL model. Information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarised as below:

Trade receivables arising from contracts with customers

In order to minimise the credit risk, management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs individual impairment assessment under ECL model on trade balances.

The Group has concentration of credit risk with exposure limited to certain customers. Trade receivables from the largest customers and top three customers amounting to HK$88,053,000 and HK$129,994,000 (2020: HK$108,230,000 and HK$204,946,000), in aggregate, comprised approximately 48% and 71% (2020: 34% and 64%) of the Group's trade receivables as at 31 December 2021. The management closely monitors the subsequent settlement of the customers.

Other financial assets

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

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

30. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Other financial assets (Continued)

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

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

30. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

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

2021	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised cost					
Trade receivables (Note 1)	16	N/A	Low risk	Lifetime ECL – non credit impaired	**66,396**
			Watch list	Lifetime ECL – non credit impaired	**109,219**
			Loss	Lifetime ECL – credit impaired	**124,655**
Deposits and other receivables	17	N/A	(Note 2)	12m ECL	**9,526**
Bank balances	18	BAA–AA	N/A	12m ECL	**14,000**

2020	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised cost					
Trade receivables (Note 1)	16	N/A	Low risk	Lifetime ECL	133,455
			Watch list	Lifetime ECL	191,305
Deposits and other receivables	17	N/A	(Note 2)	12m ECL	2,105
Bank balances	18	BAA–AA	N/A	12m ECL	28,466

Notes:

1. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by individual assessment.

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

30. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

	2021			2020		
	Past due HK$'000	Not past due/ No fixed repayment terms HK$'000	Total HK$'000	Past due HK$'000	Not past due/ No fixed repayment terms HK$'000	Total HK$'000
Deposits and other receivables	–	9,526	9,526	–	2,105	2,105

Internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its sales of optical fibre cables, optical cable cores, optical fibres and other related products. The following table provides information about the exposure to credit risk for trade receivables as at 31 December 2021 and 2020 within lifetime ECL (not credit-impaired).

Gross carrying amount

	2021		2020	
Internal credit rating	Average loss rate	Trade receivables HK$'000	Average loss rate	Trade receivables HK$'000
Low risk	1.14%	66,396	1.14%	133,455
Watch list	1.52%	109,219	1.27%	191,305
		175,615		324,760

The estimated loss rates are estimated based on credit loss experience, ageing of overdue trade receivables and customers' repayment history, over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The assessment is regularly reviewed by management to ensure relevant information about specific debtors is updated. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates.

During the year ended 31 December 2021, the Group provided reversal of loss allowance for trade receivables of HK$485,000 (2020: loss allowance for trade receivables of HK$2,033,000) based on collective assessment.

Loss allowance of HK$114,762,000 (2020: HK$nil) were made on credit-impaired debtors for the year ended 31 December 2021.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Gross carrying amount (Continued)

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

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 1 January 2020	1,841	–	1,841
Changes due to financial instruments recognised as at 1 January:			
— Impairment losses reversed	(1,036)	–	(1,036)
— Impairment losses recognised	1,150	–	1,150
New financial assets originated	1,919	–	1,919
Exchange realignment	83	–	83
As at 31 December 2020	3,957	–	3,957
Changes due to financial instruments recognised as at 1 January:			
— Transfer to credit impaired	**(790)**	**790**	**–**
— Impairment losses reversed	**(1,450)**	**–**	**(1,450)**
— Impairment losses recognised	**76**	**114,762**	**114,838**
New financial assets originated	**889**	**–**	**889**
Exchange realignment	**(226)**	**(336)**	**(562)**
As at 31 December 2021	**2,456**	**115,216**	**117,672**

During the year ended 31 December 2021, six debtors with a gross carrying amount of HK$124,655,000 (2020: Nil) defaulted and transferred to credit impaired.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk

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

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

	Weighted average effective interest rate %	Within 1 year or on demand HK$'000	1–5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
As at 31 December 2021					
Trade payables	**–**	**37,472**	**–**	**37,472**	**37,472**
Other payables	**–**	**6,785**	**–**	**6,785**	**6,785**
Bank and other borrowings	**4.97**	**59,537**	**–**	**59,537**	**59,246**
Lease liabilities	**1.66**	**9,189**	**–**	**9,189**	**9,174**
		112,983	**–**	**112,983**	**112,677**
As at 31 December 2020					
Trade payables	–	13,304	–	13,304	13,304
Bank and other borrowings	3.32	18,958	1,849	20,807	20,546
Lease liabilities	4.05	6,534	–	6,534	6,479
		38,796	1,849	40,645	40,329

As at 31 December 2021 and 2020, there are no bank and other borrowings with a repayment on demand clause.

Fair value measurement of financial instruments

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

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

31. RELATED PARTY TRANSACTIONS

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

	Year ended 31 December	
	2021 HK$'000	2020 HK$'000
Fellow subsidiaries		
Hangzhou Futong Communication Technology Co., Ltd. ("Hangzhou Futong")		
Sales#	**17,836**	11,235
Related company^		
Futong Group International Limited		
Payment of lease liabilities#	**5,352**	8,910
Interest expenses	**54**	465

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

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

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

(b) Trade receivables:

	As at 31 December	
	2021 HK$'000	2020 HK$'000
Hangzhou Futong	**11,414**	–

(c) Trade payables:

	As at 31 December	
	2021 HK$'000	2020 HK$'000
Hangzhou Futong	**174**	169

(d) Lease liabilities:

	As at 31 December	
	2021 HK$'000	2020 HK$'000
Futong Group International Limited	**9,174**	6,479

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Compensation of key management personnel

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

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

	Year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Short-term benefits	**4,516**	4,620
Post-employment benefits	**36**	18
	4,552	4,638

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease liabilities	**Bank and other borrowings**	**Total**
	Note 23	Note 24	
	HK$'000	HK$'000	HK$'000
At 1 January 2020	18,126	27,788	45,914
Lease modifications (Note 14)	(3,092)	–	(3,092)
Financing cash flows	(9,020)	(7,569)	(16,589)
Interest expenses	465	710	1,175
Exchange realignment	–	(383)	(383)
At 31 December 2020	6,479	20,546	27,025
Additions of right-of-use assets	**10,734**	**–**	**10,734**
Rent concessions (Note 14)	**(2,687)**	**–**	**(2,687)**
Financing cash flows	**(5,406)**	**40,036**	**34,630**
Interest expenses	**54**	**2,073**	**2,127**
Exchange realignment	**–**	**(3,409)**	**(3,409)**
At 31 December 2021	**9,174**	**59,246**	**68,420**

33. RETIREMENT BENEFIT SCHEMES

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

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

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

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

The contributions paid and payable to the schemes by the Group are disclosed in Notes 7 and 9.

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

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

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by the Company as at 31 December		Principal activities
				2021	2020	
				%	%	
Transtech	BVI	Hong Kong	US$430	**100**	100	Manufacturing and sales of optical fibres and other related products
Futong Thailand	Thailand	Thailand	THB807,110,000	**100**	100	Manufacturing and sales of optical fibre cables and optical cable cores
Great Sign Technologies Limited	BVI	Hong Kong	US$1,000	**100**	100	Investment holding
Pan South Industries Limited	BVI	Hong Kong	US$1,000	**100**	100	Investment holding

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

35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2021 HK$'000	2020 HK$'000
Non-current assets		
Investments in subsidiaries	**394,018**	394,018
Current assets		
Deposits, prepayments and other receivables	**255**	247
Bank balances and cash	**2,322**	1,996
	2,577	2,243
Current liabilities		
Other payables and accrued charges	**1,382**	1,177
Amounts due to subsidiaries	**30,147**	26,702
Tax payable	**14**	39
	31,543	27,918
Net current liabilities	**(28,966)**	(25,675)
Total assets less current liabilities	**365,052**	368,343
Capital and reserves		
Issued share capital	**2,600**	2,600
Reserves	**362,452**	365,743
Total equity	**365,052**	368,343

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

Movement in Company's reserves

	Share premium HK$'000	Other reserve HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2020	95,534	320,522	(42,394)	373,662
Loss and other comprehensive expense for the year	–	–	(7,919)	(7,919)
At 31 December 2020	95,534	320,522	(50,313)	365,743
Loss and other comprehensive expense for the year	**–**	**–**	**(3,291)**	**(3,291)**
At 31 December 2021	**95,534**	**320,522**	**(53,604)**	**362,452**

Note: Other reserve represents the contribution made by Futong China to the Company.