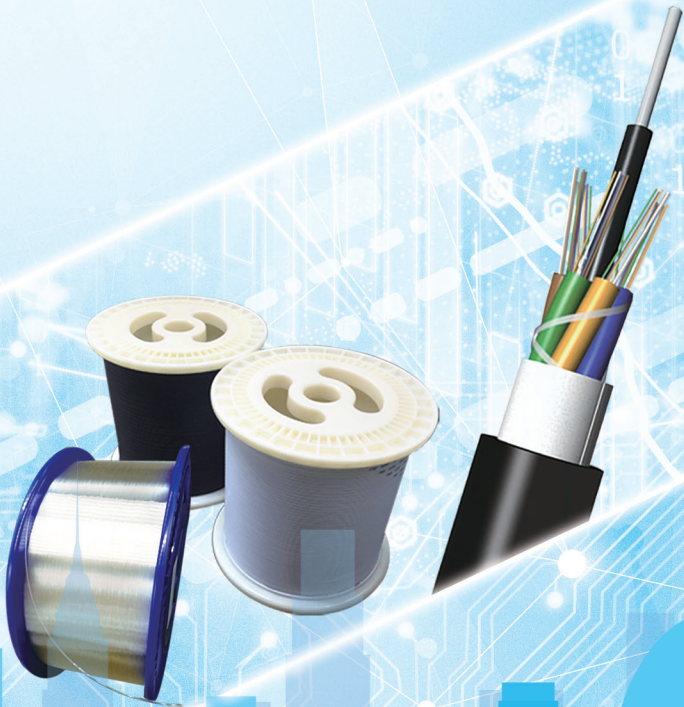


Transtech Optelecom Science Holdings Limited 高科橋光導科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8465

2018 INTERIM REPORT



CHARACTERISTICS OF THE 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 the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, 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 the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief the information contained in this report 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 report misleading.

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Financial Highlights

- The Group recorded a revenue of approximately HK\$283.9 million for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately HK\$306.4 million).
- Profit attributable to the owners of the Company for the six months ended 30 June 2018 amounted to approximately HK\$56.5 million (six months ended 30 June 2017: approximately HK\$56.1 million).
- Basic earnings per share amounted to approximately HK\$21.7 cents for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately HK\$28.7 cents).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

Financial Results

The board of directors (the “Board”) of Transtech Optelecom Science Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June 2018 together with the comparative unaudited figures for the corresponding period in 2017 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months and six months ended 30 June 2018

	Notes	Three months ended 30 June		Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	3	141,043	168,429	283,878	306,416
Cost of sales		(98,920)	(126,543)	(202,897)	(228,494)
Gross profit		42,123	41,886	80,981	77,922
Other income	4	1,532	520	2,817	965
Other gains and losses	4	(11,071)	3,223	(322)	7,742
Selling and distribution expenses		(1,906)	(2,078)	(3,801)	(3,385)
Administrative expenses		(6,732)	(6,252)	(14,268)	(12,000)
Finance costs	5	(126)	(240)	(168)	(929)
Listing expenses		-	(2,085)	-	(6,411)
Profit before taxation	6	23,820	34,974	65,239	63,904
Income tax expense	7	(3,649)	(4,653)	(8,753)	(7,853)
Profit for the period		20,171	30,321	56,486	56,051
Other comprehensive (expense) income					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		(12,845)	(909)	(2,469)	6,263
Total comprehensive income for the period		7,326	29,412	54,017	62,314

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months and six months ended 30 June 2018

	Notes	Three months ended 30 June		Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Profit for period attributable to:					
Owners of the Company		20,171	30,321	56,486	56,051
Non-controlling interests		-	-	-	-
		20,171	30,321	56,486	56,051
Total comprehensive income for the period attributable to:					
Owners of the Company		7,326	29,412	54,017	62,314
Non-controlling interest		-	-	-	-
		7,326	29,412	54,017	62,314
Earnings per share					
Basic (HK cents)	9	7.8	15.5	21.7	28.7

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	127,222	136,785
Deposits	13	24	15
		127,246	136,800
Current assets			
Inventories	11	118,452	134,769
Trade receivables	12	235,076	158,063
Deposits, prepayments and other receivables	13	5,393	3,142
Bank balances and cash		258,297	279,551
		617,218	575,525
Current liabilities			
Trade and bills payables	14	95,431	140,621
Other payables and accrued charges	15	5,190	9,061
Bank borrowings	16	19,330	900
Tax payable		15,202	6,012
		135,153	156,594
Net current assets		482,065	418,931
Total assets less current liabilities		609,311	555,731

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Non-current liabilities			
Deferred tax liabilities	17	4,113	4,550
		4,113	4,550
Net assets		605,198	551,181
Capital and reserves			
Share capital	18	2,600	2,600
Reserves		602,598	548,581
Total Equity		605,198	551,181

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Foreign exchange reserve HK\$'000	Accumulated profits HK\$'000	Equity attributable to the owners of the Company HK\$'000	Non-controlling interest HK\$'000	Total HK\$'000
At 1 January 2017 (Audited)	5	-	289,031	(21,245)	60,968	328,759	-	328,759
Profit for the period	-	-	-	-	56,051	56,051	-	56,051
Other comprehensive income	-	-	-	6,263	-	6,263	-	6,263
Total comprehensive income for the period	-	-	-	6,263	56,051	62,314	-	62,314
At 30 June 2017 (Unaudited)	5	-	289,031	(14,982)	117,019	391,073	-	391,073
At 1 January 2018 (Audited)	2,600	95,534	289,031	(1,302)	165,318	551,181	-	551,181
Profit for the period	-	-	-	-	56,486	56,486	-	56,486
Other comprehensive income	-	-	-	(2,469)	-	(2,469)	-	(2,469)
Total comprehensive income for the period	-	-	-	(2,469)	56,486	54,017	-	54,017
At 30 June 2018 (Unaudited)	2,600	95,534	289,031	(3,771)	221,804	605,198	-	605,198

Note: Other reserve represents (i) the contribution made by Futong Group Co., Ltd. ("Futong China"), an intermediate holding company, to the Group; (ii) the change in proportionate share of the carrying amount of the net assets of Transtech Optical Communication Company Limited ("Transtech") upon change in ownership interest without gaining or losing control; and (iii) share capital and share premium of Transtech and Futong Group Communication Technology (Thailand) Co., Ltd. ("Futong Thailand").

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Net cash (used in) generated from operating activities	(42,216)	67,550
Investing activities		
Purchase of property, plant and equipment	(523)	(773)
Interest received	1,582	89
Net cash generated from (used in) investing activities	1,059	(684)
Financing activities		
Repayment to an intermediate holding company	–	(915)
New bank borrowings raised	20,426	58,048
Repayment of bank borrowings	(1,290)	(90,060)
Interest paid	(168)	(929)
Net cash generated from (used in) financing activities	18,968	(33,856)
Net (decrease) increase in cash and cash equivalents	(22,189)	33,010
Cash and cash equivalents at the beginning of period	279,551	58,574
Effect of foreign exchange rate changes	935	831
Cash and cash equivalents at the end of period representing by bank balances and cash	258,297	92,415

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

1. BASIS OF PREPARATION AND PRESENTATION

The Company was incorporated in the Cayman Islands on 6 September 2016, as an exempted company with limited liability under the Companies Law (as Revised) of the Cayman Islands. Its immediate holding company is Hong Kong Futong Optical Fiber Company Limited (“Futong HK”), a company incorporated in Hong Kong, and its ultimate holding company is Hangzhou Futong Investment Co., Ltd. (“Futong Investments”), a company incorporated in the People’s Republic of China. The Company’s shares have been listed on the GEM of the Stock Exchange since 20 July 2017 (the “Listing”).

Pursuant to a group reorganisation (the “Reorganisation”), the Company became the holding company of the subsidiaries now comprising the Group on 7 October 2016, the details of which are as set out in the prospectus issued by the Company dated 30 June 2017 (the “Prospectus”). As the Company and its subsidiaries have been under the common controls of Futong China historically and throughout the period prior to the completion of the Reorganisation, the Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the condensed consolidated financial statements have been prepared on the basis as if the Company had always been the holding company of the Group throughout the six months ended 30 June 2017 under the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting, Under Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 June 2017 includes 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 throughout the six months ended 30 June 2017.

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

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA, and the applicable disclosure requirements of the GEM Listing Rules.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 cycle
Amendments to HKAS 40	Transfers of Investment Property

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

3. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by 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

	Six months ended 30 June 2018			
	Optical fibre cables, optical cable cores and other related products HK\$'000	Optical fibres HK\$'000	Elimination HK\$'000	Combined HK\$'000
Revenue				
External sales	166,461	117,417	–	283,878
Inter-segment sales	–	53,170	(53,170)	–
Segment revenue	166,461	170,587	(53,170)	283,878
Segment results	7,441	56,753	3,312	67,506
Interest income				328
Unallocated corporate expense				(2,427)
Finance costs				(168)
Profit before taxation				65,239

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

	Six months ended 30 June 2017			
	Optical fibre cables, optical cable cores and other related products HK\$'000	Optical fibres HK\$'000	Elimination HK\$'000	Combined HK\$'000
Revenue				
External sales	190,395	116,021	–	306,416
Inter-segment sales	–	30,301	(30,301)	–
Segment revenue	190,395	146,322	(30,301)	306,416
Segment results	26,290	48,627	(2,980)	71,937
Unallocated corporate expenses				(693)
Finance costs				(929)
Listing expenses				(6,411)
Profit before taxation				63,904

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

Inter-segment sales are charged at prevailing market rates.

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

4. OTHER INCOME AND GAINS

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Other income:				
Income from sales of scrap products	134	154	246	323
Bank interest income	733	52	1,533	89
Others	665	314	1,038	553
	1,532	520	2,817	965
Other gains and losses:				
Foreign exchange gains/(losses)	(11,066)	3,223	(317)	7,742
Loss on disposals of property, plant and equipment	(5)	–	(5)	–
	(11,071)	3,223	(322)	7,742

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Interest on bank borrowings	126	240	168	929

6. PROFIT BEFORE TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Profit before taxation has been arrived at after charging:				
Auditor's remuneration	225	181	450	740
Depreciation of property, plant and equipment	4,655	4,469	9,343	8,859
Directors' remuneration	1,159	824	2,284	1,134
Other staff costs				
Salaries and other benefits	9,226	10,694	18,176	17,034
Retirement benefits scheme contributions	180	165	395	334
Total staff costs	10,565	11,683	20,855	18,502
Minimum lease payments under operating leases in respect of land and buildings	3,133	2,898	6,296	5,763

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

7. INCOME TAX EXPENSE

The amount of income tax charged to the profit or loss represents:

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Hong Kong Profits Tax:				
Current Tax	3,936	4,653	9,190	8,170
Deferred taxation	(287)	–	(437)	(317)
	3,649	4,653	8,753	7,853

Hong Kong Profit Tax is calculated at the applicable profit tax rate on the estimated profit arising in or derived from Hong Kong for both periods. The applicable profit tax rate is 16.5% on the assessable profit for the year ended 31 December 2017 while it changed to tiered rates regime as 8.25% on the assessable profit up to HK\$2 million and 16.5% on any part over HK\$2 million for the year ended 31 December 2018.

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

8. DIVIDEND

No dividends were paid, declared and proposed by the Company during the current interim period (six months ended 30 June 2017: nil). The directors have determined that no dividend will be paid in respect of the current interim period.

9. EARNINGS PER SHARE

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Earnings				
Profit attributable to the owners of the Company for the purpose of basic earnings per share	20,171	30,321	56,486	56,051
	'000	'000	'000	'000
Number of ordinary shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	260,000	195,000	260,000	195,000

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on the profit for the period attributable to the owners of the Company, and the weighted average number of issued ordinary shares is 260,000,000.

The number of ordinary shares for the purpose of calculating basic earnings per share for the six months ended 30 June 2017 has been determined on the assumption that the Reorganisation and the capitalisation of 194,500,000 shares in preparation for the Listing ("Capitalisation Issue") had been effective on 1 January 2017.

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the periods.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired at cost, leasehold improvements of HK\$nil (six months ended 30 June 2017: approximately HK\$81,000); machinery of approximately HK\$190,000 (six months ended 30 June 2017: approximately HK\$170,000); office equipment of approximately HK\$15,000 (six months ended 30 June 2017: approximately HK\$456,000); and furniture and fixtures of approximately HK\$317,000 (six months ended 30 June 2017: approximately HK\$66,000).

11. INVENTORIES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Raw materials and consumables	46,079	69,276
Work in progress	10,503	10,948
Finished goods	41,320	41,218
Goods-in-transit	20,550	13,327
Total	118,452	134,769

12. TRADE RECEIVABLES

The Group grants credit terms of 0–270 days to its majority customers from the date of invoices. For minority customers, the Group grants credit terms of over 270 days from the date of invoices. The following is an aged analysis of the trade receivables presented based on the invoice date:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
0–180 days	201,997	128,491
181–270 days	14,380	29,375
Over 270 days	18,699	197
	235,076	158,063

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Electricity deposits	785	785
Other deposits	159	148
Prepayments	2,592	937
Other receivables	305	441
Value-added tax receivables	1,576	846
Total	5,417	3,157
Presented as non-current assets	24	15
Presented as current assets	5,393	3,142
Total	5,417	3,157

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

14. TRADE AND BILLS PAYABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Bills payables	26,887	29,950
Trade payables	68,544	110,671
	95,431	140,621

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:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade and bills payables:		
0–30 days	32,876	36,465
31–60 days	23,317	32,266
61–90 days	12,921	18,470
91–180 days	26,139	53,238
Over 180 days	178	182
	95,431	140,621

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

15. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Accrued charges	4,015	6,442
Other payables	1,175	2,619
	5,190	9,061

16. BANK BORROWINGS

During the current interim period, the Group obtained new short-term bank borrowings with total amount of HK\$20,426,000 (unaudited) (six months ended 30 June 2017: HK\$58,048,000 (unaudited)). The bank borrowings carry variable interest at United States dollar ("US\$") 3-month London Interbank Offered Rate ("LIBOR") plus 2% per annum (six months ended 30 June 2017: 3-month LIBOR plus 3% per annum) and are repayable within one year. Pursuant to the loan agreements, the bank borrowings were secured by land, buildings and machinery of the Group.

17. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000
At 1 January 2017 (Audited)	5,123
Credit to profit or loss	(317)
At 30 June 2017 (Unaudited)	4,806
At 1 January 2018 (Audited)	4,550
Credit to profit or loss	(437)
At 30 June 2018 (Unaudited)	4,113

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

18. SHARE CAPITAL

The Company	Number of shares	HK\$'000
Authorised		
At 6 September 2016 (date of incorporation) — ordinary shares of US\$0.01 each (Note i)	5,000,000	390
At 7 October 2016 and 31 December 2016 — ordinary shares of HK\$0.01 each (Note i)	39,000,000	390
At 30 June 2018 and 31 December 2017 — ordinary shares of HK\$0.01 each (Note i)	1,000,000,000	10,000
Issued and fully paid		
At 6 September 2016 (date of incorporation) (Note i)	100	—
Redenomination of shares (Note i)	680	—
Issue of shares on Group Reorganisation (Note i)	499,220	5
At 31 December 2016	500,000	5
Issue of share under Capitalisation Issue (Note ii)	194,500,000	1,945
Issue of shares under Global Offering (Note ii)	65,000,000	650
At 30 June 2018 and 31 December 2017	260,000,000	2,600

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 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”).

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

19. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Intermediate holding company		
<u>Futong China</u>		
Sales	-	9,744
Maintenance expense	-	69
Fellow subsidiaries		
<u>杭州富通通信技術股份有限公司</u>		
Sales	24,480	-
Related Company[^]		
<u>Futong Group International Limited</u>		
Rental expense	5,940	5,400

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

The sales, service fees paid and rental expenses are all at the terms agreed between the relevant parties.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

(b) Compensation of key management personnel

The remuneration of key management personnel who are the directors is determined with reference to the performance of individual and market trends.

The remuneration of key management personnel during each of the periods of six months ended 30 June 2017 and 30 June 2018 respectively, were as follows:

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Short-term benefits	2,275	1,125
Post-employment benefits	9	9
	2,284	1,134

20. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2018 (unaudited) and 31 December 2017.

21. EVENT AFTER THE REPORTING PERIOD (UNAUDITED)

One executive director is changed as effect on 1 July 2018. Reference is made to the announcement issued by the Company dated 29 June 2018.

Management Discussion and Analysis

BUSINESS REVIEW

The Listing of the Company's shares on the Stock Exchange in July 2017 marked a milestone for the Group in improving its capital strength and corporate governance as well as enhancing its competitive edge, which laid a solid foundation for the Group's future development. It is around a year from the Listing date of the Group to the date of this report.

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, we manufacture optical fibres for our production of optical fibre cables, as well as for sale to third parties. Furthermore, we sell 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) Company Limited ("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.

Management Discussion and Analysis

For the six months ended 30 June 2018, the Group reported its revenue of approximately HK\$283.9 million (six months ended 30 June 2017: approximately HK\$306.4 million), representing a decrease of approximately 7.3% as compared to that of the same period in 2017. Conversely, the gross profit margin of the Group increased by approximately 3.1% to approximately 28.5% for the six months ended 30 June 2018 as compared to a gross profit margin of 25.4% for the six months ended 30 June 2017. The decreases of the Group's revenue and the increase of gross profit margin are the net effect of the performance in Transtech and Futong Thailand.

During the period ended 30 June 2018, the Group recorded a profit attributable to the owners or the Company of approximately HK\$56.5 million (six months ended 30 June 2017: approximately HK\$56.1 million). By excluding the effect of non-recurrent listing expenses of approximately HK\$6.4 million during the six months ended 30 June 2017, the profit attributable to the owners of the Company would decrease by approximately HK\$6.0 million, representing a decline of 9.6% based on the adjusted profit for the six months ended 30 June 2017.

Futong Thailand

Futong Thailand is still the largest optical fibre cable provider in Thailand and the favorable government policies were persistently the strong driving factors to the development of the optical fibre cable market in Thailand and other ASEAN markets during the reporting periods. Such policies will provide significant growth potential to our business in the long run.

However, the sales revenue of optical fibre cables in Thailand reduced from HK\$97.2 million during the six months ended 30 June 2017 to HK\$57.9 million during the same period in the year 2018 because the demand were reduced as some customers requested to extend the delivery date to cope with the postponement of their infrastructure projects. Conversely, there were increase of sales in the other ASEAN countries from HK\$9.8 million during the six months ended 30 June 2017 to HK\$58.3 million during the same period in the year 2018 because of the enhanced sales effort.

As a result of the change of sales strategy, Futong Thailand has increased the proportion of optical fibre cables and reduced that of optical cable cores in the sales product mix. Consequently, the sales revenue of optical cable cores decreased from HK\$83.1 million during the six months ended 30 June 2017 to HK\$50.2 million during the same period in the year 2018.

It is expected that the sales performance of optical fibre cables in Futong Thailand will be improved in the second half year of 2018 after the customers resume to request for delivery.

Management Discussion and Analysis

On the other hand, the gross profit margin of Futong Thailand decreased from approximately 14.6% for the six months ended 30 June 2017 to approximately 9.2% for the six months ended 30 June 2018. It is mainly attributable to the aggregate effect of (i) the increase of the price of optical fibre; (ii) the change of customers' demand for optical fibre cables with different specification; (iii) the more competitive markets in Thailand, and (iv) the marketing strategy implemented in the markets of the ASEAN countries other than Thailand.

Transtech

Regarding to the other business segment in Hong Kong, Transtech has reported its revenue and net profit in amount of approximately HK\$170.6 million and HK\$48.0 million respectively for the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$146.3 million and HK\$40.5 million respectively), representing increases of approximately 16.6% and 18.5% respectively. One of the reasons for the continuous satisfactory performance is mainly attributable to the increase of selling price of optical fibre in the market during the reporting period.

PROSPECTS

Looking ahead, the Group will have improvement of sales revenue in Thailand in the second half year of 2018. Meanwhile, it will persistently ride on its raised profile and maintain its core business of operation and its existing branding strategy to increase market share in the ASEAN market. With the existing client base garnered over the years, there is a superiority to leverage network in Hong Kong and Thailand. The internal optical fibre sales of Transtech to Futong Thailand will also be considered to increase providing that the demand of optical fibre cables and optical cable cores increase in Thailand and the other ASEAN countries.

To attain better performance, the Group will explore new sources of customers and will devote itself to quality control, cost reduction, risk management and personnel development in the course of expanding across the countries and regions and maintain its leading position in the industry, yielding better returns and goodwill in the long run. Indeed, Futong Thailand has already obtained the optical fibre cables product certification for telecommunications operators in Singapore and Indonesia and started to participate the tendering process in these two countries.

Management Discussion and Analysis

Accordingly, we plan to utilise 80% of our net proceeds from the Hong Kong public offer and international offering (the “Global Offering”) on 20 July 2017 to expand the production facility of Futong Thailand to meet the future demand. Indeed, a contract was entered into in May 2018 to start the construction of the new factory in Thailand in the second half of the year 2018, this new factory will definitely increase our production capacities to meet the future demand in the ASEAN markets. Save for Thailand, we have reorganized our sales team to develop the markets in the other ASEAN countries. Some of the proceeds from Listing has been started to utilize for such development during the six months ended 30 June 2018.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2018, total revenue of the Group decreased by about 7.3% to approximately HK\$283.9 million as compared with the corresponding period in 2017.

The decrease in total revenue for the six months ended 30 June 2018 was mainly due to the net effect of (i) increased sales volume of optical fibre cables as a result of our effort in expanding our optical fibre cables market to ASEAN countries; (ii) the increase of average selling prices of optical cable cores and optical fibres; (iii) decreased sales volume of optical cable cores primarily due to the shift of proportion of product mix from optical cable cores to optical fibre cables; (iv) some customers postponed their infrastructure projects in Thailand, resulting in the drop of sales quantity of optical fibre cables in Thailand, including double sheathed cable which is higher priced product; (v) preferential prices offered to our ASEAN customers in order to increase the market shares of optical fibre cables in ASEAN countries.

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 our products and (iv) change in inventories of finished goods and work in progress.

For the six months ended 30 June 2018, the cost of sales of the Group decreased by about 11.2% to approximately HK\$202.9 million as compared with the corresponding period in 2017.

Management Discussion and Analysis

Such decrease for the six months ended 30 June 2018 was mainly attributable to the net effect of (i) the increase of sales volume of optical fibre cables in ASEAN countries during the said periods; (ii) the average unit cost of optical cable cores increased mainly due to more sales of products with higher unit raw materials cost to meet customers' demand; (iii) decreased sales volume of optical cable cores and optical fibre cables in Thailand; (iv) decreased production of double sheathed cable resulting in the decrease in average unit cost of optical fibre cables.

The gross profit of the Group increased from approximately HK\$77.9 million, for the six months ended 30 June 2017 to approximately HK\$81.0 million for the six months ended 30 June 2018. The gross profit margin increased from approximately 25.4% for the six months ended 30 June 2017 to approximately 28.5% for the six months ended 30 June 2018. This is mainly because the overall gross profit margin of optical fibre cables for the six months ended 30 June 2018 increased by approximately 2.3%, as compared with the corresponding period in 2017.

Other Gain and Losses

The Group's foreign exchange gain was approximately HK\$7.7 million for the six months ended 30 June 2017 mainly due to the appreciation of Renminbi ("RMB") against Hong Kong Dollar ("HK\$") during the period. While RMB against HK\$ started to depreciate during the six months ended 30 June 2018, the Group recognised foreign exchange loss of approximately HK\$0.3 million during the said period.

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\$3.4 million for the six months ended 30 June 2017 to approximately HK\$3.8 million for the six months ended 30 June 2018, representing an increase of approximately 11.8%.

The increase in the selling and distribution expenses for the six months ended 30 June 2018 was mainly due to increase in export cost as there was change of shipping term of sale of optical cable cores to a customer from CIF to DDF since July 2017.

Management Discussion and Analysis

Administrative expenses

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

The Group's administrative expenses increased from approximately HK\$12.0 million for the six months ended 30 June 2017 to approximately HK\$14.3 million for the six months ended 30 June 2018, representing an increase of approximately 19.2%.

The increase in the administrative expenses for the six months ended 30 June 2018 was mainly attributable to (i) increase in compliance cost incurred upon the Listing in July 2017, (ii) increase of director fee and (iii) the increase in staff cost as a result of salaries increment during the same periods.

Finance costs

Finance costs represent the interest expense on bank borrowings. The decrease for the six months ended 30 June 2018 was mainly due to the decrease in the bank borrowings outstanding during the said periods as compared with the corresponding periods in 2017.

Listing expenses

The Company started preparation work for the Listing in the third quarter of 2016. Listing expenses was approximately HK\$6.4 million for the six months ended 30 June 2017 and completely settled in the year ended 31 December 2017.

Profit for the period

Profit attributable to owners of the Company for the six months ended 30 June 2018 amounted to approximately HK\$56.5 million (six months ended 30 June 2017: approximately HK\$56.1 million).

The increase in profit attributable to owners of the Company for the six months ended 30 June 2018 was mainly attributable to the net effects of (i) the increase in gross profit; (ii) the change from foreign exchange gain to foreign exchange loss; (iii) no non-recurring Listing expenses incurred, (iv) increase in compliance cost incurred upon Listing, (v) increase of director fee and (vi) the increase in staff cost during the same periods.

Management Discussion and Analysis

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\$258.3 million as at 30 June 2018 (31 December 2017: approximately HK\$279.6 million). As at 30 June 2018, the Group had total bank borrowings of approximately HK\$19.3million (31 December 2017: approximately HK\$0.9 million). In the details of the bank borrowings can be referenced to note 16 of the condensed consolidated financial statements.

GEARING RATIO

Gearing ratio is calculated as total borrowings (including payables not incurred in the ordinary course of business of the Group) divided by the total equity as at the respective reporting dates. As at 30 June 2018 and 31 December 2017, the gearing ratio were approximately 3.2% and 0.2%, respectively.

CAPITAL STRUCTURE

As at 30 June 2018, 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 on 20 July 2017 (the "Listing Date"). 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 30 June 2018, the Group had no material contingent liabilities (31 December 2017: nil).

Management Discussion and Analysis

CHARGE OF ASSETS

As at 30 June 2018, the Group had pledged its land, buildings and machinery of approximately HK\$81.1 million (31 December 2017: approximately HK\$85.0 million) to secure the banking facilities granted to the Group. As at 30 June 2018, 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 the US\$ and RMB against Thai Baht ("THB"). Any depreciation of THB will reduce the amount of revenue we generate in Thailand in terms of our reporting currency and adversely impact our results of operations. Similarly, Transtech might also suffer exchange loss if RMB depreciates against HK\$ because some of the sales revenue are fixed in the currency of RMB. However, our Group has established a foreign currency risk management policy to monitor and manage foreign currency risks.

CAPITAL COMMITMENTS

The Group entered into a consultation contract in value of approximately THB5.3 million plus some undetermined design fee in May 2018 to start the new Thailand factory construction in the second half of the year 2018. Saved for this contract, the Group did not have any other significant capital commitments as at 30 June 2018. (31 December 2017: nil).

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 30 June 2018, 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 utilised by the Company during the year ended 31 December 2017 and the six months ended 30 June 2018. The Company intends to utilise such net proceeds as disclosed in the "Future Plans and Use of Proceeds" section of the Prospectus.

Management Discussion and Analysis

Progress on achievement of business objective and Use of Proceeds

Business Strategies as Stated in the Prospectus	Actual Progress up to the Date of This Report
<ul style="list-style-type: none">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;	Nil (Note)
<ul style="list-style-type: none">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;	Nil
<ul style="list-style-type: none">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	HK\$0.9 million
<ul style="list-style-type: none">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.	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 the year 2018. Save for the above-mentioned contract signed in May 2018 for the construction, the board of Directors has yet considered and approved any other capital commitment relating to the new factory as at the reporting date. 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.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

Management Discussion and Analysis

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 June 2018, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEE AND EMOLUMENT POLICIES

As at 30 June 2018, the employee headcount (including Directors) of the Group was 273 (31 December 2017: 280) and the total staff costs, including directors' emoluments, amounted to approximately HK\$20.9 million during the six months ended 30 June 2018 (six months ended 30 June 2017: approximately HK\$18.5 million). The Group recruits and promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff and to enable smooth operations within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis. The emoluments of the Directors and senior management are reviewed and approved by the Board of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement.

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.

Management Discussion and Analysis

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:

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

Notes:

- (1) The letter "L" denotes a person's "long position" in such shares.
- (2) Our Company is directly owned as to 75% by Futong HK. Futong HK is owned as to 100% by Futong Optical Communication which is in turn owned as to 100% by Futong China. Futong China is owned as to 80% by Futong Investments. As Futong Investments is owned as to 100% by Mr. Wang, Mr. Wang is deemed to be interested in the same number of shares of the Company held by Futong HK under the SFO.
- (3) Our Company is directly owned as to 75% by Futong HK. Futong HK is owned as to 100% by Futong Optical Communication which is in turn owned as to 100% by Futong China. As Futong China is owned as to 80% by Futong Investments, Futong Investments is deemed to be interested in the same number of shares of the Company held by Futong HK under the SFO.
- (4) Our Company is directly owned as to 75% by Futong HK. Futong HK is owned as to 100% by Futong Optical Communication which is in turn owned as to 100% by Futong China. Therefore, Futong China is deemed to be interested in the same number of shares of the Company held by Futong HK under the SFO.
- (5) Our Company is directly owned as to 75% by Futong HK. By virtue of Futong Optical Communication's 100% shareholding in Futong HK, Futong Optical Communication is deemed to be interested in the same number of shares of the Company held by Futong HK under the SFO.

Management Discussion and Analysis

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. None of the substantial shareholders have pledged all or part of their interest in the Company's shares for the six months ended 30 June 2018.

DIVIDENDS

The Board did not recommend a payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

SHARE OPTION SCHEME

The Company has no share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the six months ended 30 June 2018 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 SECURITIES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings as set out in rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, each Director confirmed that he has complied with the required standard set out in the Required Standard of Dealings for the six months ended 30 June 2018.

Management Discussion and Analysis

COMPETING INTERESTS

As at 30 June 2018, 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 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.

INTERESTS OF THE COMPLIANCE ADVISER

As at 30 June 2018, neither Innovax Capital Limited, the compliance adviser of the Company, nor any of its directors, employees or associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of GEM Listing Rules.

AUDIT COMMITTEE

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

The Group’s unaudited condensed consolidated interim results for the six months ended 30 June 2018 have been reviewed by the Audit Committee pursuant to the relevant provisions contained in the Corporate Governance Code (the “CG Code”) and was of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosure has been made in respect thereof.

Management Discussion and Analysis

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

The Company is committed to maintaining a high standard of corporate governance and believes that a good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the transparency of the Company; (iii) enhance risk management and internal control of the Company; and (iv) safeguard the interests of the shareholders of the Company and the Company as a whole.

The Company has adopted the CG Code as set out in Appendix 15 of the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code for the six months ended 30 June 2018 and up to the date of this interim report and confirmed no events of (i) financial assistance and guarantees to the Company's affiliated companies under rule 17.18; (ii) breach of loan agreement under 17.21 and (iii) pledge of the Company's shares under rule 17.43 during the reporting period.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

Hong Kong, 14 August 2018

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