

# TRANSTECH OPTELECOM SCIENCE HOLDINGS LIMITED

高 科 橋 光 導 科 技 股 份 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8465)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

### CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

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

The board (the “Board”) of directors of Transtech Optelecom Science Holdings Limited is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2017, together with the comparative figures for the corresponding period in 2016 as follows:

## CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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# CONTENTS

Corporate Information	3
Chairman's Statement	5
Management Discussion and Analysis	7
Corporate Governance Report	17
Environmental, Social and Governance Report	29
Biographical Details of Directors and Senior Management	40
Report of Directors	47
Independent Auditor's Report	63
Consolidated Statement of Profit or Loss and Other Comprehensive Income	67
Consolidated Statement of Financial Position	68
Consolidated Statement of Changes in Equity	70
Consolidated Statement of Cash Flows	71
Notes to Consolidated Financial Statements	73
Financial Summary	128

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Hu Guoqiang (*Chairman*)  
 Mr. He Xingfu (*Chief Executive Officer*)  
 Mr. Wei Guoqing  
 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. Wei Guoqing  
 Mr. Leong Chew Kuan  
 Mr. Li Wei

#### Nomination Committee

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

### AUTHORISED REPRESENTATIVES

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

### COMPLIANCE OFFICER

Mr. He Xingfu

### COMPANY SECRETARY

Mr. Ho Cheuk Wai (*CPA*)

### REGISTERED OFFICE

PO Box 1350, Clifton House  
 75 Fort Street  
 Grand Cayman KY1-1108  
 Cayman Islands

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

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

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Estera Trust (Cayman) Limited  
 PO Box 1350, Clifton House, 75 Fort Street  
 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

### STOCK CODE

8465

### COMPANY'S WEBSITE

[transtechoptel.com](http://transtechoptel.com)

### AUDITOR

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

### LEGAL ADVISER

Deacons  
5th Floor, Alexandra House  
18 Chater 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



## CHAIRMAN'S STATEMENT

With its commitment to excellence and enterprising spirit, the Group has continued to increase its marketing effort and enhance its production efficiency. The Group maintained a flexible and tailored sales and marketing strategy to offer its customers with diversified and tailor-made products to reinforce the Group's market position.

### OUTLOOK

Looking ahead to 2018, the global economic environment likely remains challenging but the Group is positive about the prospects of the optical fibre and optical fibre cable industry and will continue to focus on its core business. The Group will continue to increase its production capacity by establishing the new Thailand factory which is expected to start construction in 2018. In order to maximise the long term returns to our shareholders, the Group will also explore other potential customers to create new source of revenue to the Group in the long run.

I would like to take this opportunity to express my sincere gratitude to our shareholders, customers, suppliers and business partners for their continuous support, and to our management and staff members for their diligence, dedication and contribution to the growth of the Group.

**Hu Guoqiang**

*Chairman*

Hong Kong, 28 March 2018

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND PROSPECTS

The Group is principally engaged in manufacturing and sales of optical fibre cables with various standard specifications that are widely used in the telecommunications industry. The Group 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. In addition, the Group manufactures optical fibres for its production of optical fibre cables, as well as for sale to third parties. Furthermore, the Group sells optical cable cores and other related products, including power cable and other auxiliary products. There are two major operating subsidiaries, namely Transtech Optical Communication Company Limited (“Transtech”) and Futong Group Communication Technology (Thailand) Co., Ltd. (“Futong Thailand”). 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 global optical components market for telecommunications application has experienced steady growth over the past year which was driven by the strong demand for transmission products to support rising bandwidth demand for mobile and access networks. Riding on the impressive advancement in both overseas and domestic markets, the Group generated HK\$556.5 million in revenue for the year ended 31 December 2017 (“FY2017”) (the year ended 31 December 2016 (“FY2016”): approximately HK\$599.8 million). Details are set out in note 6 headed to consolidated financial statements in this report. No order books, new contracts, tenders, new products or services with material nature need to be disclosed separately during the year ended 31 December 2017.

During the reporting periods, favourable government policies have been a strong driving factor to the development of the optical fibre cable market in Thailand and other ASEAN markets. The Directors believe that, being the largest optical fibre cable provider in Thailand, such policies provide significant growth potential to the Group's business. Accordingly, the Group plans to utilise 80% of its net proceeds from the Global Offering to expand the production facility of Futong Thailand to meet the future demand.

In the future, the Group will also expand the overseas market by promoting its business in the ASEAN countries under the “Belt and Road” Initiative, which will further consolidate its business foundation. The Group adheres to the visionary target of “becoming a leading provider of optical fibre and optical fibre cables in Hong Kong and Thailand respectively”, and strives to offer its products to leading optical cable manufacturers and telecommunication operators. By closely capitalising on opportunities arising from the continuous development of digital communication infrastructure, the Group will also safeguard the market position for its major products, while proactively exploring new opportunities in the telecommunications sector.

In Hong Kong, the Group intends to further increase the manufacturing efficiency in the production of optical fibres by improving our technologies and machine operation hours. The Directors believe that the stable supply of key raw materials from the long-term business partners have contributed, and will continue to contribute to, the Group's economies of scale and production cost reduction.

## MANAGEMENT DISCUSSION AND ANALYSIS

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”). The proceeds from the Global Offering have strengthened the Group’s cash flow position and enabled the Group to implement its future plans and business strategies as set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 30 June 2017 (the “Prospectus”) in relation to the Global Offering.

### Principal Risks and Uncertainties

The Directors believe that the major risk factors relevant to the Group have been disclosed in the section headed “Risk Factors” in the Prospectus. Major risks and uncertainties are summarised below.

### Independence

The Group’s parent group (namely, Futong Group Co., Ltd. (“Futong China”), together with its subsidiaries, “Futong China Group” or “Parent Group”) has business operations in the PRC and its customers include major PRC telecommunications operators. Leveraging on its extensive knowledge and experience in the industry, the Group has historically leveraged on the support from the Parent Group in a variety of areas, including the sales of optical fibres, technical support as well as the license of the premises for the Group’s production facilities in Hong Kong and its use of the “Futong” trademark. After the Listing, the Group is still unable to eliminate its reliance on its Parent Group completely, in terms of leasing of the Hong Kong premises and selling of optical fibre cables under the “Futong” trademark. The Group’s business and financial condition may be materially and adversely affected if the Group is unable to operate and develop its business completely independent of the Parent Group. For details relating to the transactions between the Group and the Parent Group, please refer to note 27 to the consolidated financial statements and the paragraph headed “Continuing Connected Transactions” of the Report of Directors section in this report.

### 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Competition

The Parent Group supplies optical communication products to its customers. Pursuant to a deed of non-competition dated 13 October 2016 as amended by a supplemental deed dated 23 June 2017 (the “Deed of Non-Competition”), each of the controlling shareholders of the Company (the “Controlling Shareholders”) has undertaken to the Company that, with respect to any proposed sales of such optical communication products to customers which are authorised distributors or trading agents or manufacturers, such controlling shareholders shall include a clause in the relevant contract with such customer to the effect that such customer shall not on-sell the relevant products to others in Hong Kong and the ASEAN. While such measures aim to ensure that the customers of the Parent Group will not compete with the Group by on-selling the optical communication products purchased from the Parent Group in Hong Kong and the ASEAN, there can be no assurance that such measures will effectively prevent competition. Any competition from such customers of the Parent Group may materially and adversely affect the Group’s business, prospects, financial condition and results of operations. For details relating to the Deed of Non-Competition, please refer to the paragraph headed “Compliance of Non-Competition Undertakings” of the Report of Directors section in this report.

### Environmental Policies and Performance

The Group’s production process is carried out with low emissions and low energy consumption, and it aims to minimize the amount of pollutants produced. The Group has been endeavouring to ensure that the production process is in compliance with relevant environmental rules and regulations.

For the year ended 31 December 2017, the Group has not been in material breach of any relevant environmental rules and regulations and has not been imposed any relevant penalty. It is expected that the future operational activities of the Group would not be affected by the current environmental policies in both Hong Kong and Thailand. The Group strives for energy conservation and consumption reduction. In reducing the operating costs, the Group also puts efforts in environmental protection.

### Key Relationship with Employees, Customers and Suppliers

The total employee headcount (including Directors) of the Group was 280 as at 31 December 2017 (31 December 2016: 260). The Group adopts effective employee and emolument policies to comply with the local rules and regulations in relation to employment. Details of the policies are set out in the paragraph headed “Employee and Emolument Policies” in the Report of Directors section in this report.

The Group has developed solid and stable business relationship with leading raw material and equipment providers. In October 2008, the Group began cooperation with a supplier who has been providing the Group with its advanced technology and manufacturing equipment. Since then, the two companies maintain a stable and long-term relationship. In addition, since 2009, such supplier has been our Group’s major optical fibre preform supplier. As a result, the Group’s production cost can be well-managed. The stable supply of good quality optical fibre preforms from such supplier also enables the Group to produce high-quality optical fibres which are more competitive in the market.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group mainly sells optical fibre cables to larger well-known telecommunications operators with which the Group established long-term cooperative relationship. As more telecommunications companies are investing in Thailand and other ASEAN countries' telecommunications markets following their continuous growth, optical communication products manufacturers have become more popular in Thailand and other ASEAN markets. In view of the growth trend of the Thai market, the Directors believe that the Group is able to gain larger market share in such market. The Group maintains a leading edge in product technology and continuous expansion of customer channels, which enables the Group to build close and solid relationship with domestic and other ASEAN countries' telecommunication operators. As a result of the long-term relationship, the Group possesses reliable financial and credit status information of the major customers, which the Directors believe can greatly reduce the credit risk of the Group's accounts receivable.

Suppliers of the Group include trading companies and manufacturers of raw materials, optical fibre cables and optical cable cores. The Group has developed solid and steady relationships with many of its key suppliers.

### Financial Key Performance Indexes

The production capacity utilization rate shows the capacity restriction of the Group, which in turn affects the ability of the Group to satisfy the demand from its customers and expand its business. Return on assets shows the efficiency of the Group in utilizing its asset to generate revenue. These two ratios are important indicators of the operating efficiency of the Group.

### Production Capacity Utilization

For the year ended 31 December 2017, the Group sold approximately 4.2 million fkm of optical fibre and approximately 1.2 million fkm of optical fibre cable and approximately 1.7 million fkm of optical cable cores. The production capacity of optical fibre, optical fibre cable and optical cable cores were approximately 8.4 million fkm and 9.6 million fkm in FY2016 and FY2017 respectively. The increase in production capacity was mainly due to the net effect of the increase in number of machineries since the fourth quarter of 2016, and the change of customers' demand in FY2017 for optical cables with different specification in Futong Thailand.

The utilization rate of optical fibre was 96.6% in FY2017, which remains stable and that of optical fibre cable and optical cable cores decreased from 72.5% to 60.9% from FY2016 to FY2017 because the increase in actual production volume is less than the increase in the production capacity.

The above production capacity utilization rates show that Transtech has attained the full capacities for production. To overcome the capacity limitation, the Group will commence construction of a new optical fibre factory in Thailand in 2018 to expand its production volume to meet the estimated increase of sales volume.

### Return on Assets (Revenue/Total Asset)

The Group's revenue amounted to HK\$599.8 million in FY2016 and HK\$556.5 million in FY2017 while the Group's total assets amounted to HK\$539.6 million and HK\$712.3 million as of 31 December 2016 and 2017 respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

Hence, the Group's return on assets decreased from approximately 111.2% in FY2016 to 78.1% in FY2017. This was mainly because of the net proceeds from the Global Offering in FY2017 which was absent in FY2016. This ratio is expected to be changed significantly as a result of both the increase of revenue and total assets after the new Thailand factory started production.

### Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and Thailand and the Company itself is listed on the Stock Exchange. The Group's operations accordingly shall comply with the relevant laws and regulations in Hong Kong and Thailand. During the year ended 31 December 2017 and up to the date of this report, to the best of the Directors' knowledge, the Group has complied with all the relevant laws and regulations in Hong Kong and Thailand in all material respects, and there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2017, total revenue of the Group decreased by about 7.2% to approximately HK\$556.5 million as compared with the corresponding period in 2016.

The decrease for the year ended 31 December 2017 in total revenue was mainly due to the net effect of (i) increased supply of optical fibres to Futong Thailand for the production of optical fibre cables and optical cable cores during the year ended 31 December 2017, which in turn reduced the sale volume of optical fibres to independent third party customers, (ii) decreased sale volume of optical fibre cables during the year ended 31 December 2017 primarily due to increased market competition and change of customers' demand for optical fibre cables with different specification, (iii) increased sale volume of optical cable cores mainly due to our sales to a new customer of our Group since the second-half of 2016, as a result of our effort in expanding our optical cable core market to external customers and (iv) the increase of average selling prices of optical fibres and optical fibre cables due to stronger market demand. However, such favorable effects cannot completely offset the drop of sale volume of optical fibres and optical fibre cables as mentioned above.

### Cost of Sales and Gross Profit

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

For the year ended 31 December 2017, the cost of sales of the Group decreased by about 15.7% to approximately HK\$413.6 million as compared with the corresponding period in 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

Such decrease for the year ended 31 December 2017 was mainly attributable to the net effect of (i) the drop of sale volume of optical fibres and optical fibres cables and (ii) increased sale volume of optical cable cores during the said periods. In addition, the unit costs of optical fibres and optical cable cores decreased mainly due to (i) the improvement on production efficiency and quality of two of our Group's drawing production lines of optical fibres during the current period, (ii) preferential prices offered by suppliers of raw materials for the production of optical fibres to maintain long-term business relationship and (iii) relatively lower raw materials consumption for producing optical cable cores compared with optical fibre cables.

The gross profit of the Group increased from HK\$109.1 million, for the year ended 31 December 2016 to HK\$142.9 million for the year ended 31 December 2017. The gross profit margin increased from 18.2% for the year ended 31 December 2016 to 25.7% for the year ended 31 December 2017. This is mainly because the average selling price of optical fibres and optical fibre cables for the year ended 31 December 2017 increased by approximately 18.7% and 16.3%, respectively, as compared with the corresponding period in 2016.

### Other Gain and Losses

The Group's foreign exchange gain increased from approximately HK\$3.9 million for the year ended 31 December 2016 to approximately HK\$19.3 million for the year ended 31 December 2017 mainly due to (i) the depreciation of United States Dollar ("US\$") against Thai Baht ("THB") and (ii) the appreciation of Renminbi ("RMB") against Hong Kong Dollar ("HK\$") during the year.

### Selling and Distribution Expenses

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

The Group's selling and distribution expenses increased from approximately HK\$4.1 million for the year ended 31 December 2016 to approximately HK\$7.3 million for the year ended 31 December 2017, representing an increase of approximately 78.1%.

The increase in the selling and distribution expenses for the year ended 31 December 2017 was mainly due to the net effect of (i) increase in staff cost as a result of increase the headcount of sales and marketing department in Futong Thailand to develop the markets in ASEAN countries and (ii) decrease in sales commission expense as we conducted our sales in PRC through Parent Company, which involves no commission payment during the same period.

### 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's administrative expenses increased from approximately HK\$20.7 million for the year ended 31 December 2016 to approximately HK\$28.3 million for the year ended 31 December 2017, representing an increase of approximately 36.7%.

The increase in the administrative expenses for the year ended 31 December 2017 was mainly attributable to the increase in staff cost as a result of (i) increase headcount for listing and (ii) salaries increment during the same period.

### Finance Costs

Finance costs represent the interest expense on bank borrowings. The decrease from approximately HK\$3.3 million for the year ended 31 December 2016 to approximately HK\$1.3 million for the year ended 31 December 2017 was mainly due to the decrease in the bank borrowings outstanding during the said period as compared with the corresponding period in 2016.

### Listing Expenses

For the year ended 31 December 2017 and 2016, we incurred listing expenses of approximately HK\$9.6 million & HK\$11.7 million respectively.

### Profit for the Year

Profit attributable to owners of the Company for the year ended 31 December 2017 amounted to approximately HK\$104.4 million (year ended 31 December 2016: approximately HK\$63.9 million).

The increase in profit attributable to owners of the Company for the year ended 31 December 2017 was mainly attributable to the net effects of (i) the increase in gross profit; (ii) the increase in foreign exchange gain, (iii) the increase in staff cost, (iv) decreased non-recurring Listing expenses incurred and (v) decreased finance cost during the same period.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of funds are used to finance working capital, and the growth and expansion of the Group's operations and sales network. The Group's principal sources of funds are cash generated from operations and bank borrowings. The Group had cash and cash equivalents of approximately HK\$279.6 million as at 31 December 2017 (31 December 2016: approximately HK\$58.6 million). As at 31 December 2017, the Group had total bank borrowings of approximately HK\$0.9 million (31 December 2016: approximately HK\$58.5 million). Details of the bank borrowings are set out in note 21 to the consolidated financial statements.

## MANAGEMENT DISCUSSION AND ANALYSIS

### GEARING RATIO

Gearing ratio is calculated as total borrowings (including payables not incurred in the ordinary course of business of the Group) divided by the total equity as at the respective reporting dates. As at 31 December 2017 and 31 December 2016, the gearing ratio were 0.2% and 17.8%, respectively.

### CAPITAL STRUCTURE

As at 31 December 2017, the Company's issued share capital was HK\$2,600,000 and the number of its issued ordinary shares was 260,000,000 of HK\$0.01 each.

The Company's shares were successfully listed on GEM of the Stock Exchange on 20 July 2017. As a result of the issuance of 194,500,000 and 65,000,000 shares of the Company pursuant to the Capitalisation Issue and Global Offering, respectively, the total number of issued shares of the company increased to 260,000,000 as at the Listing Date. There has been no change in the capital structure of the Group since the Listing Date and up to the date of this report. The capital of the Company only comprises of ordinary shares.

### TREASURY POLICIES

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

### CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no material contingent liabilities (31 December 2016: nil).

### CHARGE OF ASSETS

As at 31 December 2017, the Group had pledged its land, buildings and machinery of approximately HK\$85.0 million (31 December 2016: approximately HK\$82.3 million) to secure the banking facilities granted to the Group. As at 31 December 2017, a charge was registered in the British Virgin Islands in relation to a bank facility with maximum limit of HK\$50 million.

### FOREIGN CURRENCY RISK

Our Group's foreign currency exposures arise mainly from the exchange rate movements of USD and RMB against THB. Any depreciation of THB will reduce the amount of revenue we generate in Thailand in terms of our reporting currency and adversely impact the Group's results of operations. The Group has established a foreign currency risk management policy to monitor and manage foreign currency risks.

## MANAGEMENT DISCUSSION AND ANALYSIS

### CAPITAL COMMITMENTS

As at 31 December 2017, the Group did not have any significant capital commitments (31 December 2016: nil).

### SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 31 December 2017, the Group did not hold any significant investment in equity interest in any other company.

### USE OF PROCEEDS

As the Listing took place on 20 July 2017, part of the net proceeds from the Global Offering has been received or utilised by the Company during the year ended 31 December 2017. 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

<b>Business Strategies as Stated in the Prospectus</b>	<b>Actual Progress up to the Date of This Report</b>
<ul style="list-style-type: none"> <li>approximately HK\$73.4 million, representing 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;</li> </ul>	Nil ( <i>Note</i> )
<ul style="list-style-type: none"> <li>approximately HK\$4.6 million, representing approximately 5% of the net proceeds will be used for strengthening the research and development capabilities and expanding the range of products;</li> </ul>	Nil
<ul style="list-style-type: none"> <li>approximately HK\$4.6 million, representing 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; and</li> </ul>	Nil
<ul style="list-style-type: none"> <li>approximately HK\$9.2 million, representing approximately 10% of the net proceeds will be used as the general working capital and for general corporate purposes.</li> </ul>	HK\$9.2 million fully utilized for factory rent and electricity fee in Hong Kong for the period from the Listing Date to 31 December 2017

*Note:* The new factory is expected to be built on a land beside the existing factory of Futong Thailand in the second half of 2018. As at the reporting date, there are not any documents or contracts signed for the construction and the board of Directors has yet considered and approved any capital commitment relating to the new factory. However, the directors believe the risk and uncertainties in implementing the plan are low because the Group is the landlord free to manage the construction work.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

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

### **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

During the year ended 31 December 2017, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies save for those reorganisation activities done for the purpose of Listing as set out in the paragraph headed “History and Development – Our Reorganisation” in the Prospectus.

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. The unutilised net proceeds of approximately HK\$82.6 million are deposited in a licensed bank in Hong Kong.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to establishing and ensuring high standards of corporate governance and adopt sound corporate governance practices. The Company's corporate governance practices are based on the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules. The Directors strongly believe that reasonable and sound corporate governance practices are essential for the growth of the Group and for safeguarding and enhancing shareholders' interests.

As the Shares were listed on 20 July 2017, the Company was not required to comply with the requirements set out in the CG Code before the Listing Date. The Directors consider that since the Listing Date and up to the date of this report save as set out below, the Company has complied with all the applicable code provisions set out in the CG Code. Code Provision A.2.7 of the CG Code requires the chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. The Chairman of the Board, namely Mr. Hu Guoqiang, appointed Mr. He Xingfu, an executive Director, as his proxy for the meeting with independent non-executive Directors as he had to attend to urgent matters at the time of the scheduled meeting. As such, code provision A.2.7 has not been strictly complied with. The Board is of the view that the present management structure is effective for the Group's operations and sufficient checks and balances are in place.

## BOARD OF DIRECTORS

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the Board committees of the Company. Further details of the Board committees are set out below in this report.

The Board is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for day to day management of the Company which is delegated to the management. To this end, monthly financial and operational information are provided to the Board for assessing the performance of the Company and its subsidiaries. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The management is responsible for the day-to-day management and operation of the Group and to provide the Board with updates in a timely manner, giving an assessment of the Company's performance and position to enable the Board to discharge its duties.

The Board is responsible for, among others, performing the corporate governance duties as set out in the code provision D.3.1 of the CG Code, which include:

- (a) to develop and review the Group's policies and practices on corporate governance and make recommendations;
- (b) to review and monitor the training and continuous professional development of the Directors and senior management;

## CORPORATE GOVERNANCE REPORT

- (c) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and
- (e) to review the Group's compliance with the CG Code and disclosure in the corporate governance report.

### 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 and redesignated as executive director on 23 June 2017)
Mr. He Xingfu ( <i>Chief Executive Officer</i> )	(appointed as director on 6 September 2016 and redesignated as executive director on 23 June 2017)
Mr. Wei Guoqing	(appointed as director on 6 September 2016 and redesignated as executive director on 23 June 2017)
Mr. Xu Muzhong	(appointed as director on 6 September 2016 and redesignated as executive director on 23 June 2017)
Mr. Pan Jinhua	(appointed as director on 6 September 2016 and redesignated as executive director on 23 June 2017)

#### Independent Non-executive Directors

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

All Directors have appropriate professional qualification or substantive experience and industry knowledge. The Board as a whole has achieved an appropriate balance of skills and experience. The composition of the Board satisfies the requirements of Rules 5.05 and 5.05A of the GEM Listing Rules. There are three independent non-executive Directors and at least one of them has accounting professional qualification. With more than one-third of the members of the Board are independent non-executive Directors, the Board has a fairly strong independence element in terms of its composition.

The participation of independent non-executive Directors in the Board brings a diverse range of expertise, skills and independent judgment on issues relating to the Group's strategies, performance, conflicts of interests and management process to ensure that the interests of all shareholders of the Company have been duly considered.

## CORPORATE GOVERNANCE REPORT

The details of Directors are set out in the section headed “Biographical Details of Directors and Senior Management” on pages 40 to 46 of this report. There are no family or other material relationships among members of the Board.

### Number of Meetings and Directors’ Attendance

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

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

During the period from the Listing Date to 31 December 2017, the Company held two Board meetings, three Audit Committee meetings, one Remuneration Committee meeting and one Nomination Committee meeting. 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				
	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Chairman and INED Meeting
<b>Executive Directors:</b>					
Mr. Hu Guoqiang	2/2	N/A	N/A	0/1	0/1
Mr. He Xingfu	2/2	N/A	1/1	N/A	1/1
Mr. Wei Guoqing	2/2	N/A	1/1	N/A	N/A
Mr. Xu Muzhong	2/2	N/A	N/A	N/A	N/A
Mr. Pan Jinhua	2/2	N/A	N/A	1/1	N/A
<b>Independent Non-executive Directors:</b>					
Mr. Leong Chew Kuan	2/2	3/3	1/1	1/1	1/1
Mr. Lau Siu Hang	2/2	3/3	1/1	1/1	1/1
Mr. Li Wei	2/2	2/3	0/1	1/1	1/1

## CORPORATE GOVERNANCE REPORT

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

### **Practice and Conduct of Meetings**

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

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

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

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

### **Appointment and Re-election of Directors**

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

Each of the independent non-executive Directors has entered into an appointment letter with the Company. The appointment letter of each of the independent non-executive Directors is for a term of three years commencing from the Listing Date, which may be terminated by not less than one month's notice in writing served by either party on the other. The aforesaid appointment letters are subject to termination provisions therein and the retirement and re-election provisions in the Articles.

### **Directors' Continuous Training and Professional Development**

To assist Directors' continuing professional development, the Company recommends Directors to participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending training courses or reading relevant materials on the topics related to corporate governance and regulations. Records of the training received by the respective Directors are kept and updated by the Company Secretary.

# CORPORATE GOVERNANCE REPORT

## Independent Non-executive Directors

Mr. Leong Chew Kuan, Mr. Lau Siu Hang and Mr. Li Wei were appointed as the independent non-executive Directors on 23 June 2017.

The independent non-executive Directors are experienced professionals with expertise in respective areas of accounting, finance, industry knowledge and expertise. With their professional knowledge and experience, the independent non-executive Directors serve an important function of advising the senior management on strategy development and ensure that the Board maintains high standards in financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interests of the shareholders and the Company as a whole; and independent non-executive Directors will participate in the Company's various committees including the Audit Committee, the Remuneration Committee and the Nomination Committee.

The Company has received from each of its independent non-executive Directors the written confirmation of his independence. The Company considers the independent non-executive Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules.

## Chairman and Executive Directors

Mr. Hu Guoqiang, Mr. He Xingfu, Mr. Wei Guoqing, Mr. Xu Muzhong and Mr. Pan Jinhua were appointed as executive Directors of the Company on 6 September 2016. Mr. Hu Guoqiang is the chairman of the Board and Mr. He Xingfu is the chief executive officer of the Company.

The chairman of the Board provides leadership to the Board and is also responsible for the effective functioning of the Board in accordance with good corporate governance practice and is responsible for the overall corporate management of the business development strategies of the Group. The chairman of the board will attend the annual general meeting. He will also invite the chairman of the audit, remuneration and nomination committees to attend. The executive Directors are responsible for the implementation of the business strategies, policies and objectives set out by the Board and is accountable to the Board for the overall operations of the Group. These functions and responsibilities are currently being shared by the management team.

## BOARD COMMITTEE

### Audit Committee

The Company established the Audit Committee on 23 June 2017 with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The full terms of reference setting out details of the authority, duties and responsibilities of the Audit Committee is available on both the GEM website and the Company's website.

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

## CORPORATE GOVERNANCE REPORT

The primary duties of the Audit Committee include (but without limitation); assisting the Board in reviewing the financial information, overseeing the financial reporting system, risk management and internal control systems, relationship with the auditors and arrangements employees of the Company and its subsidiaries can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The full terms of reference setting out details of duties of the Audit Committee is available on both the GEM website and the Company's website.

The Audit Committee is satisfied with their review of the auditors' remuneration, the independence of the auditors, Deloitte Touche Tohmatsu ("DTT"), and recommended the Board re-appoint DTT as the Company's auditors in the financial year ending 31 December 2018, which is subject to the approval of shareholders at the forthcoming AGM. The Audit Committee has reviewed the Group's interim report for six months ended 30 June 2017, quarterly report for the nine months ended 30 September 2017 and the audited consolidated financial statements for the year ended 31 December 2017.

According to the current terms of reference, meetings of the Audit Committee shall be held at least twice a year and the external auditor may request a meeting if they consider that one is necessary.

Minutes drafted by the Company Secretary are circulated to members of the Audit Committee within a reasonable time after each meeting. Details of the number of Audit Committee meetings held and Directors' attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 19 in this report.

### Remuneration Committee

The Company established the Remuneration Committee on 23 June 2017 in compliance with Appendix 15 to the GEM Listing Rules, which comprises, two executive Directors, namely Mr. He Xingfu and Mr. Wei Guoqing, and three independent non-executive Directors, namely Mr. Lau Siu Hang, Mr. Leong Chew Kuan and Mr. Li Wei, Mr. Lau Siu Hang is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include (but without limitation): (a) making recommendations to the Board on the policy and structure for the remuneration of all the Directors and senior management of the Group and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to the Board on the remuneration packages of the Directors and senior management of the Group; and (c) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives. The full terms of reference setting out details of duties of the Remuneration Committee is available on both the GEM website and the Company's website.

During FY2017 the Remuneration Committee reviewed the Group's remuneration policy and the directors' remuneration package by reference to the benchmarking of the market. The Company also looks into individual Director's competence, duties, responsibilities, performance and the results of the Group in determining the exact level of remuneration for each Director.

Pursuant to the terms of reference of the Remuneration Committee, meeting shall be held at least once a year.

Details of the number of Remuneration Committee meeting held and Directors' attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 19 in this report.

## CORPORATE GOVERNANCE REPORT

The remuneration policy of the Group for the Directors and senior management was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the performance of the Group and the individual performance of the Directors and senior management.

The emoluments of the senior management were within the following bands:

	Year ended 31 December	
	2017 Number of employees	2016 Number of employees
Nil to HK\$1,000,000	3	4
HK\$1,000,001 – HK\$1,500,000	1	0
HK\$1,500,001 – HK\$2,000,000	0	0
	<b>4</b>	<b>4</b>

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

Details of the Directors' remuneration and the five highest paid individuals are set out in note 8 to the consolidated financial statements.

### Nomination Committee

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

The primary function of the Nomination Committee is to review the structure, size and composition of the Board at least once annually; identify individuals suitably qualified to become Directors; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The full terms of reference setting out details of the authority, duties and responsibilities of the Nomination Committee is available on both the GEM website and the Company's website.

Pursuant to the terms of reference of the Nomination Committee, meeting shall be held at least once a year.

The Nomination Committee has reviewed the structure, size and composition of the Board and the Board diversity policy as well as discussing matters regarding the retirement and re-election of Directors.

Details of the number of Nomination Committee meeting held and Directors' attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 19 in this report.

## CORPORATE GOVERNANCE REPORT

### ACCOUNTABILITY AND AUDIT

#### Directors' and Auditor's Responsibilities for the Consolidated Financial Statements

All Directors understand and acknowledge their responsibility for ensuring that the Group's consolidated financial statements for each financial year are prepared to give a true and fair view of the state of affairs, the financial results and cash flows of the Group in accordance with the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Company Ordinance") and the applicable accounting standards. In preparing the consolidated financial statements for the year ended 31 December 2017, the Board has adopted appropriate and consistent accounting policies and made prudent, fair and reasonable judgments and estimates. The Directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy the state of affairs, operating results, cash flows and equity movement of the Group at any time. The Directors confirm that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

The Directors also confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The statement of auditor about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 63 to 66 of this report.

### AUDITOR'S REMUNERATION

During the year ended 31 December 2017, the remuneration for annual audit service, reporting accountants services relating to the Listing and other non-audit services provided by the Company's auditor to the Group was as follows:

<b>Services rendered</b>	<b>HK\$'000</b>
Annual audit service for the year ended 31 December 2017	900
Reporting accountants services relating to the Listing of the Company	711
Other non-audit services including interim report review and continuing connected transactions letter	250
<b>Total</b>	<b>1,861</b>

## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, monitoring training and continuous professional development of the directors and senior management, reviewing and monitoring the issuer's policies and practices on compliance with legal and regulatory requirements and reviewing and monitoring the code of applicable to employees and directors.

The Directors review the Group's corporate governance policies and compliance with the CG Code each financial year and comply with the "comply or explain" principle in the corporate governance report which is or will be included in the annual reports of the Company.

### BOARD DIVERSITY POLICY

The Company has adopted a Board diversity policy in accordance with the requirement as set out in the CG Code, which is summarised as below:

The Board diversity policy of the Company specifies that in designing the composition of the Board, Board diversity shall be considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge and length of service. All Board members' appointment will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board. Selection of candidates for the Board will be based on a range of diversity perspectives, including but not limited to gender, age, culture and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The Company discloses the composition of the Board in corporate governance report every year and the Nomination Committee oversees the implementation of the Board diversity policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

### SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct ("Code of Conduct") regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of all Directors, that all the Directors have complied with the Code of Conduct from the Listing Date and up to the date of this report.

### COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going dialogue with the shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation.

## CORPORATE GOVERNANCE REPORT

The Company will ensure that there are separate resolutions for separate issues proposed at the general meetings. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the GEM Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting.

The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirements.

### Constitutional Documents

During the period from the Listing Date to the date of this report, there has been no significant change in the constitutional documents of the Company. The Articles are available on the websites of the Stock Exchange and the Company.

### General Meetings with Shareholders

The Company's annual general meeting will be held on 25 May 2018.

## SHAREHOLDERS' RIGHTS

### (a) Convening of an Extraordinary General Meeting on Requisition by Shareholders

Pursuant to Articles, extraordinary general meetings shall be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. Shareholders also have the right to propose a person for election as a Director, the procedures are available on the website of the Company.

### (b) Procedures for Putting forward Proposals at Shareholders' Meetings

Shareholders are welcomed to put forward proposals relating to the operations and management of the Group to be discussed at shareholders' meetings. The proposals shall be sent to the Company Secretary by a written requisition. Shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures set out in "Convening of an extraordinary general meeting on requisition by shareholders" above.

## CORPORATE GOVERNANCE REPORT

### (c) Enquiries to the Board

Shareholders may put forward enquiries to the Board to the extent such information is publicly available to the Company Secretary who is responsible for forwarding communications relating to matters within the Board's purview to the executive Directors of the Company, communications relating to matters within a Board committee's area of responsibility to the chairman of the appropriate committee, and communication relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the appropriate management of the Company, in writing to the principal place of business of the Company in Hong Kong.

### INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public. The Company updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company ([www.transtechoptel.com](http://www.transtechoptel.com)) has provided an effective communication platform to the public and the shareholders.

### COMPANY SECRETARY

Mr. Ho Cheuk Wai, the Company Secretary, is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws are followed. Moreover, the Company Secretary is responsible for facilitating communications among Directors as well as with management.

A board meeting was held to discuss the selection and the appointment of company secretary. The board has approved the reappointment of Mr. Ho Cheuk Wai to be the company secretary. During the year ended 31 December 2017, the Company Secretary has undertaken more than 15 hours of relevant professional training in compliance with Rule 5.15 of the GEM Listing Rules.

### RISK MANAGEMENT AND INTERNAL CONTROL

The Group may be involved, from time to time, in legal proceedings arising from the ordinary course of its operations. As of Latest Practicable Date on 9 March 2018, The Group was not engaged in any litigation, arbitration or claim of material importance, and no litigation or arbitration is known to the Directors to be pending or threatened by or against the Group, that would have a material adverse effect on the Group's results of operations or financial conditions. As confirmed by the Directors, the Group had complied with all the applicable Hong Kong and Thailand laws and regulations in relation to their business and operations during the year ended 31 December 2017 in all material respects.

During the year ended 31 December 2017, the Group had not been penalised by national or local authorities for material violations of Hong Kong or Thailand laws and regulations. The Group has in place a set of internal control and risk management procedures to address various potential operational, financial and legal risks identified in relation to its operations, including but not limited to procurement management, customer and sales management, inventory management, fixed assets management, connected party transaction controls, information disclosure controls, human resources, IT management and other various financial control and monitor procedures. These risk management policies set forth procedures that may include the monitoring, identification and mitigation of various risks. The procedures also set forth the relevant reporting hierarchy of risks identified in the Group's operations. The Board is responsible for overseeing the overall risk management.

## CORPORATE GOVERNANCE REPORT

In particular, the Group has implemented certain internal control measures to monitor the trade receivables of Futong Thailand, including (i) performing monthly account checks with the customers, (ii) preparing monthly aging analysis of trade receivables, which is to be reviewed by the vice head of the finance department of Futong Thailand, (iii) assigning specified personnel to monitor its trade receivables and to collect its trade receivables that are past due. The assigned personnel may use various measures to collect the trade receivables that are past due, including through phone calls, emails or legal actions, to reduce any potential loss of the Company, (iv) performing customer credibility check before each delivery, including checking whether the customer's trade receivables (current delivery included) have exceeded the credit limit or credit term granted to such customer. If the credit limit or credit term is exceeded, the Company will pause delivery until the customer settles the outstanding amounts or approval from senior management is obtained, and (v) having regular management meetings to review the status of its trade receivables and keeping meeting records.

In the light of the foregoing, the Directors are of the view that the internal control measures are adequate and effective, for the purpose of Rule 6A 15(5) of the GEM Listing Rules.

The Group has set up an internal audit system to oversee its operation. During the period from Listing Date to the date of this report, the Board, through the Audit Committee, has conducted review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate. Such review is conducted at least four times a year. In this respect, the Audit Committee communicates any material issues to the Board. The Directors opine that the risk management and internal control systems are effective and adequate.

The Board has overall responsibility for the risk management and internal control systems and for reviewing its effectiveness. In preparation for the Listing, an independent internal control consultant has been appointed to carry out a review of the implemented system and procedures, including areas covering financial, operational and legal compliance controls and risk management functions. The Directors were satisfied that effective internal control measures as appropriate to the Group for the year ended 31 December 2017 were implemented properly and that no significant areas of weaknesses came into attention.

### LOOKING FORWARD

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the CG Code.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As the Shares were listed on the Listing Date, the Company was not required to comply with the “comply or explain” provisions set out in the Environmental, Social and Governance Reporting Guide (“ESG Reporting Guide”) in Appendix 20 of the GEM Listing Rules. The Directors consider that since the Listing Date and up to the date of this report, the Company has complied with all the applicable “comply or explain” provisions set out in the ESG Reporting Guide.

### 2017 FINANCIAL YEAR

Transtech Optelecom Science Holdings Limited (the “Group” or “we”) attaches importance to our corporate social responsibilities and takes initiative to make contributions to the environment and the society so as to create a better living condition for our stakeholders and the public.

The environmental, social and governance report (the “Report”) is prepared by the Group with reference to the ESG Reporting Guide as set out in Appendix 20 to the GEM Listing Rules of The Stock Exchange of Hong Kong Limited. It discloses major policies and management measures for the environmental, social and governance matters relating to the optical fibre, optical fibre cable and optical fibre core manufacturing business of the Group from 1 January 2017 to 31 December 2017 (the “FY2017” or the “Reporting Period”). Major internal stakeholders of the Group participated in the preparation of the Report to identify and assess the importance and relevance of all environmental, social and governance matters and included the material issues concerned in the Report.

#### Summary of the ESG Reporting Guide

#### Material ESG matters

#### A. Environmental

- |   |  |
|---|--|
| A1. Emissions                             | <ul style="list-style-type: none"> <li>– Air emissions</li> <li>– Waste recycling and management</li> <li>– Carbon emission</li> </ul>   |
| A2. Use of Resources                      | <ul style="list-style-type: none"> <li>– Management of energy consumption and water use</li> <li>– Use of packaging materials</li> </ul> |
| A3. The Environment and Natural Resources | <ul style="list-style-type: none"> <li>– Environment-related risk management</li> </ul>  |

#### B. Social

- |                              |  |
|------------------------------|--|
| B1. Employment               | <ul style="list-style-type: none"> <li>– Fair treatment</li> <li>– Salaries and benefits</li> </ul>                                      |
| B2. Health and Safety        | <ul style="list-style-type: none"> <li>– Production safety</li> </ul>  |
| B3. Development and Training | <ul style="list-style-type: none"> <li>– Employee development and training</li> </ul>  |
| B4. Labour Standards         | <ul style="list-style-type: none"> <li>– Elimination of child labour and forced labour</li> </ul>  |
| B5. Supply Chain Management  | <ul style="list-style-type: none"> <li>– Management of supply chain quality and sustained development</li> </ul>                         |
| B6. Product Responsibility   | <ul style="list-style-type: none"> <li>– Product quality management</li> <li>– Aftersales service</li> <li>– Customer privacy</li> </ul> |
| B7. Anticorruption           | <ul style="list-style-type: none"> <li>– Integrity and corruption-free business principle</li> </ul>                                     |
| B8. Community Investment     | <ul style="list-style-type: none"> <li>– Caring for the poor and local community</li> </ul>  |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## A. ENVIRONMENTAL

### A1 Emissions

The Group is mainly engaged in the design, manufacturing and sales of optical fibres, optical fibre cables, optical fibre cores and other related products. As a hi-tech enterprise, the Group has been upgrading its production technologies and advocating energy conservation and emission reduction in line with the environmental development trend. While pursuing economic development, we also give full consideration to environment protection.

#### Management of air emissions

Air emissions of the Group are mainly generated from private cars and light goods vehicles of the Group. In FY2017, emissions of nitrogen oxides, sulphur dioxide and particulate matter generated in the operation of the Group amounted to 323.55 kg, 2.01 kg and 28.73 kg, respectively<sup>1</sup>. The Group will gradually use eco-friendly fuels instead and prioritize vehicles with better environmental efficiency so as to reduce air emissions of vehicles. In the meantime, it will also map out reasonable driving routes to reduce the driving time and fuel consumption.

Given that the Group's production of optical fibres, optical fibre cables and optical fibre cores does not generate a material amount of emissions and effluents, relevant disclosures were not applicable to our manufacturing business. Nonetheless, the Group has formulated the Operational Procedure for Management of Air Pollutants (《空氣污染管制作業程序》) to continuously monitor the manufacturing process and maintain eco-friendly performance and also engaged the third-party specialists to measure and assess the air pollutants. Meanwhile, we have been in strict compliance with relevant environmental laws and regulations applicable to the business of the Group.

#### Waste recycling and management

The Group carefully classifies and disposes of general wastes, hazardous wastes and recyclable resources generated in the process of production and conduct relevant staff training, thereby ensuring appropriate treatment of the wastes in accordance with the Operational Procedure for Waste Management (《廢棄物管制作業程序》). In FY2017, hazardous wastes of the Group mainly included used oils (including printing ink and engine oil) of 0.1 tonne and lead-acid batteries of 0.5 tonne, all of which were collected and stored by category as per relevant requirements and delivered to qualified suppliers for disposal, thus avoiding repeated pollution resulting from improper treatment.

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<sup>1</sup> The calculation of the aforesaid air emissions is based on the Reporting Guidance on Environmental KPIs" of the Stock Exchange.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition, the Group strives to improve the awareness of waste recycling and waste sorting among the employees and have recycling bins in place in both production and living areas so as to improve the recovery rate of hazard-free wastes. Moreover, we require the avoidance of single-sided paper printing at the office and in the factory to the extent possible, thus achieving efficient paper utilization. In FY2017, details of the disposal of non-hazardous wastes in the Group's factories in Hong Kong and Thailand are set out as follows:

Category of the non-hazardous wastes	Amount generated (tonnes)	Amount recycled (tonnes)	Recycling rate
Metal compounds	89.81	89.81	100%
Glass	6.60	6.60	100%
Paper	21.48	21.47	99.95%
Plastics and plastic compounds	105.83	89.33	84.41% (Note1)
Scrapped optical fibres and optical fibre cables	23.09	14.09	61.02% (Note1)
Wood	44.79	–	(Note2)

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

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

### Carbon emission

Carbon emissions of the Group are generated mainly from consumption of electricity and auto fuels and carbon dioxide equivalents of the Group in FY2017 amounted to 8,120.67 tonnes<sup>2</sup>. In an attempt to reduce carbon emission, the Group has formulated relevant resource usage policies and an arrangement of measures to improve efficiency of energy consumption, particulars of which are set forth in "A2. Use of Resources".

In FY2017, the Group did not have any material non-compliance case that constituted the violation of environment-related laws and regulations.

<sup>2</sup> The aforesaid calculation of carbon emissions is based on The Greenhouse Gas Protocol published by World Business Council for Sustainable Development ((WBCSD)) and World Resource Institute (WRI), EPD's "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong", A Study of CO2 Emission Sources and Sinks in Thailand published by Geophysics Research Center and Center for the Study of Earth System Environment and Adaptation for Sustainability, the 2016 Sustainable Development Report of CLP and the Reporting Guidance on Environmental KPIs" of the Stock Exchange.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### A2 Use of Resources

#### Management of energy consumption and water use

With the view to managing resource usage efficiently, the Group has formulated the Operational Procedure for Maintenance of Resources and Energy (《資源能源維護作業程序》) to regulate the consumption of electricity, fuels and water. We conduct regular monitoring and assessment on the use of resources in the course of production and operation and exert corresponding control over aspects with high consumption rates. Details of resource usage of the Group in FY2017 are set out as follows:

Type of resource	Amount used	Intensity of resource usage
Purchased electricity	14,758,586 KWh	1.949 KWh per fibre kilometre of finished products
Diesel	93,538 liters	0.012 liter per fibre kilometre of finished products
Lead-free gasoline	34,158 liters	0.005 liter per fibre kilometre of finished products
Purchased water	32,586 m <sup>3</sup>	0.004 m <sup>3</sup> per fibre kilometre of finished products

Our operational Procedure for Maintenance of Resources and Energy also includes guidelines for economizing on electricity and water, which provide that:

- Machinery and equipment, air conditioners and lighting shall be switched off in off-duty hours;
- Regular maintenance shall be conducted for the machinery and equipment so as to ensure the operational efficiency and avoid additional electricity and water consumption;
- The air conditioners in the office area shall be set at an optimum temperature and filters for the air conditioner shall remain clean, thus improving its efficacy and reducing electricity consumption; and
- Malfunctioned equipment shall be reported and repaired in a prompt manner, thereby ensuring effective control over any water leakage or waste of electricity.

In addition, the Group has chosen to use a variety of energy efficient facilities, such as the 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 report on abnormal usage of electricity and water resources to relevant departments and timely rectification on relevant abnormality, whereby resources can be utilized to the utmost extent.

In the meantime, the Group takes initiative to standardize the management of energy efficiency and keeps abreast with the standards among peers in respect of energy management. The environment management system in our Thailand factory was approved by the Ministry of Industry of Thailand and further accredited with the green industry certificate. Apart 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

## Use of packaging materials

In terms of the use of packaging materials, the Group consumed 67.46 tonnes of optical fibre trays, 67.25 tonnes of cardboard boxes and 870.79 tonnes of wooden planks in FY2017. The Group selected organically degradable and renewable materials for packaging and strived to reduce unnecessary packaging materials on the premise that the quality and safety of products were guaranteed. We also proactively cooperated with the customers and recycled traders in respect of the recycling and treatment of materials such as cardboard boxes and optical fibre trays used in the packaging process. We recovered 64.96 tonnes of optical fibre trays and 6.25 tonnes of paper boxes in aggregate during the Reporting Period.

## A3 The Environment and Natural Resources

### Environment-related risk management

We have established a sound and effective environmental management system in accordance with ISO14001 and formulated the Operational Procedure for Identifying and Assessing Environmental Factors (《環境因素識別及評估作業程序》) so as to comprehensively monitor and environment-related risks in the operation of the Group. Besides, we have set up an environment committee equipped with the risk assessment mechanism to carry out ratings over environment-related risks based on the frequency of occurrence, detectability, environmental impacts and regenerative capacity of relevant natural resources and come up with relevant solutions against environment-related risks at different levels accordingly. The environment committee is also responsible for the coordination and supervision work in the implementation of such solutions. In addition, the Group also assesses impacts on the environment of the products throughout their lifecycle in consideration of use of resources and pollution of air, water and land as well as other factors and works out reasonable monitoring and control plans. During the Reporting Period, we did not have any events or business activities that had significant impacts on the environment and natural resources.

## B. SOCIAL

### B1 Employment

#### Fair treatment

The Group strives to create an equal working environment and make sure that all employees and applicants are entitled to fair treatment in respect of recruitment, training, promotion and salaries and benefits. We make decisions based on the working experience, education background, competency and other relevant factors of the employees and applicants regardless of their gender, marital status, domestic role, pregnancy, physical soundness, age, race and religion. Once discrimination of any kind was made aware to the management, the Group would arrange a disciplinary hearing and sanction the employee that committed discriminatory action. At the same time, each case would be investigated and handled in strict confidentiality.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### **Salaries and benefits**

We strictly observe relevant requirements of the local governments in respect of salaries and benefits and determine the salary based on the principles of fairness, impartiality, competitiveness and cost-effectiveness with reference to the prevailing market salary, supply and demand condition, operating results of the Group, performance of the staff and others. We provide allowances to attract competent talents and provide employees with attractive perquisites in light of the responsibilities and working environment of their respective position. Besides, our salary portfolio also includes double pay, allowances for traffic, meals and high temperature, festival benefits, attendance incentives, overtime payments as well as mandatory provident fund and others. Moreover, the Group also grants discretionary annual bonuses to employees in the light of their performance and financial results of the Group and organizes a variety of employee activities or benefits such as New Year dinners, sport games and mooncakes as rewards for their diligent work.

We also endeavor to seek for a balance relationship of work and life and ensure sufficient time for relaxation through paid vacations such as annual leave, wedding leave, maternity leave, training leave and bereavement leave. We prescribe a reasonable amount of working hours and adequate time-out for the employees during the working hours in our corporate rules. If overtime work is required to satisfy certain operational demands, the Group shall obtain consent of the employees concerned in advance and pay overtime wages by 1 to 3 times of the regular wage.

In FY2017, the Group did not have any material non-compliance case that constituted the violation of employment-related laws and regulations.

### **B2 Health and safety**

#### **Production safety**

The Group has been following the “safety first and prevention-oriented” principle thoroughly and has established occupational health and safety management system in accordance with the OHSAS 18001 with a view to preventing and minimizing hidden security hazards and harm to health in the course of production.

We have established an occupational safety risk management mechanism to identify risks relating to occupational health and safety. Afterwards, we will assess and rate the risks based on their impacts on the employees and the Group and the level of controls on those risks. The Group will work out the strategies and priorities of mitigating the risks based on the risk assessment results. In addition, the Group has set up the safety incident management mechanism to cope with emergent safety risks and incidents. In case of any incident, the Group will prioritize the treatment of the injured person and the removal of safety hazards. The Group will then organize a task force to investigate and assess such incidents and report to the safety committee of the Group.

The Group has formulated a detailed set of safety management manuals including Occupational Health and Safety Signs Management Standards, Personal Protective Equipment Administrative Rules, Production Safety Inspection Rules, Operational Procedure for Management of Dangerous Chemicals and Rules for Safety Trainings so as to ensure that there are clear guidelines in place for each occupational safety management procedure.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Besides, organizational charts illustrating specific responsibilities of each position are placed in the workshops thus facilitating the supervision and management of each post. Responsible people are assigned to manage discipline in the use of safety equipment and production operations. Also, there are warning signs relating to occupational health and safety at each workstation or in noticeable places of the workshops so that the operators can have a clear understanding of the adverse factors in different working areas or workshops and control safety hazards from various sources.

The Group also attaches great importance to the management of personal protective equipment. We will provide personal protective equipment according to the post and all relevant information on proper usage of such equipment. In addition, we have organized production safety teams to patrol around for the sufficiency and effectiveness of the safety protection measures to ensure the implementation of every safety management measure and make timely feedback for further amelioration.

The Group organizes training courses and seminars on safe and standard operations for the employees on a regular basis so as to prevent work injuries. In addition to safety trainings, the Group also arranges other training to enrich the knowledge and skills of the employees in respect of occupational safety and health, which include but are not limited to safety in machine operation, training for safety supervisors, lectures on toolkits, fire drills and annual safety trainings. Moreover, we also make adjustments to the relevant operation procedure according to the feedback and suggestions from the employees during the training.

In FY2017, the Group did not have any material non-compliance case that constituted the violation of occupational health and safety-related laws and regulations.

### **B3 Development and Training**

#### **Employee development and training**

The Group is devoted to enhancing the expertise and skills of the employees for the purpose of individual development of the employees and the business expansion of the Group. With a well-established training mechanism in place, the Group will design annual training plans for employees each year, arrange training courses according to the posts of employees and maintain their individual training records. Meanwhile, comments on the training from employees will be collected and compiled into a statistical analysis report as references for the next annual training plan.

During the Reporting Period, we conducted a diversity of internal and external training programs, including production process trainings such as wire drawing, screening and inspecting, technical training for new recruits, training on ISO9001 for internal auditors and training on management skills, contract preparation and others. Apart from training sponsored by the Group, we also encourage the employees to improve their expertise and know-hows via other means. Employees eligible for external refresher or training courses are entitled to financial grants and paid leave upon approval of the management.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### **B4 Labour Standards**

#### **Elimination of child labour and forced labour**

We abide strictly by relevant laws and regulations concerning anti-child labour and anti-forced labour and resolutely eliminate the employment of child labour and forced labour. The Group has included relevant procedures to rule out child labour and forced labour in our recruitment procedures, whereby only eligible personnel with valid identity credentials issued by the local authorities can be employed, and our selection process is professional. In addition, subsidiaries of the Group are required to conduct recruitment and prepare employment contracts in accordance with local laws and regulations so as to safeguard the interests of employees. Thereafter, relevant contracts shall be signed by the employees and reviewed to make sure no involvement of child labour and forced labour.

In FY2017, the Group did not have any material non-compliance case that constituted the violation of the laws and regulations concerning prevention of child labour and forced labour.

### **B5 Supply Chain Management**

#### **Management of supply chain quality and sustainable development**

The Group has been serious about fair dealing and has maintained sound supply chain relationships with the major vendors by virtue of transactions with business partners based on fair and reasonable terms. Standards for Selection and Management of Qualified Suppliers, Operational Procedure for Supplier Assessment and Review and other internal documents of the Group prescribe specific requirements for the suppliers on their business license and certificates. We prefer suppliers who possess various ISO certificates and OHSAS18001 qualifications and other certificates relating to environment protection and social responsibilities, thus guaranteeing that the suppliers can meet our requirements in respect of environment protection, production safety and product quality.

We also carry out on-going monitoring over the product quality of the suppliers through sample check and onsite observation so as to guarantee the suppliers' continuous compliance with the requirements of the Company in respect of their products. We have specific criteria on the environment management standards and safety system qualifications for the suppliers and conduct evaluation regularly. If the suppliers cannot pass the evaluation, we will cease to use the substandard suppliers as prescribed so as to avoid adverse effects on the products of the Group.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## **B6 Product Responsibility**

### **Product quality management**

The Group has possessed ISO9001 certification and has been accredited by Thai Industrial Standards Institute (TISI) for the quality management procedure of its factories in Hong Kong and Thailand and carries out purchasing and production in strict compliance with the relevant standards. Meanwhile, we arrange internal review and monitoring procedure, analyze the production data and make prompt rectifications and report on any abnormalities once identified. The Group encourages the management and the staff to update, improve and continue to develop the internal quality control procedure on a regular basis. We also conduct satisfaction surveys among the customers, with a view to enabling our products consistently comply with the requirements of the customers and manifesting the Group's appreciation to the customers.

### **Aftersales service**

The Group has established comprehensive complaint handling mechanism and procedure in which sales personnel have been designated to respond to any complaint in a timely manner as well as coordinate with relevant departments to analyze the causes and take follow-up actions so as to take effective measures to cope with the customers' complaints and ensure customer satisfaction. In addition, all complaints from customers will be kept on file for systematic analysis and for improvement of products and services.

### **Customer privacy**

Customer privacy protection is one of our top concerns as we firmly believe that respecting the privacy of our customers is the foundation for excellent customer relationship and is conducive to the image and reputation of the Group. The Group has adopted sound password management policies, data protection system and measures to ensure information security. In the meantime, we prohibit unauthorized person from access to customer data and require all staff to strictly comply with the confidentiality rules of the Company, thus safeguarding the customer data and purchase records collected by us.

In FY2017, the Group did not have any material non-compliance case that constituted the violation of laws and regulations concerning the quality of products and services as well as customer privacy.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### **B7 Anticorruption**

#### **Integrity and corruption-free business principle**

In consistent adherence to the principle of integrity and honesty, the Group requires all staff to strictly observe the ethical conduct of being professional and honest. The Group also forbids any form of bribery, blackmail, fraud and money laundering. The Group strictly forbid kind of malpractice and fraudulent conduct and prohibits the staff from any abuse of power, document forgery and misconduct to damage the interests of the Group as specified in its Corporate Rules and Employee Handbook. Our employees are not allowed to offer advantages to or accept the same from another company or its employees, management or agents directly or indirectly when fulfilling their duties for avoidance of any improper decision on relevant business made by its employees or us. The Group fights against money laundering and terrorist financing closely in line with relevant regulations of the local governments in respect of money laundering and terrorist financing, and has implemented stringent internal control measures including background check on our customers, suppliers and public institutions so as to ward off relevant criminal incidents.

Meanwhile, the Group organizes anti-corruption training for the employees to raise their consciousness in countering corruption and money laundering. The Group encourages the employees to report about any identified corrupt practice and has established internal complaint/reporting system accordingly to provide employees with fast and effective reporting channel when they discover any material violation by personnel within the Group against the requirements of the Group. At the same time, confidentiality mechanism is adopted by the Group to protect the whistleblower and relevant malpractice will be thoroughly investigated by the internal auditing department which is independent of our daily operation.

In FY2017, the Group did not have any material non-compliance case that constituted the violation of relevant laws and regulations concerning bribery, blackmail, fraud, and money laundering.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### **B8 Community Investment**

#### **Caring for the poor and local community**

The Group is passionate about various social welfare establishments and highlights sustainable development philosophy in its corporate culture and carries through such philosophy in its business operation. In FY2017, we consolidated our resources for philanthropic activities, internal policies and personnel structure and established a community investment management team comprising members from the management, the human resources and administration department and the finance department to specialize in the management of philanthropic activities and charitable donation projects and discuss and review the donation of materials and money, thus improving the effectiveness of the philanthropic activities.

During the Reporting Period, we focused our community investment orientation on supporting social groups with poor economic conditions and organized and participated in various donation and philanthropic activities in cooperation with proper charity institutions. For example, we donated quilts to primary schools in mountainous areas in Yunnan Province in cooperation with the Seeds of Art Charity Foundation in Hong Kong and participated in the shoe collection program hosted by Caritas Community Centre aiming at helping people in need in Africa. In addition, we also paid close attention to the needs of the community where we were located. In 2017, we subscribed donations to flood victims in northern and southern parts of Thailand through the local Red Cross Society so as to help them meet the basic living needs and overcome the hardship.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

#### Executive Directors

**Mr. Hu Guoqiang** (胡國強), aged 54, 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 58, 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. Wei Guoqing** (魏國慶), aged 45, is an executive Director. Mr. Wei joined the Group as general manager of Futong Thailand in February 2013 and is responsible for managing the daily operations and business development of Futong Thailand. Mr. Wei was the deputy president of Futong China and he has resigned from such position upon Listing.

Mr. Wei obtained a master's degree in business administration from Zhejiang Gongshang University (浙江工商大學) in June 2006. He obtained a Bachelor's degree in Mechatronics from the Mechanical Engineering Faculty of Beijing Mingyuan University (北京明園大學) in June 2004. Mr. Wei has over 20 years of experience in design, research and development as well as production of optical fibre cables, quality control and corporate costs control. Prior to joining the Group, Mr. Wei was head of technical department of Futong China Group from December 2012 to December 2015, primarily responsible for the optical communications technology management of Futong China Group and its associate companies and members. Mr. Wei joined Futong China Group in April 1996 as the vice supervisor of the optical fibre cable production unit. From December 2009 to December 2012, Mr. Wei was the general manager of Futong Sumitomo Special Optical Fibre Cable (Tianjin) Company Limited (富通住電特種光纜(天津)有限公司) and was mainly responsible for managing its day-to-day operations. Futong Sumitomo Special Optical Fibre Cable (Tianjin) Company Limited was a joint venture company of Futong China Group and a Japan-based Company and principally engaged in production and sales of optical fibres and related products.

Mr. Wei published a number of industry papers and invented certain patents registered in locations such as the PRC. In 2004, he was awarded a honorary certificate by the local government of Fuyang City, Zhejiang Province, as a technologically advanced individual during 2002 to 2003. In 2011, he was engaged as an expert in the cable industry amendment group by the Chinese Electrical Equipment Industry Association Wire Branch (中國電器工業協會電線電纜分會).

**Mr. Pan Jinhua** (潘金華), aged 53, is an executive Director. Mr. Pan joined the Group in February 2007 and is responsible for managing the investment activities of the Group. Mr. Pan has been a director of the Futong Thailand since August 2010.

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

**Mr. Xu Muzhong** (徐木忠), aged 51, is an executive Director. Mr. Xu joined the Group in May 2012 and is responsible for managing the production process, quality control, as well as production technologies and craftsmanship of the Group. Mr. Xu is also currently a director and the general manager of Futong Thailand, and is principally responsible for operational work, including but not limited to production and management.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

### Independent Non-Executive Directors

**Mr. Leong Chew Kuan** (梁昭坤), aged 41, 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Lau Siu Hang** (劉少恒), aged 62, 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 has also been currently serving 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) since June 2015.

**Mr. Li Wei** (李煒), aged 62 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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.

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

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

Save as disclosed in this report, none of the Directors has any other directorships in listed companies during the three years immediately prior to the date of this report and there are no other matters in respect of each of the Directors that is required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and there is no other material matter relating to the Directors that need to be brought to the attention of the shareholders.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Mr. Ren Guodong** (任國棟), aged 42, 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 56, 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 is currently an independent non-executive director of Tai Kam Holdings Limited, a company listed on GEM (stock code: 8321). 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Wang Yingzhong** (王英忠), aged 57, joined the Group in January 2005 and is currently the assistant engineering department manager of Transtech, in charge of the engineering matters. Mr. Wang obtained a Bachelor's degree in Electronic Engineering from Zhejiang Radio and Television University (浙江廣播電視大學) in August 1983 and the qualification of Middle-level Engineer from Hangzhou Enterprise Middle-level Engineering Technician Assessment Committee (杭州市鄉鎮企業工程技術人員中級職務評審委員會) in the PRC in October 1999.

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

**Ms. Lee Yin Chun, Anthea** (李妍臻), aged 38, 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 2017.

### **CORPORATE REORGANISATION AND SHARE OFFER**

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

The Shares have been listed on the GEM of the Stock Exchange by way of the Global Offering since 20 July 2017.

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

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 30 to the consolidated financial statements. The Group is principally engaged in the manufacturing and sale of optical fibre in Hong Kong and optical fibre cable, optical cable cores and related products in Thailand.

### **RESULTS AND DIVIDENDS**

The financial performance of the Group for the year ended 31 December 2017 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 67 to 72.

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2017.

### **FINANCIAL SUMMARY**

A summary of the published results and of the assets and liabilities of the Group for the last four years is set out on page 128 of this report.

### **SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

The significant investments of the Group is set out in page 15 of this annual report. Except for those included in the section headed “Future Plans and Use of Proceeds” in the Prospectus, the Group had no definite future plans for material investments and capital assets.

## REPORT OF DIRECTORS

### **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 15 of this report.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 14 to the consolidated financial statements.

### **BANK BORROWINGS**

Particulars of bank borrowings of the Group at 31 December 2017 are set out in note 21 to the consolidated financial statements.

### **INTEREST CAPITALISED**

The Group has not capitalised any interest during the year ended 31 December 2017.

### **SHARE CAPITAL**

Details of movements in the share capital of the Company during the year ended 31 December 2017 are set out in note 22 to the consolidated financial statements.

### **RESERVES**

Details of movements in reserves of the Group during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity to the consolidated financial statements.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Directors confirm that during the period from the Listing Date to 31 December 2017, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase, cancel or sell any of such listed securities.

## REPORT OF DIRECTORS

### DIRECTORS

The Directors of the Company during the year ended 31 December 2017 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 and redesignated as executive director on 23 June 2017)
Mr. He Xingfu ( <i>Chief Executive Officer</i> )	(appointed as director on 6 September 2016 and redesignated as executive director on 23 June 2017)
Mr. Wei Guoqing	(appointed as director on 6 September 2016 and redesignated as executive director on 23 June 2017)
Mr. Xu Muzhong	(appointed as director on 6 September 2016 and redesignated as executive director on 23 June 2017)
Mr. Pan Jinhua	(appointed as director on 6 September 2016 and redesignated as executive director on 23 June 2017)

#### Independent Non-executive Directors

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

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

#### Confirmation of Independence

Each independent non-executive Director has given the Company an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all the independent non-executive Directors are independent and meet the independent guidelines set out in Rule 5.09 of the GEM Listing Rules.

### DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

#### (a) Executive Directors

Each of the executive Directors entered into a service contract with the Company for a term of three years commencing from 23 June 2017, which may be terminated by not less than three months' notice served by either party on the other. The term of service of a Director is subject to retirement by rotation of Directors as set out in the Articles.

#### (b) Independent Non-executive Directors

Each of the independent non-executive Directors signed a letter of appointment with the Company for a term of three years commencing from 23 June 2017, which may be terminated by not less than one month's notice served by either party on the other. The term of service of a Director is subject to the provisions on retirement by rotation of Directors as set out in the Articles.

## REPORT OF DIRECTORS

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).

### 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 8 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 40 to 46 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 2017.

As at 31 December 2017, 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 2017 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its specified undertakings as defined in the Companies (Directors' Report) Regulation (Chapter 622 of the Laws of Hong Kong) or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

### MANAGEMENT CONTRACTS

As at 31 December 2017, the Company did not enter into or have any management and/or administration contracts in respect of the whole or any principal business of the Company.

## REPORT OF DIRECTORS

### DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

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

### 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

## REPORT OF DIRECTORS

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

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

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

The following corporate governance measures have been adopted by the Group to monitor the compliance of the Deed of Non-competition for the period from the Listing Date to 31 December 2017:

- (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 Listing Date 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 Listing Date to the date of this report.

## REPORT OF DIRECTORS

### 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 at the Listing Date and up to the date of this report, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules.

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

So far as is known to the Directors, as at the Listing Date 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:

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

## REPORT OF DIRECTORS

*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 at Listing Date 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.

## RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2017 are set out in note 27 to the Consolidated Financial Statements. Certain of these transactions (as set out below) also constitute connected transactions/continuing connected transactions under Chapter 20 of the GEM Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

## REPORT OF DIRECTORS

### CONTINUING CONNECTED TRANSACTIONS

The Group has entered into certain continuing connected transactions (“Continuing Connected Transactions”) with the connected persons (as defined in the GEM Listing Rules) of the Company. The Directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules. One non-exempt continuing connected transaction (“Non-exempt Continuing Connected Transaction”), one non-fully exempt continuing connected transaction (“Non-fully Exempt Continuing Connected Transaction”, and one exempt continuing connected transaction “Exempt Continuing Connected Transaction”), constitute Continuing Connected Transactions of the Group during the year ended 31 December 2017. 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

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

During the year ended 31 December 2017, 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 year ended 31 December 2017 and the annual cap for each of FY2017 and FY2018 as set out in the written agreement entered into between Transtech and Futong China on 16 June 2017 (the "Optical Fibre Framework Sales Agreement") in relation to the sales of optical fibres to Futong China Group are set out below.

##### **Actual Sales Amount**

	<b>FY2017</b> <i>(HK\$ million)</i>
Optical fibre	36.6

##### **Annual Caps**

	<b>For the year ending 31 December</b>	
	<b>2017</b> <i>(HK\$ million)</i>	<b>2018</b> <i>(HK\$ million)</i>
Optical fibre	<b>40.0</b>	38.0

The actual sales amount for FY2017 did not exceed the annual cap. Should the actual annual sales amount for the year ending 31 December 2018 exceed the above proposed annual caps, the Company will revise the annual caps in compliance with the relevant requirements under Chapter 20 of the GEM Listing Rules.

## REPORT OF DIRECTORS

### **GEM Listing Rules Implications**

As certain applicable percentage ratios (other than profits ratio) in respect of the transactions under the Optical Fibre Framework Sales Agreement are, on an annual basis, expected to be more than 5% and the annual consideration is more than HK\$10 million, the transactions contemplated under the Optical Fibre Framework Sales Agreement constitute a Non-exempt Continuing Connected Transaction of the Company and are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

### **Application for Waivers**

Pursuant to Rule 20.103 of the GEM Listing Rules, the Directors have applied for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Rules 20.33 and 20.34 of the GEM Listing Rules respectively, in respect of such Non-exempt Continuing Connected Transaction, subject to the aggregate amount of the Non-exempt Continuing Connected Transaction for each financial year not exceeding the relevant annual caps as stated above.

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

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

During the year ended 31 December 2017, 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, one of the executive Directors, as to 90% and 10%, respectively. Therefore, Futong Group International is a connected person of the Group.

On 20 October 2016, a licence agreement was entered into between Transtech and Futong Group International in relation to the Premises (“Licence Agreement”). According to the Licence Agreement, Futong Group International has agreed to grant a licence to Transtech to use the Premises at the Licence Fee as set out in the paragraphs headed “Annual Caps” below. The term of the licence is five years, from 1 July 2016 to 30 June 2021. The Licence Agreement is terminable at Transtech's discretion unilaterally at any time by serving on Futong Group International not less than six months' prior notice in writing. Controlling Shareholders of the Company have provided indemnity in relation to the costs and losses that may be incurred by the Group in relation to relocation in the event that Transtech is required to move out of the Premises.

## REPORT OF DIRECTORS

### Actual Transaction Value

For FY2017, Transtech has paid a sum of approximately HK\$10.8 million to Futong Group International, for its use of the Premises.

### Annual Caps

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

	For the year ending 31 December				
	2017 (HK\$ million)	2018 (HK\$ million)	2019 (HK\$ million)	2020 (HK\$ million)	2021 (HK\$ million)
Licence Fee	10.8	11.9	11.9	11.9	13.1

### GEM Listing Rules Implications

As certain applicable percentage ratios (other than profits ratio) in respect of the transaction under the Licence Agreement is, on an annual basis, expected to be less than 5% and the annual consideration is more than HK\$3 million, the transaction contemplated under the Licence Agreement constitutes a Non-fully Exempt Continuing Connected Transaction of the Company subject to the reporting, announcement and annual review requirements, but are exempt from the circular and independent shareholders’ approval requirements, pursuant to Rule 20.74(2) of the GEM Listing Rules.

### Application for Waivers

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

### Annual Review

The independent non-executive Directors have reviewed the Continuing Connected Transactions conducted for the year ended 31 December 2017 and confirmed that such Continuing Connected Transactions were carried out in the ordinary and usual course of business of the Group, were on normal commercial terms and were in accordance with the relevant agreement on terms that are fair and reasonable and in the interests of the shareholders as a whole.

## REPORT OF DIRECTORS

The Company's auditor was engaged to report on the Continuing Connected Transactions entered into by the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on the results of the work performed, the auditor has issued a letter containing an unmodified conclusions in respect of the Continuing Connected Transactions in accordance with Chapter 20 of the GEM Listing Rules in confirming that:

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

A letter of Independent Assurance Report from auditor on Continuing Connected Transactions was provided to the Stock Exchange on 6 March 2018.

The Company confirmed that the disclosure requirements for the Continuing Connected Transactions have been complied with in accordance with Chapter 20 of the GEM Listing Rules.

The Audit Committee has reviewed the Continuing Connected Transactions conducted for the year ended 31 December 2017 and the letter from the auditor with conclusions in respect of the Continuing Connected Transactions set out above. On such basis, the Audit Committee was of the view that the Continuing Connected Transactions were carried out in compliance with Chapter 20 of the GEM Listing Rules.

## DIVIDENDS

The Board did not recommend a payment of any final dividend for the year ended 31 December 2017 (year ended 31 December 2016: nil).

## SHARE OPTION SCHEME

The Company has no share option scheme.

## REPORT OF DIRECTORS

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Save as disclosed above, at no time during the year ended 31 December 2017 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Directors confirm that during the period from the Listing Date to 31 December 2017, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase, cancel or sell any of such listed securities.

### **COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Group has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct from the Listing Date up to the date of this report.

### **COMPETING INTERESTS**

As at 31 December 2017, save as disclosed in "Relationship with Controlling Shareholders" section of the Prospectus, none of the Directors, and the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

### **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31 December 2017, the aggregate amount of revenue attributed to the Group's largest and the five largest customers accounted for approximately 47% and 88% (2016: 30% and 95%) of the total revenue of the Group, respectively. For the year ended 31 December 2017, the Group's purchase from the largest and the five largest suppliers accounted for approximately 32% and 84% (2016: 31% and 88%) of the total purchases of the Group, respectively. At no time during the year ended 31 December 2017 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.

## REPORT OF DIRECTORS

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float as required under the GEM Listing Rules.

### PRE-EMPTIVE RIGHTS

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

### 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 period from the Listing Date to 31 December 2017. To the extent as permitted by the Companies Ordinance, a directors' liability insurance is currently in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

### RELATIONSHIP WITH STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its key stakeholders, including its employees, customers and suppliers, to meet its immediate and long-term business goals. During the year ended 31 December 2017, 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.

## REPORT OF DIRECTORS

### BUSINESS REVIEW

A fair review of the business of the Company as well as a discussion and analysis of the Group's performance during the year ended 31 December 2017 and the material factors underlying its results and financial position can be found in the management discussion and analysis set out on pages 7 to 16 of this report. These discussions form part of this report.

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report, which forms part of this report, is set out on pages 29 to 39 of this report.

### DONATION

During FY2017, the Group made donation for charitable purposes in the aggregate amount of HK\$22,818 (2016: HK\$330).

### ANNUAL GENERAL MEETING

The first annual general meeting ("AGM") of the Company will be held on 25 May 2018, the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

### 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 21 May 2018 to 25 May 2018, 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 18 May 2018.

### EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2017 and up to the date of approval of this report.

### AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by Deloitte Touche Tohmatsu, who is also the auditor of Transtech for the three years ended 31 December 2017 and shall retire at the forthcoming annual general meeting and, being eligible, offered themselves for re-appointment.

## REPORT OF DIRECTORS

### EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2017, the Group had totally 280 headcounts including 77 and 203 employees in Hong Kong and Thailand respectively (2016: totally 260 headcounts including 78 and 182 employees in Hong Kong and Thailand respectively). The total staff costs, including directors' emoluments, amounted to approximately HK\$39.6 million during the year ended 31 December 2017 (year ended 31 December 2016: approximately HK\$30.3 million). The Group recruits and promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff and to enable smooth operations within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis. The emoluments of the Directors and senior management are reviewed and approved by the Board of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement.

### INTERESTS OF THE COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Innovax Capital Limited ("Innovax Capital"), as at 31 December 2017, except for the compliance adviser agreement entered into between the Company and Innovax Capital, neither Innovax Capital, nor any of its directors, employees or close associates (as defined in the GEM Listing Rules) had any interests in relation to the Company which are required to be notified to the Company pursuant to Rule 6A.32 of GEM Listing Rules.

### AUDIT COMMITTEE

The Company has established the Audit Committee with the written terms of reference in compliance with the GEM Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely Mr. Leong Chew Kuan, who has the appropriate accounting and financial related management expertise and serves as the chairman of the Audit Committee, Mr. Lau Siu Hang and Mr. Li Wei. The Audit Committee has reviewed this report and has provided advice and comments thereon.

### CORPORATE GOVERNANCE

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules and the Board is satisfied that except for the deviations as disclosed in the Corporate Governance Report in this report, the Company had compiled with the CG Code from the Listing Date to 31 December 2017.

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

Hong Kong, 28 March 2018

## INDEPENDENT AUDITOR'S REPORT

**Deloitte.****德勤**

**To the Shareholders of Transtech Optelecom Science Holdings Limited**  
*(incorporated in 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 67 to 127, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 (“HSAs”) 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 note 5 to the consolidated financial statements, in determining the impairment loss on trade receivables, the management considers the credit history of its customers, including default or delay in payments and settlement records, subsequent settlements and ageing analysis of the trade receivables.

As at 31 December 2017, the carrying amount of trade receivables is HK\$158,063,000 where no impairment loss or bad debt provision was provided.

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 over monitoring of trade receivables;
- Testing the accuracy of the Group's trade receivables ageing analysis, on a sample basis, to sales invoices;
- Assessing the reasonableness of the impairment assessment performed by management with reference to the credit history of its customers, including default or delay in payments and settlement records, subsequent settlements and ageing analysis of trade receivables; and
- Testing the subsequent settlements, on a sample basis, to bank remittance advice.

### 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 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 HKSAAs 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 HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

28 March 2018

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December	
		2017 HK\$'000	2016 HK\$'000
<b>Revenue</b>	6	<b>556,539</b>	599,772
Cost of sales		<b>(413,626)</b>	(490,699)
<b>Gross profit</b>		<b>142,913</b>	109,073
Other income	7	<b>2,775</b>	1,409
Other gains and losses	7	<b>19,305</b>	3,305
Selling and distribution expenses		<b>(7,255)</b>	(4,064)
Administrative expenses		<b>(28,303)</b>	(20,721)
Finance costs	9	<b>(1,283)</b>	(3,322)
Listing expenses		<b>(9,553)</b>	(11,703)
Profit before taxation	10	<b>118,599</b>	73,977
Income tax expense	11	<b>(14,249)</b>	(6,744)
Profit for the year		<b>104,350</b>	67,233
<b>Other comprehensive income</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<b>19,943</b>	85
Total comprehensive income for the year		<b>124,293</b>	67,318
<b>Profit for the year attributable to:</b>			
Owners of the Company		<b>104,350</b>	63,915
Non-controlling interest		–	3,318
		<b>104,350</b>	67,233
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		<b>124,293</b>	64,000
Non-controlling interest		–	3,318
		<b>124,293</b>	67,318
Earnings per share	13		
Basic (HK cents)		<b>46.51</b>	32.78

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>The Group</b>	
		<b>As at 31 December</b>	
	<i>NOTES</i>	<b>2017</b>	2016
		<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	14	<b>136,785</b>	141,896
Deposits	17	<b>15</b>	139
		<b>136,800</b>	142,035
<b>Current assets</b>			
Inventories	15	<b>134,769</b>	79,719
Trade receivables	16	<b>158,063</b>	253,101
Deposits, prepayments and other receivables	17	<b>3,142</b>	6,184
Bank balances and cash	18	<b>279,551</b>	58,574
		<b>575,525</b>	397,578
<b>Current liabilities</b>			
Trade and bills payables	19	<b>140,621</b>	134,752
Other payables and accrued charges	20	<b>9,061</b>	10,102
Bank borrowings	21	<b>900</b>	57,651
Tax payable		<b>6,012</b>	1,500
Amount due to an intermediate holding company	27	<b>–</b>	915
		<b>156,594</b>	204,920
<b>Net current assets</b>		<b>418,931</b>	192,658
<b>Total assets less current liabilities</b>		<b>555,731</b>	334,693
<b>Non-current liabilities</b>			
Deferred tax liabilities	23	<b>4,550</b>	5,123
Bank borrowings	21	<b>–</b>	811
		<b>4,550</b>	5,934
<b>Net assets</b>		<b>551,181</b>	328,759

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	The Group As at 31 December	
		2017 HK\$'000	2016 HK\$'000
<b>Capital and reserves</b>			
Issued share capital	22	2,600	5
Reserves		548,581	328,754
<b>Total Equity</b>		<b>551,181</b>	<b>328,759</b>

The consolidated financial statements on pages 67 to 127 were approved and authorised for issue by the board of directors on 28 March 2018 and are signed on its behalf by:

\_\_\_\_\_  
**Mr. Hu Guoqiang**  
*Director*

\_\_\_\_\_  
**Mr. He Xingfu**  
*Director*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Foreign exchange reserve <i>HK\$'000</i>	Accumulated (losses) profits <i>HK\$'000</i>	Equity attributable to the owners of the Company <i>HK\$'000</i>	Non- controlling interest <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2016	125,903	114,329	(19,146)	(21,330)	(2,947)	196,809	65,547	262,356
Profit for the year	-	-	-	-	63,915	63,915	3,318	67,233
Other comprehensive income	-	-	-	85	-	85	-	85
Total comprehensive income for the year	-	-	-	85	63,915	64,000	3,318	67,318
Acquisition of additional interest in a subsidiary ( <i>Note 30(iii)</i> )	-	-	68,865	-	-	68,865	(68,865)	-
Transfer upon completion of Group Reorganisation	(125,898)	(114,329)	239,312	-	-	(915)	-	(915)
At 31 December 2016	5	-	289,031	(21,245)	60,968	328,759	-	328,759
<b>Profit for the year</b>	-	-	-	-	<b>104,350</b>	<b>104,350</b>	-	<b>104,350</b>
<b>Other comprehensive income</b>	-	-	-	<b>19,943</b>	-	<b>19,943</b>	-	<b>19,943</b>
<b>Total comprehensive income for the year</b>	-	-	-	<b>19,943</b>	<b>104,350</b>	<b>124,293</b>	-	<b>124,293</b>
Issue of shares pursuant to Capitalisation Issue	1,945	(1,945)	-	-	-	-	-	-
Issue of shares under the Global Offering	650	108,550	-	-	-	109,200	-	109,200
Transaction costs incurred in connection with the Issue of shares	-	(11,071)	-	-	-	(11,071)	-	(11,071)
<b>At 31 December 2017</b>	<b>2,600</b>	<b>95,534</b>	<b>289,031</b>	<b>(1,302)</b>	<b>165,318</b>	<b>551,181</b>	<b>-</b>	<b>551,181</b>

*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 as disclosed in note 30(iii); and (iii) share capital and share premium of Transtech and Futong Group Communication Technology (Thailand) Co. Limited ("Futong Thailand").

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	118,599	73,977
Adjustments for:		
Depreciation of property, plant and equipment	18,181	17,604
Interest income	(853)	(42)
Interest expenses	1,283	3,322
Loss on disposals of property, plant and equipment	4	54
Bad debt written off	–	492
<b>Operating cash flows before movements in working capital</b>	<b>137,214</b>	95,407
Increase in inventories	(47,902)	(1,352)
Decrease (increase) in trade receivables	110,291	(61,848)
Decrease (increase) in other receivables, deposits and prepayments	3,495	(3,967)
(Decrease) increase in trade and bills payables	(7,809)	1,652
Increase in other payables and accrued charges	409	2,982
<b>Cash generated from operations</b>	<b>195,698</b>	32,874
Hong Kong Profits Tax (paid) refund	(10,310)	1,631
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>185,388</b>	34,505
<b>INVESTING ACTIVITIES</b>		
Advances to a related company	–	(16,900)
Repayment from related companies	–	33,973
Interest received	627	42
Purchases of property, plant and equipment	(4,142)	(5,250)
Proceeds from disposal of property, plant and equipment	–	31
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(3,515)</b>	11,896

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	109,200	–
Transaction costs attributable to issue of shares	(11,071)	–
Repayment to an intermediate holding company	(915)	–
New bank loans raised	68,352	166,131
Repayments of bank borrowings	(128,232)	(201,445)
Interest paid	(1,283)	(3,413)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>36,051</b>	<b>(38,727)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>217,924</b>	<b>7,674</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>58,574</b>	<b>50,711</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>3,053</b>	<b>189</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH</b>	<b>279,551</b>	<b>58,574</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL

The Company was incorporated as an exempted company in the Cayman Islands with limited liability on 6 September 2016. The Company's shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of global offering on 20 July 2017 (the "Global offering"). Its immediate holding company is Hong Kong Futong Optical Fiber Company Limited ("Futong HK"), a company incorporated in Hong Kong, and ultimate holding company is Hangzhou Futong Investment 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 30.

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

### 2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Since their respective dates of incorporation, the Company and the Group's operating entities, Transtech and Futong Thailand, have been under common control of Futong China through legal ownership either directly or indirectly through entities controlled by Futong China which is established in the PRC. In preparation of the listing of the Company's shares on the GEM of the Stock Exchange (the "Listing"), the companies now comprising the Group underwent the reorganisation as described below (the "Group Reorganisation").

- On 22 September 2016, Great Sign Technologies Limited ("Great Sign") and Pan South Industries Limited ("Pan South") were incorporated with limited liabilities in British Virgin Islands ("BVI") by the Company;
- On 23 September 2016, each of Great Sign and Pan South acquired 15,000 shares in Futong Thailand, representing 0.3% of the issued share capital in Futong Thailand, at total consideration of approximately THB4 million (equivalent to HK\$0.9 million) from two individuals who then held these shares of Futong Thailand on trust in favour of Futong China;
- On 23 September 2016, Futong China transferred to Futong HK (a subsidiary of Futong China since its date of incorporation and not forming part of the Group) 4,970,000 shares in Futong Thailand, representing 99.4% of the issued share capital of Futong Thailand, at a consideration of approximately THB678 million (equivalent to HK\$149.0 million); and
- On 7 October 2016, Futong HK and the Company entered into a share swap agreement, pursuant to which the Company acquired from Futong HK the entire issued share capital of Transtech and 99.4% of the issued share capital of Futong Thailand. In consideration of such share transfer, the Company allotted and issued 499,220 shares to Futong HK.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Pursuant to the Group Reorganisation detailed above, the Company has become the holding company of the companies now comprising the Group. As the Company and its subsidiaries have been under the common control of Futong China throughout the years and before and after the Group Reorganisation, as a result, the Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared on the basis as if the Company had always been the holding company of the Group throughout the years under the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting Under Common Control Combinations” issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”). 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 ended 31 December 2016 include the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence.

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

#### Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year.

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014–2016 cycle

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

#### Amendments to HKAS 7 “Disclosure initiative”

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flow from those financial assets were or future cash flows will be included in cash flows from financing activities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### Amendments to HKAS 7 “Disclosure initiative” (Continued)

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other business; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of relevant items is provided in note 28. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 28, the application of these amendments has had no impact on the Group's consolidated financial statements.

#### New and revised HKFRS in issue but not effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial instruments <sup>1</sup>
HKFRS 15	Revenue from contracts with customers and the related amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance contracts <sup>4</sup>
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over income tax treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment features with negative compensation <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>3</sup>
Amendments to HKAS 28	Long-term interests in associates and joint venture <sup>2</sup>
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014–2016 cycle <sup>1</sup>
Amendments to HKAS 40	Transfers of investment property <sup>1</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2015–2017 cycle <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

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

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2021.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### HKFRS 9 Financial instruments (Continued)

Based on the Group’s financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

#### Classification and measurement:

- Debt instruments classified as loan receivables carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;
- All financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

#### Impairment:

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening accumulated profits at 1 January 2018.

Except for the above mentioned, the directors of the Company do not anticipate that the adoption of HKFRS 9 in the future will have other significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities based on the analysis of the Group’s financial instruments as at 31 December 2017.

#### HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related interpretations when it becomes effective.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### HKFRS 15 Revenue from contracts with customers (Continued)

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarification to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

#### HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### HKFRS 16 Leases (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK\$6,404,000 as disclosed in note 24. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid as right and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosures as indicated above.

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

### 4. SIGNIFICANT ACCOUNTING POLICIES

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 "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.

The principal accounting policies are set out below.

#### **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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Basis of consolidation (Continued)**

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.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

#### **Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

#### **Merger accounting for business combination involving entities under common control**

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under control of the controlling entity.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Merger accounting for business combination involving entities under common control (Continued)**

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

#### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's statement of financial position at cost (including deemed capital contribution) less any identified impairment losses.

#### **Revenue recognition**

Revenue is measured at fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property, plant and equipment (Continued)

Freehold land is carried at cost, less any recognised impairment loss. Costs include professional fees capitalised in accordance with the Group's accounting policy.

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

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

#### Impairment loss on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those 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. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Impairment loss on tangible assets (Continued)**

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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) 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.

#### **Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. 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.

#### **Financial assets**

The Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate except for short-term receivables where the recognition of interest would be insignificant.

##### *Impairment of loans and receivables*

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for individual trade receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments, observable changes in national or local economic conditions that correlate with default on trade receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Impairment of loans and receivables (Continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### 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.

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (Continued)

#### Financial liabilities and equity instruments (Continued)

##### *Financial liabilities*

The Group's financial liabilities including trade and bills payables, other payables, amount due to an intermediate holding company and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

##### **Derecognition**

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, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

##### **Retirement benefit costs**

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

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period that related services is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

##### **Short-term employee benefits**

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

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

##### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### **The Group as lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income 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 each reporting period.

Deferred tax is recognised on 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 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.

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 when 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.

Current and deferred tax are recognised in profit or loss.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Foreign currencies

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

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

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

#### Borrowing costs

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

### 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### Valuation of trade receivables

In determining the impairment loss on trade receivables, management's judgement and estimation on the evaluation of recoverability is used for the trade receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables based on credit history of its customers, including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables. The amount of the impairment loss on trade receivables is measured as the difference between the carrying amount of the trade receivables and the present value of the expected future cash inflows discounted at the trade receivable's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, further impairment loss may arise.

As at 31 December 2017, the carrying amount of the Group's trade receivables is HK\$158,063,000 (2016: HK\$253,101,000). For the year ended 31 December 2016, an amount of HK\$492,000 was recognised as impairment loss due to financial difficulty of the relevant customer.

#### Depreciation

The Group depreciates its property, plant and equipment on a straight-line basis over their estimated useful lives as set out in note 14 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.

### 6. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the fair value of amounts received and receivable by the Group to external customers for the year, and is analysed as follows:

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Sales of optical fibre cables	203,654	266,124
Sales of optical fibres	191,594	237,980
Sales of optical cable cores	159,188	94,434
Sales of other related products	2,103	1,234
	<b>556,539</b>	<b>599,772</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

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

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

#### Segment revenue and results

Year ended 31 December 2017

	Optical fibre cables, optical cable cores and other related products <i>HK\$'000</i>	Optical fibres <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Revenue</b>				
External sales	364,945	191,594	–	556,539
Inter-segment sales	–	75,388	(75,388)	–
Segment revenue	<u>364,945</u>	<u>266,982</u>	<u>(75,388)</u>	<u>556,539</u>
Segment results	<u>46,177</u>	<u>91,778</u>	<u>(3,772)</u>	<u>134,183</u>
Interest income				128
Unallocated corporate expenses				(4,876)
Finance costs				(1,283)
Listing expenses				(9,553)
Profit before taxation				<u>118,599</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

#### Segment revenue and results (Continued)

Year ended 31 December 2016

	Optical fibre cables, optical cable cores and other related products <i>HK\$'000</i>	Optical fibres <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Revenue</b>				
External sales	361,792	237,980	–	599,772
Inter-segment sales	–	25,598	(25,598)	–
Segment revenue	<u>361,792</u>	<u>263,578</u>	<u>(25,598)</u>	<u>599,772</u>
Segment results	<u>38,151</u>	<u>50,587</u>	<u>304</u>	89,042
Unallocated corporate expenses				(40)
Finance costs				(3,322)
Listing expenses				<u>(11,703)</u>
Profit before taxation				<u>73,977</u>

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of finance costs, listing 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

## 6. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

## Other information

Year ended 31 December 2017

	Optical fibre cables, optical cable cores and other related products <i>HK\$'000</i>	Optical fibres <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Other segment information (included in the measure of segment profit or loss or regularly provided to CODM)</b>			
Additions to non-current assets ( <i>Note</i> )	1,838	512	2,350
Depreciation	12,993	5,188	18,181
Loss on disposals of property, plant and equipment	–	4	4

Year ended 31 December 2016

	Optical fibre cables, optical cable cores and other related products <i>HK\$'000</i>	Optical fibres <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Other segment information (included in the measure of segment profit or loss or regularly provided to CODM)</b>			
Additions to non-current assets ( <i>Note</i> )	6,798	244	7,042
Depreciation	12,283	5,321	17,604
(Gain) loss on disposals of property, plant and equipment	(9)	63	54
Bad debt written off	492	–	492

*Note:* Non-current assets excluded financial instruments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. 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	
	2017 HK\$'000	2016 HK\$'000
PRC (excluding Hong Kong)	36,601	96,279
Hong Kong	309,739	233,366
Thailand	164,195	255,341
Vietnam	15,537	1,708
Singapore	8,897	918
The Philippines	7,298	8,799
Burma	6,579	–
Others	7,693	3,361
	<b>556,539</b>	<b>599,772</b>

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

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
Hong Kong	35,061	39,740
Thailand	101,739	102,295
	<b>136,800</b>	<b>142,035</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. 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	
	2017 HK\$'000	2016 HK\$'000
Customer A	87,196	180,011
Customer B	N/A*	66,479
Customer C	70,043	69,552
Customer D	N/A*	106,111
Customer E	263,853	143,580

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

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

### 7. OTHER INCOME, GAINS AND LOSSES

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Other income:		
Income from sales of scrap products	745	778
Bank interest income	853	42
Others	1,177	589
	<b>2,775</b>	1,409
Other gains and losses:		
Foreign exchange gains	19,309	3,851
Loss on disposals of property, plant and equipment	(4)	(54)
Bad debt written off	–	(492)
	<b>19,305</b>	3,305

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' and chief executive's emoluments

Mr. Hu Guoqiang, Mr. He Xingfu, Mr. Wei Guoqing, Mr. Pan Jinhua and Mr. Xu Muzhong were appointed as directors of the Company on 6 September 2016. 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 (Note iii)	He Xingfu HK\$'000 (Note i)	Wei Guoqing HK\$'000 (Note iv)	Pan Jinhua HK\$'000 (Note iii)	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 2017									
Fees	300	180	-	280	-	108	108	108	1,084
Other emoluments									
Salaries and other benefits	-	1,519	673	-	552	-	-	-	2,744
Retirement benefit scheme contributions	-	18	-	-	-	-	-	-	18
<b>Total emoluments</b>	<b>300</b>	<b>1,717</b>	<b>673</b>	<b>280</b>	<b>552</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>3,846</b>
Year ended 31 December 2016									
Fees	-	-	-	-	-	-	-	-	-
Other emoluments									
Salaries and other benefits	-	1,256	279	-	151	-	-	-	1,686
Retirement benefit scheme contributions	-	18	1	-	1	-	-	-	20
<b>Total emoluments</b>	<b>-</b>	<b>1,274</b>	<b>280</b>	<b>-</b>	<b>152</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,706</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### (a) Directors' and chief executive's emoluments (Continued)

Notes:

- (i) During the year ended 31 December 2016 and 31 December 2017, Mr. He Xingfu acts as chief executive officer of the Group. Emoluments for acting as chief executive officer of the Group has been included in his director's emoluments as disclosed above.
- (ii) The directors' emoluments shown above were for their services in connection with the management of the affairs of the Group.
- (iii) Emoluments for the year ended 31 December 2016 and for the six months ended 30 June 2017 were borne by Futong China for their services in connection with the management of the affairs of the Group and certain fellow subsidiaries. The directors consider that there is no reasonable basis to allocate such emoluments to the Group. Starting from July 2017, their emoluments are borne by the Group.
- (iv) Emoluments for the year ended 31 December 2016 were partly borne by Futong China for his services in connection with the management of the affairs of the Group and certain fellow subsidiaries. The directors consider that there is no reasonable basis to allocate such emoluments to the Group.

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.

#### (b) Employees' emoluments

The five highest paid individuals of the Group during the year included two directors (2016: one director) whose emoluments are included in the disclosures in (a) above. The emoluments of the remaining three (2016: four) individuals who are neither a director nor chief executive of the Company are as follows:

	<b>Year ended 31 December</b>	
	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Salaries and other benefits	<b>2,059</b>	2,539
Discretionary bonus	<b>241</b>	407
Retirement benefit scheme contributions	<b>36</b>	85
	<b>2,336</b>	3,031

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### (b) Employees' emoluments (Continued)

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

	Year ended 31 December	
	2017 Number of employees	2016 Number of employees
Nil to HK\$1,000,000	3	4
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	0
	<b>5</b>	<b>5</b>

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

### 9. FINANCE COSTS

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Interest on bank borrowings	<b>1,283</b>	3,322

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 10. PROFIT BEFORE TAXATION

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	900	517
Depreciation of property, plant and equipment	18,181	17,604
Less: amount capitalised in inventories	(14,250)	(13,396)
	3,931	4,208
Directors' remuneration ( <i>Note 8</i> )	3,846	1,706
Other staff costs		
Salaries and other benefits	35,074	27,988
Retirement benefits scheme contributions	719	653
Total staff costs	39,639	30,347
Less: amount capitalised in inventories	(23,688)	(21,667)
	15,951	8,680
Minimum lease payments under operating leases in respect of land and buildings	11,469	11,497
Cost of inventories recognised as cost of sales	413,626	490,699

### 11. INCOME TAX EXPENSE

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Hong Kong Profits Tax		
Current Tax	14,835	1,500
(Over)underprovision in prior years	(13)	121
	14,822	1,621
Deferred taxation ( <i>Note 23</i> )	(573)	5,123
	14,249	6,744

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

### 11. INCOME TAX EXPENSE (CONTINUED)

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

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Profit before taxation.	<b>118,599</b>	73,977
Tax at the applicable income tax rate of 16.5%	<b>19,569</b>	12,206
Tax effect of income not taxable for tax purpose	<b>(851)</b>	–
(Over) underprovision in prior years	<b>(13)</b>	121
Tax effect of expenses not deductible for tax purpose	<b>2,379</b>	2,027
Effect of tax exemption granted	<b>(6,848)</b>	(5,955)
Utilisation of tax losses previously not recognised	–	(1,573)
Others	<b>13</b>	(82)
Tax charge for the year	<b>14,249</b>	6,744

### 12. 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 period.

### 13. EARNINGS PER SHARE

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

	2017 HK\$'000	2016 HK\$'000
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	<b>104,350</b>	63,915

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 13. EARNINGS PER SHARE (CONTINUED)

	2017 '000	2016 '000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>224,384</b>	195,000

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the reorganisation and the Capitalisation Issue (details as disclosed in note 22) had been effective on 1 January 2016.

No diluted earnings per share for both years 2017 and 2016 were presented as there were no potential ordinary shares in issue for both years 2017 and 2016.

## 14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK\$'000	Building HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST</b>								
At 1 January 2016	25,535	40,213	51,052	102,440	3,534	854	2,444	226,072
Additions	-	-	-	5,065	551	933	493	7,042
Transferred	-	-	-	(4)	-	4	-	-
Disposals	-	-	-	(118)	(1)	(33)	-	(152)
Exchange realignment	143	224	112	151	8	(13)	1	626
At 31 December 2016	25,678	40,437	51,164	107,534	4,092	1,745	2,938	233,588
Additions	-	-	271	623	1,402	54	-	2,350
Disposals	-	-	-	(11)	(3)	(11)	-	(25)
Exchange realignment	2,813	4,430	2,217	5,272	466	104	247	15,549
<b>At 31 December 2017</b>	<b>28,491</b>	<b>44,867</b>	<b>53,652</b>	<b>113,418</b>	<b>5,957</b>	<b>1,892</b>	<b>3,185</b>	<b>251,462</b>
<b>DEPRECIATION</b>								
At 1 January 2016	-	4,588	37,902	27,921	2,014	556	1,242	74,223
Provided for the year	-	2,058	4,291	9,488	691	212	864	17,604
Eliminated on disposals	-	-	-	(33)	(1)	(33)	-	(67)
Exchange realignment	-	(11)	(25)	(18)	(3)	(2)	(9)	(68)
At 31 December 2016	-	6,635	42,168	37,358	2,701	733	2,097	91,692
Provided for the year	-	2,153	4,495	10,025	835	288	385	18,181
Eliminated on disposals	-	-	-	(11)	(3)	(7)	-	(21)
Exchange realignment	-	818	1,570	1,940	294	31	172	4,825
<b>At 31 December 2017</b>	<b>-</b>	<b>9,606</b>	<b>48,233</b>	<b>49,312</b>	<b>3,827</b>	<b>1,045</b>	<b>2,654</b>	<b>114,677</b>
<b>CARRYING AMOUNTS</b>								
<b>At 31 December 2017</b>	<b>28,491</b>	<b>35,261</b>	<b>5,419</b>	<b>64,106</b>	<b>2,130</b>	<b>847</b>	<b>531</b>	<b>136,785</b>
At 31 December 2016	25,678	33,802	8,996	70,176	1,391	1,012	841	141,896

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

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

No depreciation is provided on freehold land.

The Group's land with buildings and machinery with aggregate carrying amounts of HK\$85,043,000 as at 31 December 2017 (2016: HK\$82,334,000) were mortgaged as collateral to secure bank loans as set out in note 21.

### 15. INVENTORIES

	<b>As at 31 December</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Raw materials and consumables	<b>69,276</b>	32,771
Work in progress	<b>10,948</b>	12,658
Finished goods	<b>41,218</b>	16,121
Goods-in-transit	<b>13,327</b>	18,169
Total	<b>134,769</b>	79,719

### 16. TRADE RECEIVABLES

The Group grants credit terms of 0–270 days to its customers from the date of invoice. The following is an aged analysis of the trade receivables presented based on invoice date at the end of the reporting period.

	<b>As at 31 December</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
0 – 180 days	<b>128,491</b>	176,647
181 – 270 days	<b>29,375</b>	57,743
Over 270 days	<b>197</b>	18,711
Total	<b>158,063</b>	253,101

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 16. TRADE RECEIVABLES (CONTINUED)

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributable to customers are reviewed regularly.

The Group has a policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and aging analysis of accounts and on management's judgment including the creditworthiness and the past collection history of each client. At the end of the reporting period, the Group had no allowance of bad and doubtful debts.

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately HK\$53,417,000 which are past due at 31 December 2017 (2016: HK\$54,973,000), for which the Group has not provided for impairment loss as there has not been a significant change in credit quality of the trade receivable and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Aging analysis of trade receivables which are past due but not impaired:

	<b>As at 31 December</b>	
	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
1 – 30 days overdue	<b>7,258</b>	9,305
31 – 60 days overdue	<b>10,160</b>	6,182
61 – 90 days overdue	<b>6,702</b>	6,495
Over 90 days overdue	<b>29,297</b>	32,991
Total	<b>53,417</b>	54,973

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
Electricity deposits	785	785
Other deposits	148	297
Prepayments	937	766
Other receivable	441	158
Value-added tax receivables	846	587
Deferred listing expense	–	3,730
Total	<b>3,157</b>	6,323
Presented as non-current assets	15	139
Presented as current assets	<b>3,142</b>	6,184
Total	<b>3,157</b>	6,323

### 18. BANK BALANCES AND CASH

Bank balances carry interest at market interest rates ranging from 0.01% to 3.05% per annum as at 31 December 2017 (2016: 0.01% to 0.375%).

### 19. TRADE AND BILLS PAYABLES

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
Bills payables	29,950	26,230
Trade payables	110,671	108,522
Total	<b>140,621</b>	134,752

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 19. TRADE AND BILLS PAYABLES (CONTINUED)

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

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
Trade and bills payables:		
0 – 30 days	36,465	43,482
31 – 60 days	32,266	28,217
61 – 90 days	18,470	19,672
91 – 180 days	53,238	43,211
Over 180 days	182	170
	<b>140,621</b>	<b>134,752</b>

### 20. OTHER PAYABLES AND ACCRUED CHARGES

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
Accrued charges	6,442	2,888
Other payables	2,619	4,204
Accrued charges for listing expenses	–	3,010
	<b>9,061</b>	<b>10,102</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 21. BANK BORROWINGS

	As at 31 December			
	2017		2016	
	<i>Effective interest rate</i>	<i>HK\$'000</i>	<i>Effective interest rates</i>	<i>HK\$'000</i>
Secured and unguaranteed:				
Promissory notes	–	–	3.52%–3.99%	31,715
Bank loans	<b>5.25%</b>	<b>900</b>	5.25%	3,515
Unsecured and guaranteed:				
Bank loans	–	–	3.32%–3.94%	23,232
		<b>900</b>		58,462
Less: Amounts due within one year or with repayment on demand clause shown under current liabilities		<b>(900)</b>		(57,651)
Amounts shown under non-current liabilities		–		811

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

	As at 31 December	
	<b>2017 HK\$'000</b>	2016 HK\$'000
Within one year	<b>900</b>	43,131
Within a period of more than one year but not exceeding two years	–	15,196
Within a period of more than two years but not exceeding five years	–	135
	<b>900</b>	58,462

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

Bank loans of US\$2,998,000 (equivalent to HK\$23,232,000) as at 31 December 2016 were guaranteed by Futong HK and the loans were granted against a letter of comfort issued by Futong China. They carried a floating interest rate at London Interbank Offered Rate (“LIBOR”) plus 3%. The loans have been fully repaid during the year ended 31 December 2017.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 21. BANK BORROWINGS (CONTINUED)

Included in the bank loans of HK\$23,232,000, bank loans of HK\$14,520,000 originally repayable within a period of more than one year based on contractual scheduled repayment dates as at 31 December 2016 were classified as current liabilities as there was a repayment on demand clause in the relevant bank facility letter. Taking into account the Group's financial position, the management of the Group did not believe that it was probable that the bank would exercise its discretionary rights to demand immediate repayment. The management of the Group believed that such bank loans would be repaid in accordance with the scheduled repayment dates set out in the loan agreement. The loans have been fully repaid during the year ended 31 December 2017.

Promissory notes amounting to US\$4,073,000 (equivalent to HK\$31,715,000) as at 31 December 2016 were interest bearing at US\$3-month LIBOR plus 3% per annum. The notes have been fully repaid during the year ended 31 December 2017.

A long-term loan amounting to THB3,750,000 and THB16,250,000 (equivalent to HK\$900,000 and HK\$3,515,000) as at 31 December 2017 and 2016 respectively is interest bearing at a rate of Minimum Lending Rate of Thailand minus 1% per annum with instalments repayable based on scheduled repayment dates until 30 April 2018.

The Group's bank borrowings of HK\$900,000 and HK\$35,230,000 were secured by land, buildings and machinery of approximately HK\$85,043,000 and HK\$82,334,000 in aggregate as at 31 December 2017 and 2016 respectively.

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

	US\$ HK\$'000
<b>As at 31 December 2017</b>	—
As at 31 December 2016	54,947

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 22. ISSUED SHARE CAPITAL

	Number of shares	HK\$'000
<b>Authorised</b>		
At 6 September 2016 (date of incorporation) – ordinary shares of US\$0.01 each ( <i>Note i</i> )	5,000,000	390
At 7 October 2016 and 31 December 2016 – ordinary shares of HK\$0.01 each ( <i>Note i</i> )	39,000,000	390
At 23 June 2017 and 31 December 2017 – ordinary shares of HK\$0.01 each ( <i>Note i</i> )	1,000,000,000	10,000
<b>Issued and fully paid</b>		
At 6 September 2016 (date of incorporation) ( <i>Note i</i> )	100	–
Redenomination of shares ( <i>Note i</i> )	680	–
Issue of shares on Group Reorganisation ( <i>Note i</i> )	499,220	5
At 31 December 2016	500,000	5
Issue of share under Capitalisation Issue ( <i>Note ii</i> )	194,500,000	1,945
Issue of shares under Global Offering ( <i>Note ii</i> )	65,000,000	650
<b>At 31 December 2017</b>	<b>260,000,000</b>	<b>2,600</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 22. ISSUED SHARE CAPITAL (CONTINUED)

Notes :

- i. The Company was incorporated in the Cayman Islands on 6 September 2016 with an authorised share capital of US\$50,000 divided into 5,000,000 shares of US\$0.01 each. On 7 October 2016, the currency denomination of the shares of the Company was changed from US\$ into HK\$ resulting in an authorised share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each, and the number of shares in issue was changed from 100 shares of US\$0.01 each to 780 shares of HK\$0.01 each. On 7 October 2016, through the Group Reorganisation (set out in note 2) 499,220 shares were allotted, issued, credited as fully paid to Futong HK. On 23 June 2017, written resolutions of the shareholders of the Company were passed and resolved that the authorised share capital of the Company be increased to HK\$10,000,000 by the creation of 961,000,000 new shares of HK\$0.01 each.
- ii. The shares of the Company have been listed on the GEM of the Stock Exchange by way of global offering on 20 July 2017. 65,000,000 shares of the Company of HK\$0.01 each were issued at a price of HK\$1.68 per share. On the same date, 194,500,000 shares of the Company were issued through capitalisation of HK\$1,945,000 standing to the credit of the share premium account of the Company. (the "Capitalisation Issue" )

### 23. DEFERRED TAXATION

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

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Tax loss</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2016	5,743	(5,743)	–
(Credit) charge to profit or loss	<u>(620)</u>	<u>5,743</u>	<u>5,123</u>
At 31 December 2016	5,123	–	5,123
Credit to profit or loss	<u>(573)</u>	<u>–</u>	<u>(573)</u>
<b>At 31 December 2017</b>	<b><u>4,550</u></b>	<b><u>–</u></b>	<b><u>4,550</u></b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 24. OPERATION LEASE COMMITMENTS

#### The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases with a related company and independent third parties, which fall due as follows:

	<b>As at 31 December</b>	
	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within one year	<b>6,314</b>	5,729
In the second to fifth year inclusive	<b>90</b>	100
	<b>6,404</b>	5,829

The above operating lease payments represent rental payable by the Group for office premises and plant for the year. Leases and rentals are negotiated and fixed for a term of 1 to 5 years and rentals are fixed for the period.

At 31 December 2017, the future minimum lease payments under non-cancellable operating leases with a related company, Futong Group International Limited ("Futong Group International"), within one year is HK\$5,940,000 (2016: HK\$5,400,000).

### 25. CAPITAL RISK MANAGEMENT

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 26. FINANCIAL INSTRUMENTS

#### Categories of financial instruments

	As at 31 December	
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Financial assets		
Loans and receivables (including cash and cash equivalents)	<b>438,988</b>	312,915
Financial liabilities		
Amortised cost	<b>142,332</b>	197,790

#### 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, amount due to an intermediate holding company and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 26. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### Market risk

##### *Foreign currency risk*

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

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

##### Assets

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
RMB	204,792	104,154
US\$	24,408	4,372

##### Liabilities

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
RMB	41,712	24,403
US\$	93,006	98,642

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 26. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### Market risk (Continued)

##### *Foreign currency risk (Continued)*

##### *Sensitivity analysis*

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

The following table details the Group's other sensitivity to a 5% (2016: 5%) increase and decrease in the relevant foreign currencies against the functional currency of the entity to which they relate. 5% (2016: 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% (2016: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the relevant foreign currencies strengthen 5% (2016: 5%) against HK\$. For a 5% (2016: 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	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit after tax	<b>7,036</b>	3,622	<b>(4,394)</b>	(5,879)

##### **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 is also exposed to fair value interest rate risk in relation to the certain bank balances which are interest bearing at fixed interest rate as at 31 December 2017.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 26. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### Market risk (Continued)

##### *Interest rate risk (Continued)*

##### *Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to variable interest rates for bank borrowings at the end of the reporting period. The analysis is prepared assuming the bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point 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 2017, if interest rates had been 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\$9,000 (2016: decrease/increase by HK\$315,000). 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**

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. 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. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

Management adopted a policy on providing credit facilities to new customers. A credit investigation, including assess to financial information in relation to potential customers and credit search, would be required to be launched. The level of credit granted must not exceed a predetermined level set by the management. Credit evaluation is performed on a regular basis.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 26. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### Credit risk (Continued)

The Group has concentration of credit risk with exposure limited to certain customers. Trade receivables from top three customers amounting to HK\$112,383,000 (2016: HK\$174,447,000), in aggregate, comprised approximately 71% (2016: 69%) of the Group's trade receivables as at 31 December 2017. The management closely monitors the subsequent settlement of the customers. In this regard, the management considers that the Group's credit risk is significantly reduced.

The credit risk for bank balances is considered not material as such amounts are placed in banks with good reputations.

##### 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 non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate yield curve at the end of the reporting period.

	Weighted average effective interest rate %	Within 1 year or on demand HK\$'000	1 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
<b>As at 31 December 2017</b>					
Trade and bills payables	–	140,621	–	140,621	140,621
Other payables	–	811	–	811	811
Bank borrowings	5.25	906	–	906	900
		<u>142,338</u>	<u>–</u>	<u>142,338</u>	<u>142,332</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 26. 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 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
<b>As at 31 December 2016</b>					
Trade and bills payables	N/A	134,752	–	134,752	134,752
Other payables	N/A	3,661	–	3,661	3,661
Amount due to an intermediate holding company	N/A	915	–	915	915
Bank borrowings	3.79	58,803	816	59,619	58,462
		<u>198,131</u>	<u>816</u>	<u>198,947</u>	<u>197,790</u>

As at 31 December 2016, bank borrowings with a repayment on demand clause were included in the “Within 1 year or on demand” time band in the above maturity analysis. The aggregate carrying amount of these bank loans amounted to approximately HK\$23,232,000. Taking into account the Group’s financial position, management of the Group did not believe that it was probable that the bank would exercise its discretionary rights to demand immediate repayment. Management of the Group believed that such bank borrowings of the Group would be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the loan agreement. At that time, the aggregate principal and interest cash outflows would amount to HK\$23,997,000 based on the effective interest rate as at 31 December 2016.

As at 31 December 2017, there are no bank borrowings with a repayment on demand clause.

#### Fair value measurement of financial instruments

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 27. RELATED PARTY TRANSACTIONS

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

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
<b>Intermediate holding company</b>		
<u>Futong China</u>		
Sales <sup>#</sup>	36,601	–
Technical support service fee expense	–	261
Tutorial fee expense	–	311
Maintenance expense	80	171
	<u>          </u>	<u>          </u>
<b>Fellow subsidiaries</b>		
<u>Futong Group (Hongkong) Company Limited</u> <u>(“Futong Group (Hong Kong)”)</u>		
Sales	–	76,312
Purchases	–	1,092
Sales commission expense	–	1,165
	<u>          </u>	<u>          </u>
<u>富通集團上海國際貿易有限公司</u>		
Purchases	–	481
Purchase of assets	–	5,174
	<u>          </u>	<u>          </u>
<u>富通光纖光纜(深圳)有限公司 (“Futong Shenzhen”)</u>		
Tutorial fee expense	–	909
	<u>          </u>	<u>          </u>
<u>杭州富通通信技術股份有限公司 (“Hangzhou Futong”)</u>		
Sales	–	25,509
Purchases	–	46,864
	<u>          </u>	<u>          </u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 27. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
<b>Fellow subsidiaries (continued)</b>		
<u>成都富通光通信技術有限公司 (“Chengdu Futong”)</u> Sales	–	4,290
<u>深圳市金泰科技有限公司 (“Shenzhen King Task”)</u> Purchases	–	47,304
<b>The then non-controlling interest of Transtech®</b>		
Technical support service fee expense	–	130
Loan guarantee service fee	–	29
Glass rod recycle sales	–	205
<b>Subsidiary of the then non-controlling interest of Transtech</b>		
Purchases	–	43,514
<b>Related companies^</b>		
<u>Hangzhou Futong (H.K.) Development Limited (“Hangzhou Futong HK”)</u> Management fee expense	–	200
<u>Futong Group International</u> Rental expense#	10,800	10,800

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

@ With significant influence over Transtech before its disposal of 49% equity interest in Transtech to Futong China on 18 May 2016.

^ Controlled by a shareholder of Hangzhou Futong Investment Co., Ltd., ultimate holding company of the Company, and He Xingfu, director of the Company.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**27. RELATED PARTY TRANSACTIONS (CONTINUED)****(a) The Group had the following transactions with the following related parties during the year: (Continued)**

The sales, purchases, service fees paid, management fee paid and rental expenses are all at the terms agreed with the relevant parties.

**(b) Trade receivables:**

	<b>As at 31 December</b>	
	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Futong China	<b>12,587</b>	–
Hangzhou Futong	–	72
Futong Group (Hong Kong)	–	19,919
Chengdu Futong	–	4,159
	<b>12,587</b>	24,150

**(c) Other receivables:**

	<b>As at 31 December</b>	
	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Futong China	–	80
Shenzhen King Task	–	4
	–	84

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 27. RELATED PARTY TRANSACTIONS (CONTINUED)

## (d) Trade and bills payables:

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
Hangzhou Futong	170	1,764
Shenzhen King Task	–	12,036
富通集團上海國際貿易有限公司	–	73
	<b>170</b>	<b>13,873</b>

## (e) Other payables and accrued charges:

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
Futong China	–	326
Futong Group International	–	900
富通集團上海國際貿易有限公司	–	1,792
	<b>–</b>	<b>3,018</b>

- (f) At 31 December 2016, banking facilities to the extent of HK\$82,550,000 which include bank borrowings, overdrafts and trade financing were guaranteed by Futong HK, for which no charge was paid by the Group.
- (g) Amount due to an intermediate holding company represents consideration payable to Futong China for the acquisition of 0.3% equity interest in Futong Thailand in the Group Reorganisation, which is unsecured, interest-free and repayable on demand. The amount was fully settled in March 2017.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 27. RELATED PARTY TRANSACTIONS (CONTINUED)

#### (h) Compensation of key management personnel

The remuneration of key management personnel who are the directors during the year is set out in note 8, 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	
	2017 HK\$'000	2016 HK\$'000
Short-term benefits	3,504	1,686
Post-employment benefits	18	20
	<b>3,522</b>	<b>1,706</b>

### 28. 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.

	Amount due to an intermediate holding company Note 27 HK\$'000	Bank borrowings Note 21 HK\$'000	Total HK\$'000
At 1 January 2017	915	58,462	59,377
Financing cash flows	(915)	(61,163)	(62,078)
Interest expenses	–	1,283	1,283
Foreign exchange translation	–	2,318	2,318
	<b>–</b>	<b>900</b>	<b>900</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 29. RETIREMENT BENEFIT SCHEMES

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

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

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

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

The contributions paid and payable to the schemes by the Group are disclosed in note 10.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 30. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

#### (i) General information of subsidiaries

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
				2017 %	2016 %	
Transtech	BVI	Hong Kong	US\$430	100	100	Manufacturing and sales of optical fibres
Futong Thailand	Thailand	Thailand	THB500,000,000	100	100	Manufacturing and sales of optical fibre cables, optical cable cores and other related products
Great Sign	BVI	Hong Kong	US\$1,000	100	100	Investment holding
Pan South	BVI	Hong Kong	US\$1,000	100	100	Investment holding

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 30. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (CONTINUED)

## (ii) Details of a non-wholly owned subsidiary that had material non-controlling interest

The table below shows details of a non-wholly subsidiary of the Group that had material non-controlling interest:

Name of subsidiary	Place of incorporation	Place of principal operation	Proportion of ownership interests and voting rights held by non-controlling interest		Profit allocated to non-controlling interest		Accumulated non-controlling interest	
			As at 31 December		Year ended 31 December		As at 31 December	
			2017	2016	2017	2016	2017	2016
					HK\$'000	HK\$'000	HK\$'000	HK\$'000
Transtech	BVI	Hong Kong	-	-	-	3,318	-	-

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**30. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (CONTINUED)****(ii) Details of a non-wholly owned subsidiary that had material non-controlling interest (Continued)**

Summarised financial information in respect of the Group's subsidiary that had material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	<b>1.1.2016 to 18.5.2016</b>
	<i>HK\$'000</i>
Revenue	99,078
Expenses	(91,229)
Profit for the period	6,771
Profit and total comprehensive income attributable to owners of the Company	3,453
Profit and total comprehensive income attributable to the non-controlling interests	3,318
Profit and total comprehensive income for the period	6,771
Net cash outflow from operating activities	(5,260)
Net cash outflow from investing activities	(16,924)
Net cash outflow from financing activities	(11,040)
Net cash outflow	(33,224)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 30. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (CONTINUED)

#### (iii) Change in ownership interest in a subsidiary

On 18 May 2016, Futong China, through its subsidiary, acquired the 49% equity interest in Transtech from the non-controlling interest. An amount of HK\$68,865,000 (being the proportionate share of the carrying amount of the net assets of Transtech) was recognised as shareholder's contribution to the Group and included in other reserve in the consolidated statement of changes in equity.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<b>Non-current asset</b>		
Investments in subsidiaries	<b>320,543</b>	320,543
<b>Current assets</b>		
Deposits, prepayments and other receivables	<b>141</b>	3,874
Bank balances and cash	<b>100,046</b>	–
	<b>100,187</b>	3,874
<b>Current liabilities</b>		
Other payables and accrued charges	<b>2,065</b>	3,010
Amounts due to subsidiaries	<b>26,687</b>	12,589
	<b>28,752</b>	15,599
Net current assets (liabilities)	<b>71,435</b>	(11,725)
<b>Total assets less current liabilities</b>	<b>391,978</b>	308,818
<b>Net assets</b>	<b>391,978</b>	308,818
<b>Capital and reserves</b>		
Issued share capital	<b>2,600</b>	5
Reserves	<b>389,378</b>	308,813
<b>Total equity</b>	<b>391,978</b>	308,818

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**31. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)****Movement in Company's reserves**

	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
On 6 September 2016 (date of incorporation)	–	–	–	–
Issue of shares on Group Reorganisation	–	320,522	–	320,522
Loss and other comprehensive expense for the period	–	–	(11,709)	(11,709)
At 31 December 2016	–	320,522	(11,709)	308,813
Issue of shares pursuant to Capitalisation Issue	<b>(1,945)</b>	–	–	<b>(1,945)</b>
Issue of shares under the Global Offering	<b>108,550</b>	–	–	<b>108,550</b>
Transaction costs incurred in connection with the issue of shares	<b>(11,071)</b>	–	–	<b>(11,071)</b>
Loss and other comprehensive expense for the year	–	–	<b>(14,969)</b>	<b>(14,969)</b>
<b>At 31 December 2017</b>	<b>95,534</b>	<b>320,522</b>	<b>(26,678)</b>	<b>389,378</b>

## FINANCIAL SUMMARY

### RESULT

	For the year ended 31 December			
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Revenue	<b>556,539</b>	599,772	395,515	252,677
Cost of sales	<b>(413,626)</b>	(490,699)	(358,471)	(232,169)
Gross profit	<b>142,913</b>	109,073	37,044	20,508
Profit/(loss) for the year	<b>104,350</b>	67,233	(2,925)	(4,509)

### ASSETS AND LIABILITIES

	As at 31 December			
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Non-current assets	<b>136,800</b>	142,035	151,986	137,395
Current assets	<b>575,525</b>	397,578	341,068	237,607
Non-current liabilities	<b>4,550</b>	5,934	3,495	6,785
Current liabilities	<b>156,594</b>	204,920	227,203	90,524
Net current assets	<b>418,931</b>	192,658	113,865	147,083
Net assets	<b>551,181</b>	328,759	262,356	277,693

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

No financial statements of the Group for the year ended 31 December 2013 have been published.

The financial information for the years ended 31 December 2014, 2015 and 2016 were extracted from the Prospectus of the Company dated 30 June 2017. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis as set out in note 2 to the audited consolidated financial statements.

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

Hong Kong, 28 March 2018

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

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

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least 7 days from the date of its publication and on the website of the Company at [www.transtechoptel.com](http://www.transtechoptel.com).*