

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

ANNUAL REPORT
2020



5G

CONTENTS

Corporate Information	2
Company Profile	4
Financial Highlights	5
Five-Year Financial Summary	6
Chairman’s Statement	7
Management Discussion and Analysis	10
Corporate Governance Report	22
Environmental, Social and Governance Report	33
Biographical Details of Directors and Senior Management	54
Report of Directors	60
Independent Auditor’s Report	71
Consolidated Statement of Profit or Loss and Other Comprehensive Income	75
Consolidated Statement of Financial Position	76
Consolidated Statement of Changes in Equity	78
Consolidated Statement of Cash Flows	79
Notes to Consolidated Financial Statements	81

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Guoqiang (*Chairman*)
Mr. He Xingfu (*Chief Executive Officer*)
Mr. Yu Jiangping
Mr. Xu Muzhong
Mr. Pan Jinhua

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

Mr. Lau Siu Hang (*Chairman*)
Mr. He Xingfu
Mr. Yu Jiangping
Mr. Leong Chew Kuan
Mr. Li Wei

Nomination Committee

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

AUTHORISED REPRESENTATIVES

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

COMPLIANCE OFFICER

Mr. He Xingfu

COMPANY SECRETARY

Mr. Ho Cheuk Wai (*CPA*)

REGISTERED OFFICE

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

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

CORPORATE INFORMATION

COMPLIANCE ADVISER

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

AUDITOR

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

LEGAL ADVISER

Eric Chow & Co.
in Association with Commerce & Finance Law Offices
29th Floor
238 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKER

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

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

STOCK CODE

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. 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 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.

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 2020, the Company had 260,000,000 issued shares.

FINANCIAL HIGHLIGHTS

The Group experienced hardship in 2020 and the Group's operating results for the year ended 31 December 2020 were listed as follows:

- Total revenue reduced by approximately 29.2% to approximately HK\$262.6 million (2019: approximately HK\$370.8 million)
- Gross profit decreased by approximately 49.7% to approximately HK\$42.6 million (2019: approximately HK\$84.7 million)
- Gross profit margin decreased by approximately 6.6% to approximately 16.2% (2019: approximately 22.8%)
- Profit and total comprehensive income for the year attributable to owners of the Company decreased by approximately 54.4% to approximately HK\$27.6 million (2019: approximately HK\$60.5 million)
- The Board did not recommend the payment of final dividend (2019: nil)

FIVE-YEAR FINANCIAL SUMMARY

RESULT

	For the year ended 31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	262,623	370,763	510,083	556,539	599,772
Cost of sales	(220,016)	(286,096)	(380,308)	(413,626)	(490,699)
Gross profit	42,607	84,667	129,775	142,913	109,073
Profit for the year	28,231	35,763	79,558	104,350	67,233

ASSETS AND LIABILITIES

	As at 31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Non-current assets	295,927	283,928	193,942	136,800	142,035
Current assets	473,614	516,661	524,452	575,525	397,578
Non-current liabilities	5,330	10,504	3,811	4,550	5,934
Current liabilities	47,266	100,712	83,588	156,594	204,920
Net current assets	426,348	415,949	440,864	418,931	192,658
Net assets	716,945	689,373	630,995	551,181	328,759

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

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

CHAIRMAN'S STATEMENT



* The third annual general meeting after Listing was held on 28 May 2020

Dear Shareholders,

I am pleased to present, 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”), the audited consolidated results of the Group for the year ended 31 December 2020.

BUSINESS REVIEW

In 2020, the Company has transferred its listing from GEM to the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 5 November 2020. This is a monumental success for us where we have seen significant improvement in operation management and services. The professional fees in relation to the transfer of listing this year amounted to HK\$4.8 million (2019: HK\$7.2 million).

During the year ended 2020 (the “Period”), the Group was principally engaged in the manufacturing and sale of optical fibres products. The Group was operating and managing its business as a green, environmental and efficient production process with an aim to meet diverse demands of the customers. Nevertheless, the Group’s business performance was badly affected by the persistent international commercial conflict and the globally widespread of Coronavirus Disease (the “COVID-19”) in the Period.

The successful transfer of listing from GEM to Main Board increased our bargaining power in the capital market, laying a solid foundation for the position of the Company in the industry, capital operation and talent acquisition. The Group actively participate a lot of social welfare activities including the donation of HK\$3 million to The Foundation of HKEX to help to promote the management of the listing market in Hong Kong.

CHAIRMAN'S STATEMENT

In terms of business, the Group actively cooperated with some new customers to change its scope and share in the market. The subsidiary company in Thailand continued the construction of the new factory building for business expansion and it is estimated the new factory can start its production in the first half of the year 2022.

During the year ended 31 December 2020, the Group recorded:

- revenue decreased by 29.2 % to approximately HK\$262.6 million (2019: approximately HK\$370.8 million);
- gross profit decreased by 49.7% to approximately HK\$42.6 million (2019: approximately HK\$84.7 million);
- profit and total comprehensive income for the year attributable to owners of the Company reduced by approximately 54.4 % to approximately HK\$27.6 million (2019: approximately HK\$60.5 million); and
- the Company's basic earning per share to be approximately HK\$0.11 (2019: approximately HK\$0.14).

Performance Analysis

For the year ended 31 December 2020, the Group reported its revenue of approximately HK\$262.6 million (year ended 31 December 2019: approximately HK\$370.8 million), representing a decrease of approximately 29.2% as compared to that of the same period in 2019. The gross profit margin of the Group decreased by approximately 6.6% to approximately 16.2% for the year ended 31 December 2020 as compared to a gross profit margin of 22.8% for the year ended 31 December 2019.

During the year ended 31 December 2020, the Group recorded a profit attributable to the owners of the Company of approximately HK\$28.2 million (year ended 31 December 2019: approximately HK\$35.8 million). By excluding the effect of non-recurring expenses related to the transfer of listing of equity securities from GEM to the Main Board of approximately HK\$4.8 million and HK\$7.2 million during the year ended 31 December 2020 and 2019 respectively, the profit attributable to the owners of the Company for the year ended 31 December 2020 would decrease by approximately HK\$10.0 million, representing a decrease of 23.3% compared with the profit excluding the effect of non-recurring expenses for the year ended 31 December 2019.

(i) Futong Thailand

Futong Thailand is one of the leading optical fibre cable providers in Thailand, its performance was still badly affected by the general weak market in the telecommunication and COVID-19 in 2020. The epidemic COVID-19 impacted on the investment of Thailand Government in its telecommunication department, Thailand was in the transitional period between the final stage of 4G and the initial stage of 5G telecommunication communication construction. As a result of the aforesaid factors, the sales revenue of optical fibre cables in Thailand reduced from approximately HK\$88.2 million during the year ended 31 December 2019 to approximately HK\$77.6 million during the year ended 31 December 2020. On the other hand, the sales in the other ASEAN countries increased slightly from approximately HK\$16.7 million during the year ended 31 December 2019 to approximately HK\$16.9 million during the year ended 31 December 2020 mainly because the sales department have maintained their marketing efforts in the optical fibre cable market in other ASEAN countries (other than Thailand).

Being affected by same factors mentioned above, the sales revenue of optical cable cores decreased from approximately HK\$100.2 million during the year ended 31 December 2019 to approximately HK\$55.7 million during the year ended 31 December 2020.

On the other hand, the gross profit margin of Futong Thailand decreased from approximately 14.4% for the year ended 30 December 2019 to approximately 12.4% for the year ended 31 December 2020. It is mainly attributable to the aggregate effect of (i) the decrease of the selling price of optical fibre cables and optical cable cores; and (ii) the reduced demand in optical cable cores market.

CHAIRMAN'S STATEMENT

(ii) *Transtech*

In respect of the manufacturing and sales of optical fibre and other related products in Hong Kong, Transtech has reported its revenue and net profit in amount of approximately HK\$118.6 million and HK\$31.3 million respectively for the year ended 31 December 2020 (for the year ended 31 December 2019: approximately HK\$232.9 million and HK\$31.9 million respectively), representing decrease of approximately 49.1% and 1.9% respectively. The main reasons for the worsen performance is mainly attributable to the fall of demand from the limited orders from the 5G infrastructure projects which were not started fully in PRC during the year and the spread of COVID-19. As a result of the reduction of demand in PRC which is the largest optical consumer in the world, Hong Kong market was vulnerable under this adverse circumstances and the increase in demand for optical fibres is minimal and the export of optical fibres for Transtech was affected during the year. Consequently, Transtech received less orders from their customers and recorded a downturn in terms of its revenue accordingly. To cope with the weak demand, the management of Transtech successfully reduced the number of workers and rescheduled the production to minimize the manufacturing costs during the year.

OUTLOOK

In 2021, the Group will continue to strengthen its market position in Hong Kong and Thailand by high quality products and services.

By leveraging on its successful transfer to the Main Board, the Group will be in better position to deal with the banks, customers and suppliers in respect of financing, sales and procurement respectively, so as to expand the business coverage of the two subsidiary companies. In view of the recent epidemic of the COVID-19, the Group will abide by the government instruction to actively respond to the situation and introduce various corporate management measures in a timely manner, in order to strictly prevent and control the spread of the epidemic. While developing its business, the Group will continue to actively participate various social welfare activities and charitable events.

The year of 2021 will be an important but also difficult one for the Group. After the transfer of listing, all businesses will be carried out in full swing. In particular, with full access to the capital market, we will focus on pursuing three important goals: social benefits, economic benefits and historical responsibilities. We will pursue exploration and innovation, overcome difficulties and move forward, and walk in the path of development conducive to humanity, charity and environment. In the perspective view, the optical fibre product market will be affected by three main uncertainties events, amongst others, including the international trade conflicts, the control of COVID-19 and the kick off the 5G projects. In accordance with the Notice on Accelerating the Development of 5G (《關於推動5G加快發展的通知》) published by the Ministry of Industry and Information Technology of the PRC in March 2020, some important measures such as accelerating the construction and deployment of 5G networks, enriching the application of 5G technologies, intensifying the research and development of 5G technologies, formulating 5G security system, and strengthening the organization and implementation. These measures will dedicate to promote network construction, application of 5G network, technology development and security. We will keep close watch to the latest changes of these events and try our best to provide better products and services, and reward investors and the society with satisfactory growth and results.

APPRECIATION

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

Hu Guoqiang

Chairman

Hong Kong, 29 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

A. FINANCIAL REVIEW

Revenue

The decrease in total revenue of the Group was mainly due to the competition in the market and the spread of COVID-19 which resulted in less demand from the Group's customers, as compared with the corresponding period in 2019, resulting in decrease in sales volume and selling prices of the Group's products (except for sales volume of optical fibre cables). The sales volume of optical fibre cables increased as compared with the corresponding period in 2019 because the sales department of Futong Thailand have strengthened their marketing efforts, and the price reduction was also effective to increase more orders in the competitive local market.

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 2020, the cost of sales of the Group decreased by about 23.1% to approximately HK\$220.0 million as compared with the corresponding period in 2019. Such decrease was mainly attributable to the generally lower sales volume of the Group's products other than optical fibre cables and the decrease of the main raw materials for our products during the reporting period.

Gross profit and margin

The gross profit of the Group decreased from approximately HK\$84.7 million, for the year ended 31 December 2019 to approximately HK\$42.6 million for the year ended 31 December 2020.

The gross profit margin decreased from approximately 22.8% for the year ended 31 December 2019 to approximately 16.2% for the year ended 31 December 2020. This is mainly attributable to the decrease of the gross profit margin of optical fibres, optical fibre cables and optical cable cores for the year ended 31 December 2020 by approximately 7.1%, approximately 7.1% and approximately 4.2% respectively as compared to the corresponding period in 2019.

Loss allowance for trade receivables

Loss allowance for trade receivables represented expected credit losses on trade receivables, which increased by approximately HK\$1.3 million, or approximately 185.7% from approximately HK\$0.7 million for the year ended 31 December 2019 to approximately HK\$2.0 million for the year ended 31 December 2020.

Other income, gains, expenses and losses, net

The Group recognised a grant of approximately HK\$3.1 million under the "Employment Support Scheme" from the Government of Hong Kong for the year ended 31 December 2020.

The Group recognised foreign exchange gains of approximately HK\$21.8 million for the year ended 31 December 2020 as compared with foreign exchange losses of approximately HK\$4.4 million for the year ended 31 December 2019, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 decreased from approximately HK\$4.9 million for the year ended 31 December 2019 to approximately HK\$3.3 million for the year ended 31 December 2020, representing a decrease of approximately 32.7%.

The decrease in the selling and distribution expenses for the year ended 31 December 2020 was mainly due to the (i) the decrease in staff cost as a result of a decrease in the headcount for Futong Thailand; and (ii) the decrease in transportation expenses, travelling expenses and export cost as a result of the reduction of sales activities for the year ended 31 December 2020.

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 increased from approximately HK\$25.6 million for the year ended 31 December 2019 to approximately HK\$26.1 million for the year ended 31 December 2020, representing an increase of approximately 2.0%. The increase in the administrative expenses for the year ended 31 December 2020 was mainly attributable to the net effects of (i) the increase of donation that Transtech donated approximately HK\$3.0 million to the Foundation of HKEX; (ii) the decrease in staff cost by approximately HK\$1.3 million due to overall reduction of approximately 6.3% headcount, reference should be made to the section "Employee and emolument policies" in this analysis; and (iii) the decrease of listing maintenance fee by approximately HK\$0.4 million due to termination of the service provided by compliance adviser as effective from 1 April 2020.

Finance costs

Finance costs represent the interest expense on bank borrowings and lease liabilities. The finance costs of the Group increased from approximately HK\$1,172,000 for the year ended 31 December 2019 to approximately HK\$1,175,000 for the year ended 31 December 2020 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.

No income tax has been provided for both periods as Futong Thailand was operating within the Exemption Period.

Income tax expense decreased by approximately 25.0% from approximately HK\$6.4 million for the year ended 31 December 2019 to approximately HK\$4.8 million for the year ended 31 December 2020. Such decrease was mainly caused by the decrease in profit before tax.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year

Profit attributable to owners of the Company for the year ended 31 December 2020 amounted to approximately HK\$28.2 million (2019: approximately HK\$35.8 million).

The decrease in profit attributable to owners of the Company for the year ended 31 December 2020 was mainly attributable to the net effects of (i) the decrease in gross profit; (ii) the change from foreign exchange losses to foreign exchange gains; (iii) the decrease of selling and distribution expenses; and (iv) the decrease in non-recurring expenses related to the transfer of listing of equity securities from GEM to the Main Board.

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\$28.6 million as at 31 December 2020 (31 December 2019: approximately HK\$135.9 million).

Bank and other borrowings on the Group

As at 31 December 2020, the Group had total bank borrowings of approximately HK\$20.5 million (31 December 2019: approximately HK\$27.8 million). Details of the bank and other borrowings are set out in note 23 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 decreased from approximately 4.0% as at 31 December 2019 to approximately 2.9% as at 31 December 2020. Such decrease was primarily resulted from the repayment of bank borrowings.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Credit risk

As at 31 December 2020, 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. In this regard, the Directors consider that the Group's credit risk is significantly reduced. Besides, the management of the Group performs impairment assessment on individual debtor basis to estimate the amount of expected credit loss ("ECL") of trade based on internal credit ratings, ageing, collateral, repayment history and/or past due status of respective other receivables 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 does not have significant concentration of 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 2020, the Group has capital commitments of approximately HK\$19.5 million (31 December 2019: approximately HK\$56.8 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 2020, the employee headcount (including Directors) of the Group was 195 (31 December 2019: 208) and the total staff costs, including directors' emoluments, amounted to approximately HK\$32.1 million during the year ended 31 December 2020 (year ended 31 December 2019: approximately HK\$36.5 million). The Group recruits and promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff and to enable smooth operations within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis. The emoluments of the Directors and senior management are reviewed and approved by the Board of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement.

Contingent liabilities and litigation

As at 31 December 2020, the Group had no material contingent liabilities and litigation (31 December 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Capital structure

As at 31 December 2020, 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 2020, the Group had not pledged its land, buildings and machinery to secure the banking facilities granted to the Group (31 December 2019: nil).

Charge of register

As at 31 December 2020, 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 2020, the Group sold approximately 2.7 million fkm of optical fibre and approximately 0.9 million fkm of optical fibre cable and approximately 0.8 million fkm of optical cable cores. The production capacity of optical fibre, optical fibre cable and optical cable cores were approximately 9.6 million fkm in both FY2019 and FY2020.

The utilization rate of optical fibre decreased from 82.3% to 50.3% from FY2019 to FY2020 and that of optical fibre cable and optical cable cores decreased from 39.4% to 34.7% from FY2019 to FY2020. 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\$370.8 million in FY2019 and HK\$262.6 million in FY2020 while the Group's total assets amounted to HK\$800.6 million and HK\$769.5 million as of 31 December 2019 and 2020 respectively.

Hence, the Group's return on assets decreased from approximately 46.3% in FY2019 to approximately 34.1% in FY2020. This was mainly because of the degree of sales revenue reduction 29.2% which was much more than the total asset reduction 3.9% in FY2020.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Material asset impairments and performance guarantees

During the year ended 31 December 2020, the Group did not have any material asset impairments and performance guarantee given to or received from a connected person or an independent party.

Post balance sheet events

COVID-19 made huge loss in economy all over the world and the optical fibre product market, amongst others, was badly affected throughout the year ended 31 December 2020. Vaccine was successfully developed and injection started in the first quarter of 2021. The number of reported cases reduced steadily at the date of this report and we will keep close watch to the latest development to take appropriate actions to manage all possible risks.

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 2020, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

MANAGEMENT DISCUSSION AND ANALYSIS

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 20 of the GEM Listing Rules and chapter 14A of the Exchange Listing Rules before and after the transfer of its share listing from GEM to Main Board. 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 four years ended 31 December 2020, 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 four years ended 31 December 2020 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”) and the annual cap for FY2020 as set out in the Framework Sales Agreement dated 30 March 2020 (the “2020 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)
Optical fibre	36.6	37.4	17.9	11.2

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

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

Note: Transtech and Futong China Group entered into a new Optical Fibre Framework Sales Agreement on 22 January 2021 to set out the annual cap to be HK\$18.0 million for FY2021. Reference is made to the announcement dated 22 January 2021.

Listing Rules Implications

Given that the highest applicable percentage ratios in respect of the FY2020 annual cap for purpose of the Latest Optical Fibre Framework Sales Agreement dated 30 March 2020 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 30 March 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Non-fully Exempt Continuing Connected Transaction

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

During the four years ended 31 December 2020, 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"). According to the Licence Agreement, Futong Group International has agreed to grant a licence to Transtech to use the Premises at the Licence Fee as set out in the paragraphs headed "Annual Caps" below. The term of the licence is five years, from 1 July 2016 to 30 June 2021. The Licence Agreement is terminable at Transtech's discretion unilaterally at any time by serving on Futong Group International not less than six months' prior notice in writing. Controlling Shareholders of the Company have provided indemnity in relation to the costs and losses that may be incurred by the Group in relation to relocation in the event that Transtech is required to move out of the Premises.

Actual Transaction Value

For FY2017, FY2018, FY2019 and FY2020, Transtech has paid a sum of approximately HK\$10.8 million, HK\$11.9 million, HK\$11.9 million and HK\$8.9 million respectively to Futong Group International, for its use of the Premises. For FY2020, Futong Group International waived three months rent in amount of HK\$2,970,000 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 ending 31 December				
	2017	2018	2019	2020	2021
	(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)
Licence Fee	10.8	11.9	11.9	11.9	13.1

MANAGEMENT DISCUSSION AND ANALYSIS

Listing Rules Implications

As certain applicable percentage ratios (other than profits ratio) in respect of the transaction under the Licence Agreement is, on an annual basis, expected to be less than 5% and the annual consideration is more than HK\$3 million, the transaction contemplated under the Licence Agreement constitutes a Non-fully Exempt Continuing Connected Transaction of the Company subject to the reporting, announcement and annual review requirements, but are exempt from the circular and independent shareholders' approval requirements, pursuant to Rule 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 2020 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;

MANAGEMENT DISCUSSION AND ANALYSIS

- 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 5 March 2021.

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 2020 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 2020 are set out in note 29 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 four years ended 31 December 2020. 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 2020 (HK\$million)	Unused amount as at 31 December 2020 (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	66.3	7.1	The expansion plan for Futong Thailand’s factory commenced in the second-half of 2018, however, it remained in the contract negotiation stage during most of the time in FY2018. The contract negotiation process was completed in January 2019 and the construction of the factory was commenced in first half of 2019. Based on the latest construction and implementation plan and barring unforeseeable circumstances, the construction of the Group’s Thailand factory is scheduled to be completed and start production at the factory in the first half of FY2022 because the machinery and equipment delivery will be delayed as the suppliers temporarily suspended their production due to the outbreak of COVID-19 in PRC.
Approximately 5% of the net proceeds will be used for strengthening the research and development capabilities and expanding the range of products.	4.6	0.3	4.3	The main reason for the delay in the use of proceeds for the research and development expenditure is that it depends on the change of market demand. For the period from the Listing Date to 31 December 2020, there are little change of customers’ demand for new type of products. It is expected to utilize this proceeds by the end of FY2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Strategies as Stated in the Prospectus	Proposed amount to be used (HK\$million)	Actual amount utilized up to 31 December 2020 (HK\$million)	Unused amount as at 31 December 2020 (HK\$million)	Explanation
Approximately 5% of the net proceeds will be used for enhancing the relationship with existing customers and exploring new customers in Hong Kong and the ASEAN.	4.6	2.6	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 FY2021.
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	78.4	13.4	

Up to the date of this report, HK\$9.2 million of the net proceeds from the Global offering has been utilised for settlement of payable for factory rent and utility fee in Hong Kong, HK\$2.6 million for developing customers relationship, HK\$0.3 million for research and development and HK\$66.3 million and HK\$7.1 million for the new factory construction and deposits respectively in Thailand.

CORPORATE GOVERNANCE REPORT

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 2020. 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 2020.

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 2020 annual report will be despatched to the Company’s shareholders on or before 29 March 2021 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 28 May 2021 (Friday) and the Notice of AGM will be published and despatched in the manner as required by the Listing Rules.

CORPORATE GOVERNANCE REPORT

Board Composition

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

Executive Directors

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

Independent Non-executive Directors

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

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" on pages 54 to 59 of this report. There are no family or other material relationships among members of the Board.

CORPORATE GOVERNANCE REPORT

Number of Meetings and Directors' Attendance

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

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

During the year ended 31 December 2020, the Company held one Annual General Meeting, seven Board meetings, five Audit Committee meetings, one Remuneration Committee meetings, one Nomination Committee meeting and one meeting between the Board Chairman and the independent non-executive directors. All minutes of the Board meetings and meetings of Board committees were recorded in sufficient detail the matters considered by the Board and the decisions reached. Details of the attendance of Directors are as follows:

Name of Directors	Attendance/Number of Meetings					
	Annual General Meeting	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Chairman and INED Meeting
Executive Directors:						
Mr. Hu Guoqiang	0/1*	7/7	N/A	N/A	1/1	1/1
Mr. He Xingfu	1/1	7/7	N/A	1/1	N/A	N/A
Mr. Yu Jiangping	0/1*	7/7	N/A	1/1	N/A	N/A
Mr. Xu Muzhong	0/1*	7/7	N/A	N/A	N/A	N/A
Mr. Pan Jinhua	0/1*	7/7	N/A	N/A	1/1	N/A
Independent Non-executive Directors:						
Mr. Leong Chew Kuan	1/1	7/7	5/5	1/1	1/1	1/1
Mr. Lau Siu Hang	1/1	7/7	5/5	1/1	1/1	1/1
Mr. Li Wei	1/1	7/7	5/5	1/1	1/1	1/1

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

* Four of the Executive Directors from PRC and Thailand did not attend the annual general meeting of the Company held in May 2020 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.

CORPORATE GOVERNANCE REPORT

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. Hu Guoqiang, Mr. Xu Muzhong and Mr. Li Wei shall retire from office, and, being eligible, offer themselves for re-election at the forthcoming AGM.

CORPORATE GOVERNANCE REPORT

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 2020 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 2020 has been set out below:

Name of Directors	Attendance/ Number of Board meeting	Annual general meeting held in 2020
Executive Directors:		
Mr. Hu Guoqiang (<i>Chairman</i>)	7/7	0/1*
Mr. He Xingfu (<i>Chief Executive Officer</i>)	7/7	1/1
Mr. Yu Jiangping	7/7	0/1*
Mr. Xu Muzhong	7/7	0/1*
Mr. Pan Jinhua	7/7	0/1*
Independent Non-executive Directors:		
Mr. Leong Chew Kuan	7/7	1/1
Mr. Lau Siu Hang	7/7	1/1
Mr. Li Wei	7/7	1/1

* Four of the Executive Directors from PRC and Thailand did not attend the annual general meeting of the Company held in May 2020 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.

CORPORATE GOVERNANCE REPORT

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 in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules during the period listing in GEM and then 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 2020, 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 (<i>Chairman</i>)	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 Appendix 15 to the GEM Listing Rules during the period listing in GEM and in compliance with Rule 3.25 of the Listing Rules in Main Board.

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

CORPORATE GOVERNANCE REPORT

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 2020, the Remuneration Committee held one meeting for reviewing the remuneration policy of the Company.

Names of members	Attendance/ Number of meetings
Mr. Lau Siu Hang (<i>Chairman</i>)	1/1
Mr. He Xingfu	1/1
Mr. Yu Jiangping	1/1
Mr. Leong Chew Kuan	1/1
Mr. Li Wei	1/1

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 CG Code of GEM rules during the period listing in GEM and paragraph A.5.2 of the CG Code in Listing Rule after listing in Main Board 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.

CORPORATE GOVERNANCE REPORT

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 2020, the Nomination Committee reviewed the composition of the Board and the retirement and re-election of Directors. The Committee held one meeting 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 (<i>Chairman</i>)	1/1
Mr. Pan Jinhua	1/1
Mr. Leong Chew Kuan	1/1
Mr. Li Wei	1/1
Mr. Lau Siu Hang	1/1

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.

CORPORATE GOVERNANCE REPORT

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.

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 2020 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 2020 are as follows:

Nature of services	Amount (HK\$'000)
Total audit services	1,050
Total non-audit services	669
Total fees	1,719

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 2020 is set out below:

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

CORPORATE GOVERNANCE REPORT

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 2020, 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 pages 75 to 77 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 71 to 74 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's 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 2020 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 2020, 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.

CORPORATE GOVERNANCE REPORT

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 2020, the Company make publication of its Amended and Restated Memorandum and Articles of Association in November 2020 when its listing transferred from GEM to Main Board but did not make any changes to the content of the constitutional documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OVERVIEW

Transtech Optelecom Science Holdings Limited (the “Company” together with its subsidiaries, hereinafter to as the “Group”, “We” or “Us”) is pleased to present the Environmental, Social and Governance (“ESG”) report (the “Report”) of the financial year 2020. The Report has been reviewed by the senior management and approved by the Board of the Directors (the “Board”).

The Group is committed with ESG concerns as we understand that all of us and our next generation could be affected by sustainability and ESG issues. Therefore, as an influential listing company, the Board has responsibility for evaluating and determining the Group’s ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. It makes sense, therefore, that a strong ESG motion can create value. Under ESG, the E, environmental criteria, includes the energy efficiency our company takes in and the waste we discharges, the resource we needs, and also encompasses carbon emissions and climate change. The S, social criteria, addresses the relationships of our company has, gender diversity, labor relations, discrimination, health and safety. The G, governance, is how we control, implement and review our related internal systems, policies, action plans and related measures. It is vitally important on how our company adopts in order to govern itself and make effective decisions in order to comply with the relevant laws and regulations, and meet the needs of external stakeholders. We believe that our engagement in ESG will be highly beneficial to the strategic development on ESG and sustainability policies and make a better future.

Depends on our business nature, in order to deliver key performance in areas such as environmental, health and safety, these are accredited and constantly reviewed by various management systems with International Standards: ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018.

The Board will continue to review and monitor the Group’s ESG performance, and provide consistent, comparable and reliable ESG information annually.

ABOUT THIS REPORT

Reporting Period

The Report illustrates the overall performance of the Group regarding the environmental and social aspects from 1 January 2020 to 31 December 2020 (the “Reporting Period”, “2020”).

Reporting Scope and Boundary

The Report covered the optical fibre, optical fibre cable and optical fibre core manufacturing business of the Group in Hong Kong and Thailand during Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Reporting Basis and Principles

The Report is prepared in accordance with the ESG Reporting Guide (the “ESG Guide”) as set out in Appendix 27 to the Rules Governing the Listing of Securities (the “Main Board Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and based on the four reporting principles — materiality, quantitative, balance and consistency:

- “Materiality” Principle:
The Group determines material ESG issues by stakeholder engagement and materiality assessment. Details are explained in the section headed “Materiality Assessment”.
- “Quantitative” Principle:
Information is presented with quantitative measure, whenever feasible, including information on the standards, methodologies, assumptions used and provision of comparative data.
- “Balance” Principle:
The Report identifies the achievements and challenges faced by the Group.
- “Consistency” Principle:
The Report will use consistent methodologies for meaningful comparisons in the following years unless improvements in methodology are identified.

The Report has complied with all “comply or explain” provisions and reported on selected recommended disclosures outlined in the ESG Guide.

The information contained herein is sourced from internal documents and statistics of the Group, as well as the combined control, management and operations information provided by the subsidiaries in accordance with the Group’s internal management systems. A complete content index is appended to the last section hereof for quick reference. The Report is prepared and published in both Chinese and English at the Stock Exchange’s website (www.hkexnews.hk) and the Company’s website (<http://www.transtechoptel.com>). In the event of contradiction or inconsistency between the Chinese version and the English version, the English version shall prevail.

Review and Approval

The Board of Directors acknowledges its responsibility for ensuring the integrity of the ESG report and to the best of their knowledge, this report addresses all relevant material issues and fairly presents the ESG performance of the Group. The Board of Directors confirms that it has reviewed and approved the Report. The Report was reviewed and approved by the board (the “Board”) of directors (the “Directors”) of the Company on 29 March 2021.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Feedback

The Group respects your view on the Report. Should you have any opinions or suggestions, you are welcome to share with the Group at:

Address: 3 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong

Telephone: (852) 2665 7799

Fax: (852) 2665 7881

Email: enquiry@transtechoptel.com

ESG Governance

The Board supports the Group's commitment to fulfilling its environmental and social responsibility and has overall responsibility for the Group's ESG strategy and reporting.

Board of Directors	<ul style="list-style-type: none">• Oversees the ESG strategies, policies, objectives and targets• Allocates CEO and CFO to identify material environmental, social and governance matters through review and assessment of internal operations
Senior Management	<ul style="list-style-type: none">• Advises and supports the Board on ESG matters, strategies, policies• Overall management and monitoring of ESG performance and targets
Department Heads and employees	<ul style="list-style-type: none">• Take record and monitor ESG KPIs• Implement ESG policies and related initiatives

The Board of Directors regularly reviews the Group's ESG performance and examines and approves the Group's annual ESG report.

We value the opinions of the stakeholders and welcome readers to contact us because we believe all constructive suggestions will further improve this report and our overall ESG performance. The Board leads the Group's ESG development by providing strategic guidance and delegates the power to the senior management to set the ESG goals and targets, develop and implement ESG policies as well as monitor the ESG activities from time to time. A designated working group who has sufficient ESG knowledge handled the ESG related activities and directly reported to the Board. The Board holds overall responsibility of the ESG issues and oversees the senior management to ensure the effectiveness of the ESG governance mechanism. Therefore, we have maintained regular communication between the Board and the senior management which enables both parties to discuss the Group's latest ESG practices and identify the potential enhancement of ESG management.

We established risk management and internal control systems to identify and assess the key ESG risks to the Group and capture potential opportunities that create values to stakeholders and bring the Group to the next level of growth. The board has reviewed the annual risk management and internal auditing process to monitor the assessment activities and ensure the appropriateness and effectiveness of the mechanism.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

The stakeholder engagement helps the Group to develop a business strategy that meets the needs and expectations of stakeholders, enhances the ability to identify risk and strengthens important relationships. We believe stakeholders' opinions are the solid foundation for the Group's sustainable development and success. The Group communicates with its stakeholders through various channels, shown as below.

Stakeholder	Communication Channel
Government and regulatory agency	<ul style="list-style-type: none">• Annual reports, interim reports, ESG reports and other public information• Supervision and inspection
Shareholder and investor	<ul style="list-style-type: none">• Annual general meetings and other general meetings of shareholders• Company website• Press releases/announcements• Annual reports, interim reports, ESG reports and other public information
Employee	<ul style="list-style-type: none">• Training• Meetings• Performance evaluation• Survey
Customer	<ul style="list-style-type: none">• Fax, email and telephone• Meetings
Supplier/Subcontractor/ Business Partner	<ul style="list-style-type: none">• Meetings• Site visit• Survey• Training
Community or Non-governmental Organisations (NGOs)	<ul style="list-style-type: none">• Sponsorship and Donation• ESG Reports
Media	<ul style="list-style-type: none">• Enquiry mailbox

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

We directly engaged with the following stakeholder groups as part of the materiality assessment process to identify and prioritise the issues to be covered in this report that have a significant impact to the Group's business and stakeholders.

First Stage — Identification

A selection of ESG issues that may reasonably be considered important for the Group and its stakeholders from various sources, including listing rules requirement, industry trends and internal policies. Issues were identified and grouped into 4 categories: Environment, Employment and Labour Practices, Operating Practices and Community.

Second Stage — Prioritisation

Rank the importance of each issue from the perspective of a stakeholder and the Group. Developed the materiality matrix and prioritised a list of sustainability issues.

Third Stage — Validation

Management reviewed the materiality matrix and the threshold for materiality. ESG issues, with a score of average or above from the perspective of a stakeholder and the Group, were prioritised as the most important sustainability issues for the Group to address and report on.

ESG Materiality Analysis and Assessment

During the Reporting Period, the Group conducted communication with our stakeholders to understand the opinions and expectations of different stakeholders in the response of the Group to ESG issues. A materiality assessment has been conducted to identify the key environmental, social and governance issues of the Group which in turn determines the level of disclosure of the issues in this Report.

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

Based on the materiality assessment in FY2020, 23 ESG issues from five major aspects: People, Product Supplier, Customer and Environment, were identified and categorized into material and relevant issues as follows.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Material Issues

- 1 Occupational Health and Safety
- 2 Development and Training
- 3 Compensation and Benefits
- 4 Recruitment and Promotion
- 5 Product Quality Management
- 6 Supply Chain Management and Sustainable Development
- 7 Air Emissions
- 8 Hazardous Waste
- 9 Carbon Emissions and Climate Change

Relevant Issues

- 10 Fair Treatment and Non-discrimination
- 11 Anti-child Labour or Forced Labour
- 12 Complaint and Aftersales Services
- 13 Customer Information and Privacy
- 14 Anti-bribery and Anti-corruption
- 15 Intellectual Property Rights
- 16 Sales Management
- 17 Utilisation of Water
- 18 Utilisation of Energy
- 19 Sewage Emission
- 20 Bio-diversity
- 21 Non-hazardous Waste
- 22 Use of Packaging Materials
- 23 Social Investment

Performance Highlights in 2020

It is our pleasure to present our performance accomplishments and highlights in 2020. We put great effort to upgrade our administrative standard in ESG and recognize our task in terms of the following attributes:

Aim	Result
Harmony	No occurrence of: Work-related fatality. Complaint related to unfairness or discrimination. Child labor or forced labor.
Achievement	No fraud, bribery, money laundering or corruption. Increase customer satisfaction. Most of the major suppliers obtained ISO 14001.
Success	Reduced Helium consumption in 5,383,255 litres. Reduced wood and wooden planks consumption by 20% on average. Reduced Hydrogen consumption in 5,747,400 litres. Reduced Nitrogen consumption in 145,018 litres. Reduced plastics and plastic compounds usage by 25% on average.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We believe the most pertinent sustainability issues which are material to both the Group and stakeholders include the following:

- Occupational health and safety
- Compensation and benefits
- Intellectual Property Rights
- Utilisation of water
- Fair Treatment and Non-discrimination
- Development and training
- Anti-bribery and anti-corruption
- Product quality management

OUR PEOPLE

We consider, staffs are one of the critical success factors to help us to hold a leading and reputable position in the industry and society, and this holds true for both technical and support staff of all levels. Since human resource is the most important asset, we put staff development on the top of the list while fulfilling our Group's sustainability journey. To meet the needs of our sustainable growth and business development, we regularly assess our colleague's developmental needs to ensure everyone, including the top management, have the support to achieve their top potential and performance.

Policies

Human resource department is established for the management of employment policies. Our Employee Handbook sets out the terms, guidelines and arrangements on remuneration, dismissal, recruitment, promotion, working hours, rest periods, diversity, equal opportunities and anti-discrimination.

Employment Management

Recruitment and Dismissal

The Group generally recruits employees from the open market through placing advertisements. We intend to use our best effort to attract and retain appropriate and suitable personnel to serve us. We assess the available human resources continuously and will determine whether additional personnel are required to cope with our business development. The dismissal or voluntary termination of employee's contracts shall be enforced in accordance with the employment laws and regulations in Hong Kong. Either party may terminate the employment by giving a written notification or payment in lieu of notice to the other party as specified in the employment contract. To retain the talented staff, we will have an exit interview for receiving opinion and persuasion before the official leaving date.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Promotion

The Group recognises the importance of the development of employees. The promotion of employees is based on their performance. Performance appraisal is conducted annually to evaluate employees' performance regarding safety, work attitude, technical skills, interpersonal skills, etc. For details, please refer to the section headed "Staff Education and Development".

Equal Opportunity, Diversity and Anti-discrimination

The Group is committed to promoting equality in working environment for all employees, ensuring that employees are treated equally in every aspect of their jobs and work under a discrimination-free working atmosphere. We select the right person in accordance of talent, and will never tolerate any form of discrimination, such as family, sex, marital status, pregnancy, race, colour, disability, sexual orientation, age, religion, belief, ethnicity and national origin.

The Group recognises and embraces the benefits of having a diversified Board and workforce to enhance the quality of its performance. We establish the Board Diversity Policy, and believe that the different backgrounds and abilities of our Directors could enhance board diversity and to achieve effective leadership with multi-perspective ideas during business decision making.

Our vision on equality applies to all aspects in employment, including but not limited to recruitment, promotion, transfer, job assignment, rewards and benefits, training and development, suspension, etc.

Employment Profile

Workforce As at 31 December 2020	2020 No. of Staff
By Gender	
Male	116
Female	74
By Age Group	
Below 30	47
30–50	129
50 or over	14
By Employment Type	
Full time	190
Part time	0
By Geographical Region	
Hong Kong	55
Thailand	135
Total	190

The Group strictly abides by all employment and labour related laws and regulations, both in Hong Kong and Thailand.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employee Retention

Remuneration and Compensation

To attract and retain talents, the Group offers a competitive remuneration package with a variety of benefits, including discretionary bonus, Mandatory Provident Fund Schemes, injury compensation and insurance, overtime allowance, etc.

Rest Period and Working Hours

The Group provides reasonable working hours and rest periods to employees. All employees are entitled to public or statutory holidays as announced by The Government of Hong Kong Special Administrative Region and the Government of Thailand each year. In addition to those holidays, employees are entitled to annual leave, maternity leave, sick leave, compensation leave, examination leave, etc.

Employee Turnover

During the Reporting Period, the Group has an overall turnover rate of 12.04%. The detailed turnover numbers and percentage are as follow:

Turnover	No. of Staff	2020 Turnover Rate
By Gender		
Male	16	8.38%
Female	7	3.66%
By Age Group		
Below 30	9	4.71%
30–50	12	6.28%
50 or over	2	1.05%
By Geographical Region		
Hong Kong	5	2.62%
Thailand	18	9.42%
Overall	23	12.04%

Health and Safety

Health care of employees is of primary importance and is one of the core values of the Group. We hold a series of training and promotional activities on health and safety issues. Keen participation in these activities from our staff creates an encouraging environment to inspire top management from our business partners to constantly review safety measures and to improve job site safety. In addition, we value comprehensive wellness and establish policies to safeguard our employees from workplace violence to promote and maintain both physical and mental health. We have zero-tolerance for employees who commit physical assault, threatening behaviour, unwelcome photo-taking and harassment in the workplace.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Policies

1. 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. For details, please refer to “Our Attempt” in the following context.
 - 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.
2. Occupational Health and Safety Management System
 - ISO 45001:2018 Occupational health and safety management system standard applicable to manufacture of optical Fibre Cable.

Occupational Measures

To ensure occupational safety, the Group publishes the unique Safety Plan based on each specific project, reviewed and overseen by the safety committee. Apart from emphasising all statutory and contractual requirements, it also provides instructions on ways to coordinate, manage and control the works safeguarding the safety, health and welfare of all personnel and the public engaged on the project or affected by the site operations.

Our Attempt

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 site agent 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 6 months. After any drill, a meeting comprising of all responsible parties shall be held to review every aspect.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. Safety Training and Education

Valid basic safety training is ensured for all the site workers. We also provide site health and safety training including safety induction training, toolbox talks, and specific health and safety training designed by the safety committee.

5. Emergency Preparedness

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.

Safety Performance and Target

The Group understands that our employees and workers are key participants in our project. We demand the best on upholding safety performance during operation. We have our safety performance target and commit to providing all necessary resources for effective implementation and continuous improvement for the accident frequency rate. Our projects are subject to certain safety and health requirements pursuant to the laws in Hong Kong and Thailand.

We will continue to uphold safety awareness, review our safety measures and provide instructions to our staff.

Staff Education and Development

Employees are our valuable assets. The Group simultaneously pursues on the business development and investment on our staff. We regularly assess our colleagues' needs for development ensure the support for them to achieve their top potential and self-actualisation. We organise in-house training programs such as seminars, workshops, visits and demonstration which are related to their job duties. For the long-term professional development for our staff, we provide external training opportunities and encourage the staff to join the professional institutions for obtaining technical and managerial skills through implementing the following to various levels and disciplines of staff:

- 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.

- 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Career Development

We enter into separate labour contracts with each of our employees in accordance with the applicable labour laws. The remuneration package which we offer to employees includes salary, bonus and other allowance.

The performance of our employees is reviewed every year for numerous purposes such as promotion appraisals, salary review and determination of annual bonus. We believe that the current appraisal and bonus system provides effective communication between our employees and managing staff, which help achieve the Group's expectations, evaluate individual performance, indicate the talented labour and also retain existing staff members.

Learning and Development

We generally recruit our employees from the open market and by referrals. We intend to use our best effort to attract and retain appropriate and suitable personnel to serve us. We assess the available human resources continuously and will determine whether additional personnel are required to cope with our business development.

To keep our employees abreast of new knowledge and skills, we provide or sponsor training programmes to our employees such as workshops and seminars on health and safety-related to our works. We believe that the provision of opportunities to continuing education and advanced training can both increase our staff member's competence and work efficiency and enhance safety and loyalty.

For our new employees to become familiar with the culture and work practices, our new employees are subject to a probation period of three months. Upon expiry of the probation period, the relevant supervisors will decide if permanent employment status will be granted to the new employees based on their performance.

Prohibition of Child and Forced Labour

The Group prohibits any form of child and forced labour as stated in our internal policy and Employee Handbook. Human resources and administrative officers inspect and take a copy of the original of his/her identity card and/or other documentary evidence showing that he/she is lawfully employable in Hong Kong and Thailand. Human resources and administrative officer is responsible for inspecting the personal identification document of each worker.

The Group strictly abides the Employment Ordinance. During the Reporting Period, to the best of Directors' knowledge, the Group was not aware of any significant non-compliance case relating to child labour and forced labour.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR PRODUCT

Our commitments to quality are turned into practice through a well-established quality management system which spreads dedication to quality across our operation portfolio.

Product Quality Management

For long, the Group has adhered to the development path of Input, digestion, absorption, improvement and output and put quality and technology in first priority. By constructing quality management system, enhancing quality management model, creating quality culture and developing quality activities. We take responsibility of our product and strictly conform to the Consumer Goods Safety Ordinance of Hong Kong, the Industrial Products Standard of Thailand and other relevant laws and regulations relating to products quality. The regulations require the manufacturers to ensure that quality of their goods satisfies the product safety requirements and they should take the responsibility in the design, production, and storage processes and provide adequate instructions to avoid potential harm to the consumer. With our continuous effort to monitor product quality, during the Reporting Period, we did not have any significant non-compliance with the product quality-related laws and regulations.

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

OUR SUPPLY CHAIN

Supply Chain Management

The Group is committed to building lasting and constructive relationships with partners in its supply chain. The Group's Procurement in Company Policy Manual specifies our dedication to a fair, transparent and competitive procurement process. The document is applicable to the Group's all departments, cooperate and subsidiary on their subcontractor bidding process at project commencements, which requires all employees to observe the highest standards of business integrity and to comply with relevant laws and regulations.

Supplier Engagement

We conduct supplier evaluation for new suppliers. Both potential and approved suppliers are shortlisted and reviewed from time to time with reference to criteria including (i) legal business license; (ii) certified quality system; (iii) pre-sales and after-sales service; (iv) production capacity; and (v) price.

Supplier and Subcontractor Control and Monitoring

In order to achieve better project performance, we annually rate the quality of subcontractors based on factors such as (i) sufficiency of plant; (ii) sufficiency of manpower; (iii) progress; (iv) workmanship; (v) response to instructions; (vi) financial status; and (vii) planning and management. Comments and remarks are given if any improper practises and unsatisfied performance is observed for further improvement on the project performance.

We monitor the performance and identify the environmental or social risk of suppliers on our approved list on an annual basis through inspections and risk assessments. Our suppliers may be exposed to charges in relation to violations of safety, environmental or employment laws and regulations which may affect our consideration to continue our further purchase.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR CUSTOMER

Product Quality

Quality Policy

The Group established Quality Manual and Project Quality Plan to set out our commitment to improving the performance by creating a customer focus and continual improvement in corporate culture.

Quality Management System

To maintain consistent product quality and ensure our ability to meet our customers' requirements in all respects, the Group has established a formal quality management system which is certified to be in compliance with the requirements of ISO 9001:2015.

In the quality control process, we have employed quality control staff for identification and providing solutions to problems relating to the quality system, initiating actions to prevent the occurrence of nonconformity. In order to ensure the work progress according to the schedule, our project manager is responsible for monitoring the overall works quality and engineering working plan. We aimed to develop a sustainable performance-oriented culture with an emphasis on pursuing continuous improvement and long-term development.

Complaint Handling

We have complaints handling procedures in place to provide guidelines for our employees on complaint handling. In the Reporting Period, there was no complaint received.

Intellectual Property, Marketing and Trademark

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

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

The "Futong" trademark has been accepted by the Group's customers with high reputation throughout the year ended 31 December 2020. The Directors deeply believe the trademark is essential to develop the Group's products in the ASEAN markets.

The Group respects intellectual properties and obtained and has its own trade mark. The Group does not rely heavily on marketing and advertising. To the best of Directors' knowledge, the Group was not aware of any significant impact relating to intellectual property, advertising and labelling on its operations and products. We will closely monitor the business environment to identify any significant risks in this area.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Customer Privacy and Corporate Information Protection

The Group strives to protect the privacy of its customers and staff in the collection, processing and use of their business or personal data, and prevent improper use or leakage of information.

- *Employees*
 - The Employee Handbook has outlined the details of data collection and the uses of the personal record. The Human Resources Department strictly complies with the Personal Data (Privacy) Ordinance. The personal data files of our staff are only available to limited personnel such as top management members, particular supervisors, handlers who are responsible for assessing qualification and financial claims, and other authorized employees with special tasks.
- *The Group, Customers and Business Partners*
 - Security is a large topic under “code of conduct” in the employee handbook. The Group requires all employees to maintain the confidentiality of company and client information. For all documents and information belonging to the Group and clients, the handling employee shall not discuss it with anyone except the supervisor. Employees should ask the supervisor for guidance when they have doubts about the information.

All employees are required to abide by the guidelines and rule related to privacy regardless of work location and time. Failure by any employee to comply with the confidentiality obligation may lead to disciplinary action, and in serious cases will be treated as gross misconduct. During the Reporting Period, to the best of our Directors’ knowledge, the Group was not aware of any significant noncompliance case in this regard.

Business Ethics

The Group is committed to conducting its business with honesty and integrity and applying the highest standards on the establishment of transparent and open corporate governance frameworks. We adopt zero tolerance on any unethical acts.

Policies and Preventive Measures

Our commitments and values are guided by these policies and measures. We regularly review and update to ensure appropriate ethical business practices and behaviour, including but not limited to:

- **Employee Handbook**
Our Employee Handbook sets out principles for acting responsibly in the daily operation, including issues related to business ethics, conflicts of advantages, bribery and corrupt practices, offering advantages, environment, health and safety, and respect in the workplace.
- **Whistle-blowing Policy**
It is established to encourage our employees to report promptly on any suspected business malpractices and unethical acts, such as internal improprieties, corruptions, fraudulent acts, and severe dangers to the environment and public. We hope to, by this mean, deter inappropriate activities and maintain a good professional image and professional ethics.
- **Fraud Risk Management**
Our Risk Management Policy states a series of fraud risk factors and establishes the fraud risk management to ensure early detection and proper responses to the potential fraudulent activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We understand the importance of fairness and transparency during the process of project bidding and outsourcing. The Group strictly adheres to the laws and regulations relating to business honesty, bribery and money laundering in Hong Kong, such as the Competition Ordinance (Cap. 619). During the Reporting Period, to the best of our Directors' knowledge, the Group was not aware of any warning or notice on non-compliance cases such as bid-rigging and corruption litigation in this regard.

OUR ENVIRONMENT

The Group notices our business could create small impacts on the environment and large scale landscape changes in the surrounding area. Although the impact and pollution are estimated to be insignificant, proper protective and mitigation measures still to be adopted. The Group highly values the environmental responsibility, not only for meeting our customers' demands for environmental protection, but also for the community's expectation for a healthy living and working environment. Therefore, we do our utmost to minimise the environmental impact through enacting various policies, internal regulations, guidelines, and strictly monitoring whether all the environmental control ordinances are in compliance. We look forward to enhancing the promotion of green awareness among the Group and between workers, and striving for balance between developments and the environment for achieving sustainable development.

Policies

- *Environmental Policy and Related Management Systems*
Our Environmental Policy sets out our commitment to strengthening the awareness of environmental management and the relevant laws and regulations of our employees, subcontractors and suppliers through training and guidance. Our goal is to support environmental protection and to minimise pollution during construction. Our environmental management system has been certified against ISO 14001:2015. We regularly review for continuous improvement of the existing measures.
- *Waste Management Policy*
Our Waste Management Policy sets out our commitment to reducing our impact on the environment by managing waste efficiently and sustainably.
- *Energy Management Policy*
Our Energy Management Policy illustrates our ideas to improve the performance by creating a detailed energy-saving guideline in our daily operation through the adoption and implementation of an Energy Management System.

Environmental Compliance

Our manufacturing processes are subject to certain environmental requirements pursuant to the laws and regulations in Hong Kong and Thailand including but not limited to:

- Public Health and Municipal Services Ordinance (Cap. 132)
- Air Pollution Control Ordinance (Cap. 311)
- Waste Disposal Ordinance (Cap. 354)
- Water Pollution Control Ordinance (Cap. 358)
- Noise Control Ordinance (Cap. 400)
- Environmental Impact Assessment Ordinance (Cap. 499) Conservation of the National Environmental Quality Act of Thailand

During the Reporting Period, to the best of our Directors' knowledge, the Group was not aware of significant non-compliance issues in this regard.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental Impacts from our Operations and Mitigation Measures

Site inspection and environmental audit are vital works for monitoring the compliance on environmental standards and assessing on-site environmental impacts from our operations. We appoint our environmental teams with external engineering consultants in every project to oversee if the environmental measures are correctly implemented weekly. During site audit, we observe the environmental quality and assess the executed mitigation measures in various aspects, including but not limited to, water quality, air emissions, noise control, waste and chemical management, landscape, and visual impact. Moreover, we review our inspection works monthly by holding meetings with relevant managerial officers, worker representatives and external engineering consultants, in pursuit of continuous improvement and enhancing communication during implementation of the measures.

We strictly comply with Environmental Impact Assessment Ordinance to avoid, minimise and control the adverse environmental impacts from designated projects. By going through the application of environmental permit and process of environmental impact assessment, pollution and impacts are controlled in both construction and operation phases of the project. During the Reporting Period, our Group attempted no material non-compliance or violations of any laws and regulations in relation to environmental protection. We have not been prosecuted under the relevant applicable environmental laws and regulations.

Environmental Risk Management

We have established a sound and effective environmental management system in accordance with ISO 14001 and formulated the Operational Procedure for Identifying and Assessing Environmental Factors to comprehensively monitor the environmental risks associated with the Group's operations.

Besides, we have set up an environment committee which is responsible for implementing the risk assessment mechanism to evaluate environment-related risks based on the frequency of occurrence, detectability, environmental impacts and regenerative capacity of relevant natural resources. Corresponding mitigation action plans for those environment-related risks will also be developed. The environment committee is also responsible for the coordination and supervision of the implementation of such action plans. In addition, the Group assesses impacts of the products on the environment throughout the product lifecycle by taking various factors such as resources used, air pollution and discharges into water and land into account. Based on the impact assessment, we work out appropriate monitoring and control plans accordingly.

Air Emissions Management

The Group continued to pay attention to the air emission, and underwent treatment and compliance with emission standard during the production process. The Group's major air emissions were derived from our private cars and light vehicles. In FY2020, air emissions generated from the operation of the Group are listed as follows:

Air emissions	Quantity (kg)
Nitrogen oxides	159.8
Sulphur oxides	0.78
Particulate matter	14.71

The Group gradually uses eco-friendly fuels and vehicles with better fuel efficiency so as to reduce air emissions of vehicles. Besides, we also map out reasonable driving routes to cut the driving time and fuel consumption. Furthermore, despite that the Group's production generates negligible air emissions, the Group has formulated the Operational Procedure for Management of Air Pollutants to continuously monitor the manufacturing process and maintain eco-friendly performance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 FY2020, 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 0.8 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 FY2020, 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	25.14	25.14	100%
Glass rod	5.84	0	0% ^{Note1}
Paper	3.83	3.27	85%
Plastics and plastic compounds	26.36	21.38	81%
Scrapped optical fibres and optical fibre cables	45.99	39.10	85% ^{Note1}
Wood	7.6	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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy Efficiency and Water Consumption

We aim to improve energy efficiency as a continuous improvement process. We strive for achieving the target through the following measures in our office:

- We avoid frequent start/stop of the equipment that would draw excessive energy
- We keep the door closed to prevent cool air from leaking out from the indoor office with airconditioning
- We avoid excessive lighting and utilise natural day-light as much as possible
- We prioritise the use of energy-saving facilities, equipment or any items (e.g. Energy-saving lamp bulb)
- We regularly clean the lamp bulbs and diffusers in pursuit of a higher efficiency of luminaries

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

Type of resources	Amount used	Intensity of resource usage
Purchased electricity	9,073,967 KWh	2.219 KWh per kilometre of fibre
Diesel	14,344.80 litres	0.0074 litres per kilometre of fibre
Lead-free gasoline	19,927.85 litres	0.0049 litres per kilometre of fibre
Purchased water	49,008 m ³	0.012 m ³ per kilometre of fibre

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Utilisation of Packaging Materials and Material Consumption

The Group consumed 39.54 tonnes of optical fibre trays, 37.59 tonnes of cardboard boxes and 600.46 tonnes of wooden planks for the use of packaging materials in FY2020. 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 27.68 tonnes of optical fibre trays and 2.53 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.

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.

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.

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.

OUR SOCIETY

Community Investment

The Group is committed to making contributions to the society and support of initiatives that benefit the communities we work in pursuit of a better tomorrow. The Group has been developing in recent years but has not forgotten social responsibility to contribute to society.

Our Contribution

We have given support to the social activities organised by the government and non-governmental Organisations such as a donation in amount of HK\$3 million to The Foundation of HKEX to enhance the management of listing market in Hong Kong during the Reporting Period.

However, because of the pandemic of COVID-19 and its related impacts, we engage in limited community participation and volunteering events during the Reporting Period. In order to respond and prevent community transmission of the virus, we donated 10,000 surgical masks to high-risk groups such as "mental patients and nursing home workers" in FY2020. We look forward to participating more activities in our community after overcoming the pandemic.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Aspect	Reference	Subject Area	Page
A. Environmental			
A1: Emissions	A1	Policies and compliance relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	48–49
	A1.1*	Emissions types and data	50
	A1.2*	Greenhouse gas emissions	49
	A1.3*	Total hazardous waste	50
	A1.4*	Total non-hazardous waste	50
	A1.5	Measures to mitigate emissions and results achieved	50
	A1.6	Measures to handle and reduce hazardous and non-hazardous wastes and results achieved	50
A2: Use of Resources	A2	Policies on the efficient use of resources, including energy, water and other raw materials	51
	A2.1*	Direct and/or indirect energy consumption by type in total and intensity	51
	A2.2*	Water consumption by type in total and intensity	51
	A2.3	Energy use efficiency initiatives and results achieved	51
	A2.4	Water efficiency initiatives and results achieved	51
	A2.5*	Packing material used for finished products	52
A3: The Environment and Natural Resources	A3	Policies on minimising the issuer's significant impact on the environment and natural resources	48
	A3.1	Significant impacts of activities on the environment and natural resources and the actions taken to manage them	49
B. Social			
Employment and Labour Practices			
B1: Employment	B1	Policies and compliance relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	39–41
B2: Health and Safety	B2	Policies and compliance relating to providing a safe working environment and protecting employees from occupational hazards	42–43
B3: Development and Training	B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	43–44
B4: Labour Standards	B4	Policies and compliance relating to preventing child and forced labour	44
Operating Practices			
B5: Supply Chain Management	B5	Policies on managing environmental and social risks of the supply chain	45
B6: Product Responsibility	B6	Policies and compliance relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	46
B7: Anti-corruption	B7	Policies and compliance relating to bribery, extortion, fraud and money laundering	47
Community			
B8: Community Investment	B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	52

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Hu Guoqiang (胡國強), aged 57, is an executive Director and Chairman of the Board. Mr. Hu joined the Group in April 2003 as a director of Transtech and is responsible for devising development strategies and business strategies for the Group. After joining the Group, Mr. Hu is principally responsible for devising development strategies and business strategies for the Group, Mr. Hu is currently a director and deputy/standing president of Futong 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 61, is an executive Director and the chief executive officer of the Group. Mr. He joined the Group in April 2003 as a director and general manager of Transtech and is responsible for managing the daily operations and business development of our Group. Mr. He was the president of Futong Group (Hong Kong) Co., Ltd. ("Futong Group (Hong Kong)") and a director of Hong Kong Futong Optical Fibre Co., Ltd. ("Futong HK"), and he has resigned from such positions in these two companies upon Listing.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yu Jiangping (俞江平), aged 56, joined our Group in January 2018 as deputy general manager of Futong Group Communication Technology (Thailand) Company Limited, a subsidiary of our Group, and has been responsible for the daily operations and business development in Thailand and various countries in the Association of Southeast Asian Nations (ASEAN).

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

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

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

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu Muzhong (徐木忠), aged 54, is an executive Director. Mr. Xu joined the Group in May 2012 and is responsible for managing the production process, quality control, as well as production technologies and craftsmanship of the Group. Mr. Xu is 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.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lau Siu Hang (劉少恒), aged 65, was appointed as an independent non-executive Director on 23 June 2017.

Mr. Lau obtained his bachelor's degree in business administration from University of Western Sydney in April 2001 in Australia, and his master's degree in Chinese culture from The Hong Kong Polytechnic University in January 2013. Mr. Lau had served the Hong Kong government for approximately 30 years with his last position as Principal Immigration Officer prior to his retirement in 2010. During his tenure, he was responsible for handling 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 65, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Ren Guodong (任國棟), aged 45, joined the Group in October 2003 and is currently the operations manager and a director of Transtech who is responsible for the day-to-day operation of Transtech.

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

Mr. Ho Cheuk Wai (何焯偉), aged 59, 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 60, joined the Group in January 2005 and is currently the assistant engineering department manager of Transtech, in charge of the engineering matters. Mr. Wang obtained a Bachelor's degree in Electronic Engineering from Zhejiang Radio and Television University (浙江廣播電視大學) in August 1983 and the qualification of Middle-level Engineer from Hangzhou Enterprise Middle-level Engineering Technician Assessment Committee (杭州市鄉鎮企業工程技術人員中級職務評審委員會) in the PRC in October 1999.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Lee Yin Chun, Anthea (李妍臻), aged 42, joined the Group in August 2005 and is currently the human resources and administration manager of Transtech, responsible for human resources and administrative matters. Ms. Lee completed the Bachelor of Business (Management) Human Resource Management Specialization Degree program (long-distance course) offered by RMIT University in Australia in 2008 and a Professional Diploma in Human Resources Management from Hong Kong Management Association in March 2002.

Ms. Lee has 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 2020.

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 32 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 2020 and the Group's financial position at that date are set out in the consolidated financial statements of the Group on pages 75 to 77 of this report.

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2020.

BUSINESS REVIEW

Details of which, are set out in the paragraph headed "Chairman's Statement" on pages 7 to 9 of this report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the aggregate amount of revenue attributed to the Group's largest and the five largest customers accounted for approximately 21% and 63% (2019: 27% and 72%) of the total revenue of the Group, respectively. For the year ended 31 December 2020, the Group's purchase from the largest and the five largest suppliers accounted for approximately 72% and 91% (2019: 50% and 89%) of the total purchases of the Group, respectively. At no time during the year ended 31 December 2020 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 2020 are set out in note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2020, 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\$45.2 million comprising accumulated loss of approximately HK\$50.3 million and the share premium of approximately HK\$95.5 million (2019: approximately HK\$53.1 million).

REPORT OF DIRECTORS

DIRECTORS

The Directors of the Company during the year ended 31 December 2020 and up to the date of this report were as follows:

Executive Directors

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

Independent Non-executive Directors

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

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

In accordance with the articles of association of the Company (the "Articles"), Mr. Hu Guoqiang, Mr. Xu Muzhong and Mr. Li Wei shall 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.

REPORT OF DIRECTORS

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

(a) Executive Directors

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

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

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

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 on page 6 of this report.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2020, 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" on page 20 of this report.

REPORT OF DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 13 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group at 31 December 2020 are set out in note 23 to the consolidated financial statements.

INTEREST CAPITALISED

The Group has not capitalised any interest during the year ended 31 December 2020.

RESERVES

Details of movements in reserves of the Group during the year ended 31 December 2020 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 2020, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase, cancel or sell any of such listed securities.

REPORT OF DIRECTORS

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 54 to 59 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 2020.

As at 31 December 2020, 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 2020 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 2020 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.

REPORT OF DIRECTORS

COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

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

- (i) sales or manufacturing of optical fibres, optical fibre cables, optical cable cores and other similar products (excluding optical fibre preforms) (the “Relevant Optical Communication Products”) in Hong Kong and the ASEAN; and
- (ii) any other business in Hong Kong and the ASEAN from time to time conducted, engaged in or invested in by any member of the Group or which the Company has otherwise published an announcement on the website of the Stock Exchange stating its intention to conduct, engage in or invest in.

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

- (i) with respect to any proposed sales of the Relevant Optical Communication Products to (a) authorised distributors or trading agents (which include all companies which on-sell or trade the Relevant Optical Communication Products of the Controlling Shareholders) or (b) manufacturers of the Relevant Optical Communication Products, (together, the “Restricted Customers”), the Controlling Shareholder shall include a clause in the relevant contract to be entered into between the Controlling Shareholder and such Restricted Customer(s), pursuant to which such Restricted Customer(s) shall not on-sell the Relevant Optical Communication Products purchased from the Controlling Shareholder, with or without further processing, to other customers in Hong Kong and ASEAN; and
- (ii) if prior to the sale of the Relevant Optical Communication Products to the Restricted Customer(s), the Controlling Shareholder has been informed by the Restricted Customer(s) or is aware that such Restricted Customer(s) intend(s) to on-sell the Relevant Optical Communication Products purchased from the Controlling Shareholder, with or without further processing, to other customers in Hong Kong and/or ASEAN, the Controlling Shareholder shall not engage in such sale and shall refer such new business opportunity to the Group.

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

REPORT OF DIRECTORS

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 2020:

- (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 2020 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 2020 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 2020 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”).

REPORT OF DIRECTORS

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

So far as is known to the Directors, as the period from the year ended 31 December 2020 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 2020 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 2020.

REPORT OF DIRECTORS

DIVIDENDS

The Board did not recommend a payment of any final dividend for the year ended 31 December 2020 (year ended 31 December 2019: 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 2020, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase, cancel or sell any of such listed securities.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules and Appendix 10 to the Listing Rules before and after the Company transferred its share listing from GEM to Main Board respectively. 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 2020, 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 2020.

PRE-EMPTIVE RIGHTS

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

PERMITTED INDEMNITY PROVISION

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

The Company has maintained a directors and officers liability insurance for the year ended 31 December 2020. 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.

REPORT OF 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 2020, 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 33 to 53 of this report.

DONATION

During FY2020, the Group made donation for charitable purposes in the aggregate amount of HK\$3,003,000 (2019: HK\$6,000).

ANNUAL GENERAL MEETING

The next annual general meeting (“AGM”) of the Company will be held on 28 May 2021, 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 25 May 2021 to 28 May 2021, 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, 24 May 2021.

REPORT OF DIRECTORS

EVENTS AFTER THE REPORTING PERIOD

References are made to the paragraph of “Post balance sheet events” and “Continuing Connected Transactions” in relation the effect of COVID-19 and the renewal of the sales of optical fibre agreement respectively in Section “Management Discussion and Analysis”. Save for the aforesaid events, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2020 and up to the date of approval of this report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2020 have been audited by Deloitte Touche Tohmatsu, who is also the auditor of Transtech for the five years ended 31 December 2020 and shall retire at the forthcoming annual general meeting and, being eligible, offered themselves for re-appointment.

INTERESTS OF THE COMPLIANCE ADVISER

As at 31 December 2020, neither Innovax Capital Limited, the compliance adviser of the Company, nor any of its directors, employees or associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of GEM Listing Rules. Indeed, the Company and Innovax Capital Limited agreed to terminate the adviser’s service in April 2020 after the announcement of 2019 annual result.

AUDIT COMMITTEE

The Company has established an audit committee with the written terms of reference in compliance with the GEM and Main Board 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 2020 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 March 2021

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

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

OPINION

We have audited the consolidated financial statements of Transtech Optelecom Science Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 75 to 132, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Key audit matter

How our audit addressed the key audit matter

Valuation of trade receivables

We identified the valuation of trade receivables as a key audit matter due to the use of judgement and estimates by the management in the evaluation of the recoverability of trade receivables.

As set out in notes 4 and 28 to the consolidated financial statements, loss allowance for trade receivables are determined based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, aging of overdue trade receivables, customers' repayment history and customers financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgment.

As at 31 December 2020, the carrying amount of trade receivables is HK\$320,803,000 with loss allowance for trade receivables of HK\$2,033,000 was recognised in profit or loss for the year.

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

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

OTHER INFORMATION

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December	
		2020 HK\$'000	2019 HK\$'000
Revenue	5	262,623	370,763
Cost of sales		(220,016)	(286,096)
Gross profit		42,607	84,667
Other income	6	5,930	1,539
Other gains and losses	6	21,769	(4,441)
Loss allowance for trade receivables under expected credit loss model, net of reversal		(2,033)	(703)
Selling and distribution expenses		(3,251)	(4,860)
Administrative expenses		(26,089)	(25,602)
Finance costs	8	(1,175)	(1,172)
Professional expense on the application for the transfer from GEM to the Main Board of the Stock Exchange	9	(4,753)	(7,244)
Profit before taxation	9	33,005	42,184
Income tax expense	10	(4,774)	(6,421)
Profit for the year		28,231	35,763
Other comprehensive (expense) income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(659)	24,747
Total comprehensive income for the year		27,572	60,510
Earnings per share	12		
Basic (HK cents)		10.86	13.76

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	The Group	
		As at 31 December	
		2020	2019
		HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	13	169,900	163,424
Right-of-use assets	14	4,383	16,347
Deposits for acquisition of property, plant and equipment	17	121,469	103,996
Deposits	17	69	63
Deferred tax assets	25	106	98
		295,927	283,928
Current assets			
Inventories	15	38,360	69,191
Trade receivables	16	320,803	277,043
Deposits, prepayments and other receivables	17	85,831	34,507
Bank balances and cash	18	28,620	135,920
		473,614	516,661
Current liabilities			
Trade and bills payables	19	13,304	45,865
Other payables and accrued charges	20	7,117	8,865
Contract liabilities	21	11	393
Lease liabilities	22	6,479	11,633
Bank and other borrowings	23	18,733	27,788
Tax payable		1,622	6,168
		47,266	100,712
Net current assets		426,348	415,949
Total assets less current liabilities		722,275	699,877
Non-current liabilities			
Deferred tax liabilities	25	3,517	4,011
Lease liabilities	22	–	6,493
Bank and other borrowings	23	1,813	–
		5,330	10,504
Net assets		716,945	689,373

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	The Group As at 31 December	
		2020 HK\$'000	2019 HK\$'000
Capital and reserves			
Issued share capital	24	2,600	2,600
Reserves		714,345	686,773
Total Equity		716,945	689,373

The consolidated financial statements on pages 75 to 132 were approved and authorised for issue by the board of directors on 29 March 2021 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 2019 (restated)	2,600	95,534	289,031	(117)	241,815	628,863
Profit for the year	-	-	-	-	35,763	35,763
Other comprehensive income	-	-	-	24,747	-	24,747
Total comprehensive income for the year	-	-	-	24,747	35,763	60,510
At 31 December 2019	2,600	95,534	289,031	24,630	277,578	689,373
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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	33,005	42,184
Adjustments for:		
Depreciation of property, plant and equipment	14,202	14,611
Depreciation of right-of-use assets	8,872	10,955
Interest income	(129)	(833)
Interest expenses	1,175	1,172
Loss allowance for trade receivables under expected credit loss model, net of reversal	2,033	703
Operating cash flows before movements in working capital	59,158	68,792
Decrease in inventories	29,955	32,180
Increase in trade receivables	(46,303)	(27,122)
Increase in other receivables, deposits and prepayments	(50,721)	(31,403)
Decrease in trade and bills payables	(30,962)	(17,663)
(Decrease)/increase in other payables and accrued charges	(1,710)	1,058
(Decrease)/increase in contract liabilities	(364)	83
Cash (used in)/generated from operations	(40,947)	25,925
Tax paid	(9,822)	(3,852)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(50,769)	22,073
INVESTING ACTIVITIES		
Interest received	146	890
Deposits paid for acquisition of property, plant and equipment	(16,953)	(24,096)
Purchases of property, plant and equipment	(20,557)	(50,003)
NET CASH USED IN INVESTING ACTIVITIES	(37,364)	(73,209)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
FINANCING ACTIVITIES		
New bank and other borrowings raised	78,869	54,590
Repayments of bank borrowings	(85,728)	(46,454)
Repayments of lease liabilities	(8,555)	(11,308)
Interest paid	(1,175)	(1,172)
NET CASH USED IN FINANCING ACTIVITIES	(16,589)	(4,344)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(104,722)	(55,480)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	135,920	187,014
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(2,578)	4,386
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	28,620	135,920

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 company incorporated in Hong Kong, and ultimate holding company is Hangzhou Futong Investments Co., Ltd., a company incorporated in the People's Republic of China ("PRC"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in this annual report.

The Company is an investment holding company. Details of the principal activities of its subsidiaries are set out in note 32.

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 *Amendments to References to the Conceptual Framework in HKFRS Standards* and 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 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Impacts on application of Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole. The application of the amendments in the current year had no impact on the consolidated financial statements.

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 ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ⁵
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 Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after 1 January 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Amendment to HKFRS 16 Covid-19-Related Rent Concessions

The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

The amendment introduces 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 occurring as a direct consequence of the Covid-19 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 2021; 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 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.

The application is not expected to have impact on the Group’s financial position and performance as the Group does not intend to apply the practical expedient.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform — Phase 2

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform — Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- Modification of financial assets, financial liabilities and lease liabilities. A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRS requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16; and
- Disclosures. The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity’s progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several bank loans which will or may be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

Amendments to HKAS 16 Property, Plant and Equipment — Proceeds before Intended Use

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2 *Inventories*.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that: (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group’s outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group’s liabilities.

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of preparation of consolidated financial statements (Continued)

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Existence of significant financing component

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 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

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.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Leases (Continued)

The Group as a lessee (Continued)

Lease modifications

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

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

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

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

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.

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

Freehold land is 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. 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.

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

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

Inventories

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with 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.

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial assets (Continued)

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.

(i) Significant increase in credit risk

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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

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

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

(ii) Definition of default

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

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial assets (Continued)

Impairment of financial assets (Continued)

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial liabilities and equity instruments (Continued)

Financial liabilities

The Group's financial liabilities including trade and bills 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.

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 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Taxation (Continued)

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

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

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

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Foreign currencies (Continued)

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

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

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.

Provision of ECL for trade receivables

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

The provision of ECL is sensitive to changes in estimates. 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 lead to increased credit default rates. The information about the ECL and the Group's trade receivables are disclosed in Note 28.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Depreciation

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

During the year ended 31 December 2020, the Group determined that there was no change to the estimated useful lives and residual value of the property, plant and equipment. The carrying amount of property, plant and equipment is approximately HK\$169,900,000 as at 31 December 2020 (2019: HK\$163,424,000).

5. REVENUE AND SEGMENTAL INFORMATION

(i) Disaggregation of revenue from contracts with customers

Year ended 31 December 2020

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

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

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

	For the year ended 31 December 2020				
	Optical fibre cables and optical cable cores	Optical fibres	Total segment revenue	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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

Year ended 31 December 2019

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

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

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

	For the year ended 31 December 2019				
	Optical fibre cables and optical cable cores HK\$'000	Optical fibres and other related products HK\$'000	Total segment revenue HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Sales of optical fibre cables	104,976	–	104,976	–	104,976
Sales of optical fibres	–	210,478	210,478	(67,275)	143,203
Sales of optical cable cores	100,177	–	100,177	–	100,177
Other related products	–	22,407	22,407	–	22,407
Segment revenue	205,153	232,885	438,038	(67,275)	370,763

(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% (2019: 20%–50%) deposit depends 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 (2019: 0 to 365 days) upon delivery.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

(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 2020 and 2019 and the expected timing of recognising revenue are as follows:

	2020 HK\$'000	2019 HK\$'000
Sale of optical fibre cables within one year	22	786

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

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

Segment revenue and results

Year ended 31 December 2020

	Optical fibre cables and optical cable cores HK\$'000	Optical fibres and other related products HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	Total HK\$'000
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Segment revenue and results (Continued)

Year ended 31 December 2019

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

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

Inter-segment sales are charged at prevailing market rates.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Other information

Year ended 31 December 2020

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

Year ended 31 December 2019

	Optical fibre cables and optical cable cores HK\$'000	Optical fibres and other related products HK\$'000	Total HK\$'000
Other segment information (included in the measure of segment profit or loss or regularly provided to CODM)			
Additions to non-current assets (Note)	44,743	5,260	50,003
Depreciation of property, plant and equipment	9,145	5,466	14,611
Depreciation of right-of-use assets	–	10,955	10,955
(Reversal of) loss allowance for trade receivables	(412)	1,115	703

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Geographical information

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

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

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
PRC (excluding Hong Kong)	11,235	17,870
Hong Kong	100,158	151,691
Thailand	77,594	88,231
Singapore	55,693	100,177
Laos	7,204	2,417
The Philippines	3,627	2,510
Burma	7,062	4,821
Others	50	3,046
	262,623	370,763

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

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Hong Kong	30,046	47,281
Thailand	265,881	236,647
	295,927	283,928

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Information about major customers

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

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
Customer A	30,154	N/A*
Customer B	N/A*	41,194
Customer C	52,119	66,169
Customer D	55,693	100,177

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

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

6. OTHER INCOME, OTHER GAINS AND LOSSES

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
Other income:		
Income from sales of scrap products	192	326
Bank interest income	129	833
Government grants (Note (i))	3,147	–
Others (Note (ii))	2,462	380
	5,930	1,539
Other gains and losses:		
Foreign exchange gains (losses)	21,769	(4,441)
	21,769	(4,441)

Notes:

- (i) During the current year, the Group recognised government grants of approximately HK\$3,147,000 in respect of Covid-19-related subsidies which relates to Employment Support Scheme provided by the Hong Kong government.
- (ii) Amount includes service fee income of approximately HK\$2,328,000 (2019: nil) in respect of technical support provided to an independent third party for the production of masks during the year ended 31 December 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

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

	Hu Guoqiang HK\$'000	He Xingfu HK\$'000 (Note i)	Yu Jiangping HK\$'000	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	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

	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 2019									
Fees	600	360	-	560	-	240	240	240	2,240
Other emoluments									
Salaries and other benefits	-	1,411	760	-	705	-	-	-	2,876
Retirement benefits scheme contributions	-	18	-	-	-	-	-	-	18
Total emoluments	600	1,789	760	560	705	240	240	240	5,134

Notes:

- (i) Mr. He Xingfu acts as chief executive officer of the Group. Emoluments for acting as chief executive officer of the Group has been included in his director's emoluments as disclosed above.
- (ii) The directors' emoluments shown above were for their services in connection with the management of the affairs of the 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees' emoluments

The five highest paid individuals of the Group during the year included three directors (2019: three directors) whose emoluments are included in the disclosures in (a) above. The emoluments of the remaining two (2019: two) individuals who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
Salaries and other benefits	1,447	1,505
Discretionary bonus	240	115
Retirement benefits scheme contributions	36	36
	1,723	1,656

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

	Year ended 31 December	
	2020 Number of individuals	2019 Number of individuals
Nil to HK\$1,000,000	3	4
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCE COSTS

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
Interest on bank and other borrowings	710	468
Interest on lease liabilities	465	704
	1,175	1,172

9. PROFIT BEFORE TAXATION

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	1,050	1,000
Depreciation of property, plant and equipment	14,202	14,611
Less: amount capitalised in inventories	(12,730)	(12,858)
	1,472	1,753
Depreciation of right-of-use assets	8,872	10,955
Less: amount capitalised in inventories	(8,872)	(10,955)
	-	-
Directors' remuneration (Note 7)	4,638	5,134
Other staff costs		
Salaries and other benefits	26,827	30,685
Retirement benefits scheme contributions	619	694
Total staff costs	32,084	36,513
Less: amount capitalised in inventories	(17,680)	(20,086)
	14,404	16,427
Cost of inventories recognised as an expense	220,016	286,096
Professional expense on the application for the transfer from GEM to the Main Board of the Stock Exchange	4,753	7,244

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
Hong Kong Profits Tax		
Current Tax	5,036	6,161
Overprovision in prior years	(27)	(20)
	5,009	6,141
Thailand withholding tax	267	172
Deferred tax (Note 25)	(502)	108
	4,774	6,421

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

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX EXPENSE (CONTINUED)

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

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
Profit before taxation	33,005	42,184
Tax at the applicable income tax rate of 16.5% (2019: 16.5%)	5,446	6,960
Tax effect of income not taxable for tax purpose	(1,488)	(289)
Overprovision in prior years	(27)	(20)
Tax effect of expenses not deductible for tax purpose	1,554	2,265
Effect of tax exemption granted	(813)	(2,502)
Withholding income tax for income derived from the subsidiary in Thailand of 15%	267	172
Tax effect of two-tiered tax rate regime	(165)	(165)
Tax expense for the year	4,774	6,421

11. DIVIDEND

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

12. EARNINGS PER SHARE

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

	2020 HK\$'000	2019 HK\$'000
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	28,231	35,763
Number of shares	2020 '000	2019 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	260,000	260,000

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK\$'000	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 2019	28,586	45,017	53,727	113,764	6,327	1,901	3,193	40	252,555
Additions	-	-	-	5,249	31	6	-	44,717	50,003
Disposals	-	-	-	-	-	(57)	-	-	(57)
Exchange realignment	2,244	3,534	1,767	4,225	460	82	197	1,115	13,624
At 31 December 2019	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
DEPRECIATION									
At 1 January 2019	-	11,889	52,197	59,650	4,547	1,318	2,866	-	132,467
Provided for the year	-	2,369	405	10,829	591	266	151	-	14,611
Eliminated on disposals	-	-	-	-	-	(57)	-	-	(57)
Exchange realignment	-	992	1,756	2,359	342	56	175	-	5,680
At 31 December 2019	-	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
CARRYING AMOUNTS									
At 31 December 2020	30,747	30,790	905	40,446	911	102	82	65,917	169,900
At 31 December 2019	30,830	33,301	1,136	50,400	1,338	349	198	45,872	163,424

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. RIGHT-OF-USE ASSETS

	Leased properties HK\$'000
Carrying amount	
1 January 2020	16,347
31 December 2020	4,383

Amounts recognised in profit or loss

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
Depreciation expense on right-of-use assets	8,872	10,955
Less: amount capitalised in inventories	(8,872)	(10,955)
	-	-
Expense relating to short-term leases	710	686

The total cash outflow for leases amount to HK\$9,730,000 during the year ended 31 December 2020 (2019: HK\$12,698,000).

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

The Group regularly entered into short-term leases for staff quarters. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Termination option

The Group has a termination option in a lease for plant and office premises. This is used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The termination option held are exercisable only by the Group and not by the respective lessor. The Group was reasonable certain not to exercise the termination option, therefore, lease liabilities have been recognised for the remaining term of the lease as at 31 December 2020 and 2019.

Rent concessions

During the year ended 31 December 2020, lessor of the leased properties provided rent concessions to the Group through rent reductions at HK\$990,000 for three months from January to March 2020, totaling HK\$3,092,000.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. INVENTORIES

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Raw materials and consumables	26,621	34,675
Work in progress	6,711	10,075
Finished goods	4,326	15,723
Goods-in-transit	702	8,718
Total	38,360	69,191

16. TRADE RECEIVABLES

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Trade receivables — sales of goods	324,760	278,884
Less: Loss allowance	(3,957)	(1,841)
Total trade receivables	320,803	277,043

As at 1 January 2019, trade receivables from contracts with customers amounted to HK\$237,004,000.

The Group grants credit terms of 0–365 days (2019: 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	
	2020 HK\$'000	2019 HK\$'000
0–180 days	115,946	149,439
181–270 days	39,622	47,044
Over 270 days	165,235	80,560
Total	320,803	277,043

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$188,868,000 (2019: HK\$90,957,000) which are past due as at the reporting date. Out of the past due balances, HK\$28,631,000 (2019: HK\$12,145,000) has been past due 270 days or more and is not considered as in default. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables for the years ended 31 December 2020 and 2019 are set out in Note 28.

17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Electricity deposits	785	785
Other deposits	179	169
Prepayments	79,545	30,496
Other receivable	1,141	706
Value-added tax receivables	4,250	2,414
Deposits for acquisition of property, plant and equipment	121,469	103,996
Total	207,369	138,566
Presented as non-current assets	121,538	104,059
Presented as current assets	85,831	34,507
Total	207,369	138,566

18. BANK BALANCES AND CASH

Bank balances carry interest at market interest rates ranging from 0.01% to 2.15% per annum as at 31 December 2020 (2019: 0.01% to 2.15%).

Details of impairment assessment of bank balances for the year ended 31 December 2020 and 2019 are set out in Note 28.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. TRADE AND BILLS PAYABLES

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Bills payables	–	12,686
Trade payables	13,304	33,179
	13,304	45,865

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

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Trade and bills payables:		
0–30 days	3,135	12,933
31–60 days	3,496	24,024
61–90 days	4,552	4,220
91–180 days	1,952	3,022
Over 180 days	169	1,666
	13,304	45,865

20. OTHER PAYABLES AND ACCRUED CHARGES

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Accrued charges	6,775	7,829
Other payables	342	1,036
	7,117	8,865

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. CONTRACT LIABILITIES

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Sales of optical fibre cables	11	393

As at 1 January 2019, contract liabilities amounted to HK\$285,000.

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 2020	
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	393
For the year ended 31 December 2019	
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	285

There is no revenue recognised from performance obligations satisfied (or partially satisfied) in prior periods for both years.

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% (2019: 20%–50%) deposit depends on the contract terms.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. LEASE LIABILITIES

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Lease liabilities payable:		
Within one year	6,479	11,633
Within a period of more than 1 year but not exceeding 2 years	–	6,493
	6,479	18,126
Less: Amount due for settlement within 12 months shown under current liabilities	(6,479)	(11,633)
Amount due for settlement after 12 months shown under non-current liabilities	–	6,493

All the lease obligations are denominated in HK\$ as at 31 December 2020 and 2019.

The weighted average incremental borrowing rate applied to lease liabilities was 4.05% (2019: 3.02%).

23. BANK AND OTHER BORROWINGS

	As at 31 December			
	2020		2019	
	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000
Unsecured and unguaranteed:				
— Promissory notes	5.00%	4,747	5.21%	1,818
— Bank borrowings	3.25%	10,360	4.00%	25,970
— Other borrowing	2.00%	5,439	–	–
		20,546		27,788
Less: Amounts due within one year shown under current liabilities		(18,733)		(27,788)
Amounts shown under non-current liabilities		1,813		–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. BANK AND OTHER BORROWINGS (CONTINUED)

The carrying amounts of the above borrowings are repayable*:

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Within one year	18,733	27,788
Within a period of more than 1 year and not later than 2 years	1,813	–
	20,546	27,788

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

For the year ended 31 December 2020

Promissory notes amounting to Renminbi (“RMB”) 3,906,000 (approximately equivalent to HK\$4,747,000) as at 31 December 2020 were interest bearing at Chinese Yuan 6-month Chinese Renminbi Hong Kong Inter-bank Offered Rate plus 2% per annum.

A short-term loan amounting to Thai Baht (“THB”) 40,000,000 (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.

For the year ended 31 December 2019

Promissory notes amounting to RMB1,601,000 (equivalent to HK\$1,818,000) as at 31 December 2019 were interest bearing at Chinese Yuan 6-month Chinese Renminbi Hong Kong Inter-bank Offered Rate plus 2% per annum.

A short-term loan amounting to THB100,000,000 (equivalent to HK\$25,970,000) as at 31 December 2019 was interest bearing at a rate of Minimum Lending Rate of Thailand minus 2% per annum.

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 2020	4,747
As at 31 December 2019	1,818

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. ISSUED SHARE CAPITAL

	Number of shares	HK\$'000
Authorised		
Ordinary shares of HK\$0.01 each		
As at 1 January 2019, 31 December 2019 and 2020	1,000,000,000	10,000
Issued and fully paid		
As at 1 January 2019, 31 December 2019 and 2020	260,000,000	2,600

25. DEFERRED TAXATION

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

Deferred tax

	ECL provision HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1 January 2019	6	(3,811)	(3,805)
Credit (charge) to profit or loss	92	(200)	(108)
At 31 December 2019	98	(4,011)	(3,913)
Credit to profit or loss	8	494	502
At 31 December 2020	106	(3,517)	(3,411)

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

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Deferred tax assets	106	98
Deferred tax liabilities	(3,517)	(4,011)
	(3,411)	(3,913)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. CAPITAL COMMITMENT

	2020 HK\$'000	2019 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	19,482	56,822

27. 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.

28. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Financial assets		
Financial assets at amortised cost	351,528	414,623
Financial liabilities		
Amortised cost	33,850	74,183

Financial risk management objectives and policies

The Group's financial instruments include trade receivables, deposits and other receivables, bank balances and cash, trade and bills payables, other payables, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk (Continued)

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	
	2020 HK\$'000	2019 HK\$'000
RMB	284,002	202,316
US\$	32,675	68,284

Liabilities

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
RMB	8,074	14,456
US\$	1,168	15,491

Sensitivity analysis

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

The following table details the Group's other sensitivity to a 5% (2019: 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% (2019: 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% (2019: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the relevant foreign currencies strengthen 5% (2019: 5%) against HK\$. For a 5% (2019: 5%) weakening of the relevant foreign currencies against HK\$, there would be an equal and opposite impact and the numbers below would be negative.

	RMB Impact		US\$ Impact	
	Year ended 31 December		Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Profit after tax	12,312	8,423	258	680

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. 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 borrowings. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and bank borrowings at variable rates.

The Group is also exposed to fair value interest rate risk in relation to the certain bank balances and other borrowing which are interest bearing at fixed interest rate as at 31 December 2020 and 2019.

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 (2019: 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 2020, if interest rates had been 100 basis points (2019: 100 basis points) higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately HK\$151,000 (2019: decrease/increase by HK\$278,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

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

Credit risk and impairment assessment

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

Trade receivables arising from contracts with customers

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables arising from contracts with customers (Continued)

The Group has concentration of credit risk with exposure limited to certain customers. Trade receivables from top three customers amounting to HK\$204,946,000 (2019: HK\$151,778,000), in aggregate, comprised approximately 64% (2019: 55%) of the Group's trade receivables as at 31 December 2020. The management closely monitors the subsequent settlement of the customers. In this regard, the management considers that the Group's credit risk is significantly reduced.

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.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. 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:

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
2019	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	85,277
			Watch list	Lifetime ECL	193,607
Deposits and other receivables	17	N/A	(Note 2)	12m ECL	1,660*
Bank balances	18	BAA-AA	N/A	12m ECL	113,369

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

Notes:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

	2020			2019		
	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	-	2,105	2,105	-	1,660	1,660

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 2020 and 2019 within lifetime ECL (not credit-impaired).

Gross carrying amount

Internal credit rating	2020		2019	
	Average loss rate	Trade receivables HK\$'000	Average loss rate	Trade receivables HK\$'000
Low risk	1.14%	133,455	0.16%	85,277
Watch list	1.27%	191,305	0.88%	193,607
		324,760		278,884

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The 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 lead to increased credit default rates.

During the year ended 31 December 2020, the Group provided loss allowance for trade receivables of HK\$2,033,000 (2019: HK\$703,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. 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
As at 1 January 2019	1,070
Changes due to financial instruments recognised as at 1 January:	
— Impairment losses reversed	(881)
— Impairment losses recognised	577
New financial assets originated	1,007
Exchange realignment	68
As at 31 December 2019	1,841
Changes due to financial instruments recognised as at 1 January:	
— Impairment losses reversed	(1,036)
— Impairment losses recognised	1,150
New financial assets originated	1,919
Exchange realignment	83
As at 31 December 2020	3,957

Liquidity risk

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average effective interest rate %	Within 1 year or on demand HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
As at 31 December 2020					
Trade and bills 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 2019					
Trade and bills payables	–	45,865	–	45,865	45,865
Other payables	–	530	–	530	530
Bank borrowings	4.08	28,193	–	28,193	27,788
Lease liabilities	3.02	11,990	6,534	18,524	18,126
		86,578	6,534	93,112	92,309

As at 31 December 2020 and 2019, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. RELATED PARTY TRANSACTIONS

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

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
Fellow subsidiaries		
Hangzhou Futong Communication Technology Co., Ltd. ("Hangzhou Futong")		
Sales [#]	11,235	17,870
Related company[^]		
Futong Group International Limited		
Payment of lease liabilities [#]	8,910	11,880

[#] 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 and bills payables:

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Hangzhou Futong	169	158

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) 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	
	2020 HK\$'000	2019 HK\$'000
Short-term benefits	4,620	5,116
Post-employment benefits	18	18
	4,638	5,134

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease liabilities Note 22 HK\$'000	Bank and other borrowings Note 23 HK\$'000	Total HK\$'000
At 1 January 2019 (before restated)	–	18,035	18,035
Adjusted upon application of HKFRS16	29,434	–	29,434
At 1 January 2019 (restated)	29,434	18,035	47,469
Financing cash flows	(12,012)	7,668	(4,344)
Interest expenses	704	468	1,172
Exchange realignment	–	1,617	1,617
At 31 December 2019	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. 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.

32. 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
				2020	2019	
				%	%	
Transtech	BVI	Hong Kong	US\$430	100	100	Manufacturing and sales of optical fibres and other related products
Futong Thailand	Thailand	Thailand	THB807,110,000	100	100	Manufacturing and sales of optical fibre cables and optical cable cores
Great Sign Technologies Limited	BVI	Hong Kong	US\$1,000	100	100	Investment holding
Pan South Industries Limited	BVI	Hong Kong	US\$1,000	100	100	Investment holding

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

33. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2020 HK\$'000	2019 HK\$'000
Non-current assets		
Investments in subsidiaries	394,018	394,018
Current assets		
Deposits, prepayments and other receivables	247	137
Bank balances and cash	1,996	17,964
	2,243	18,101
Current liabilities		
Other payables and accrued charges	1,177	3,625
Amounts due to subsidiaries	26,702	32,195
Tax payable	39	37
	27,918	35,857
Net current liabilities	(25,675)	(17,756)
Total assets less current liabilities	368,343	376,262
Capital and reserves		
Issued share capital	2,600	2,600
Reserves	365,743	373,662
Total equity	368,343	376,262

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

33. 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 2019	95,534	320,522	(31,172)	384,884
Loss and other comprehensive expense for the year	–	–	(11,222)	(11,222)
At 31 December 2019	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

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