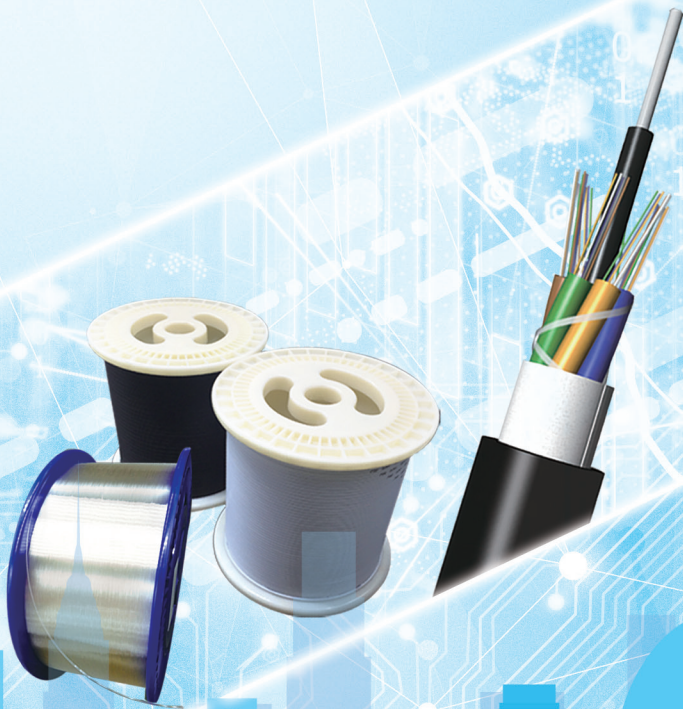


# Transtech Optelecom Science Holdings Limited 高科橋光導科技股份有限公司

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

## 2018 THIRD QUARTERLY REPORT



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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 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.*

# CONTENTS

Financial Highlights	3
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	4
Condensed Consolidated Statement of Changes in Equity	6
Notes to the Unaudited Condensed Consolidated Financial Statements	7
Management Discussion and Analysis	15



# Financial Highlights

- The Group recorded a revenue of approximately HK\$399.6 million for the nine months ended 30 September 2018 (nine months ended 30 September 2017: approximately HK\$452.1 million).
- Profit attributable to the owners of the Company for the nine months ended 30 September 2018 amounted to approximately HK\$74.4 million (nine months ended 30 September 2017: approximately HK\$85.0 million).
- Basic earnings per share amounted to approximately HK\$28.6 cents for the nine months ended 30 September 2018 (nine months ended 30 September 2017: approximately HK\$40.0 cents).
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2018 (nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2018

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Revenue</b>	3	<b>115,767</b>	145,690	<b>399,645</b>	452,106
Cost of sales		<b>(82,699)</b>	(105,486)	<b>(285,596)</b>	(333,980)
<b>Gross profit</b>		<b>33,068</b>	40,204	<b>114,049</b>	118,126
Other income	4	<b>1,265</b>	752	<b>4,082</b>	1,717
Other gains and losses	4	<b>(3,489)</b>	5,086	<b>(3,811)</b>	12,828
Selling and distribution expenses		<b>(2,129)</b>	(1,855)	<b>(5,930)</b>	(5,240)
Administrative expenses		<b>(6,779)</b>	(8,125)	<b>(21,047)</b>	(20,125)
Finance costs	5	<b>(257)</b>	(185)	<b>(425)</b>	(1,114)
Listing expenses		<b>-</b>	(3,218)	<b>-</b>	(9,629)
Profit before taxation	6	<b>21,679</b>	32,659	<b>86,918</b>	96,563
Income tax expense	7	<b>(3,741)</b>	(3,677)	<b>(12,494)</b>	(11,530)
Profit for the period		<b>17,938</b>	28,982	<b>74,424</b>	85,033
<b>Other comprehensive income</b>					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		<b>5,784</b>	8,796	<b>3,315</b>	15,059
Total comprehensive income for the period		<b>23,722</b>	37,778	<b>77,739</b>	100,092

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months and nine months ended 30 September 2018

Notes	Three months ended 30 September		Nine months ended 30 September		
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	
<b>Profit for period attributable to:</b>					
Owners of the Company	17,938	28,982	74,424	85,033	
Non-controlling interests	-	-	-	-	
	<b>17,938</b>	28,982	<b>74,424</b>	85,033	
<b>Total comprehensive income for the period attributable to:</b>					
Owners of the Company	23,722	37,778	77,739	100,092	
Non-controlling interest	-	-	-	-	
	<b>23,722</b>	37,778	<b>77,739</b>	100,092	
<b>Earnings per share</b>					
Basic (HK cents)	9	6.9	11.8	28.6	40.0

# Condensed Consolidated Statement of Changes in Equity

For the nine months ended 30 September 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	Total HK\$'000
At 1 January 2017 (Audited)	5	-	289,031	(21,245)	60,968	328,759	328,759
Profit for the period	-	-	-	-	85,033	85,033	85,033
Other comprehensive income	-	-	-	15,059	-	15,059	15,059
Total comprehensive income for the period	-	-	-	15,059	85,033	100,092	100,092
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
Expenses incurred in connection with the issue of shares	-	(11,071)	-	-	-	(11,071)	(11,071)
At 30 September 2017 (Unaudited)	2,600	95,534	289,031	(6,186)	146,001	526,980	526,980
At 1 January 2018 (Audited)	2,600	95,534	289,031	(1,302)	165,318	551,181	551,181
Profit for the period	-	-	-	-	74,424	74,424	74,424
Other comprehensive income	-	-	-	3,315	-	3,315	3,315
Total comprehensive income for the period	-	-	-	3,315	74,424	77,739	77,739
At 30 September 2018 (Unaudited)	2,600	95,534	289,031	2,013	239,742	628,920	628,920

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").

# Notes to the Unaudited Condensed Consolidated Financial Statements

For the nine months ended 30 September 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 nine months ended 30 September 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, and condensed consolidated statement of changes in equity for the nine months ended 30 September 2017 includes the results and changes in equity of the companies now comprising the Group as if the current group structure had been in existence throughout the nine months ended 30 September 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 Standards (“HKAS”) issued by the HKICPA, and the applicable disclosure requirements of the GEM Listing Rules.



# Notes to the Unaudited Condensed Consolidated Financial Statements

For the nine months ended 30 September 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 nine months ended 30 September 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 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 period has had no material effect on the amounts reported in these unaudited condensed consolidated financial statements and/or disclosures set out in these unaudited condensed consolidated financial statements.

# Notes to the Unaudited Condensed Consolidated Financial Statements

For the nine months ended 30 September 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

	Nine months ended 30 September 2018			
	Optical fibre cables, optical cable cores and other related products HK\$'000	Optical fibres HK\$'000	Elimination HK\$'000	Combined HK\$'000
<b>Revenue</b>				
External sales	254,193	145,452	–	399,645
Inter-segment sales	–	98,592	(98,592)	–
Segment revenue	254,193	244,044	(98,592)	399,645
Segment results	9,300	78,904	2,314	90,518
Interest income				429
Unallocated corporate expense				(3,604)
Finance costs				(425)
Profit before taxation				86,918

# Notes to the Unaudited Condensed Consolidated Financial Statements

For the nine months ended 30 September 2018

	Nine months ended 30 September 2017			
	Optical fibre cables, optical cable cores and other related products HK\$'000	Optical fibres HK\$'000	Elimination HK\$'000	Combined HK\$'000
<b>Revenue</b>				
External sales	292,741	159,365	–	452,106
Inter-segment sales	–	55,043	(55,043)	–
<b>Segment revenue</b>	<b>292,741</b>	<b>214,408</b>	<b>(55,043)</b>	<b>452,106</b>
<b>Segment results</b>	<b>41,907</b>	<b>71,879</b>	<b>(3,251)</b>	<b>110,535</b>
Unallocated corporate expense				(3,229)
Finance costs				(1,114)
Listing expenses				(9,629)
<b>Profit before taxation</b>				<b>96,563</b>

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 nine months ended 30 September 2018

## 4. OTHER INCOME AND GAINS

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Other income:</b>				
Income from sales of scrap products	161	160	407	483
Bank interest income	461	182	1,994	271
Others	643	410	1,681	963
	1,265	752	4,082	1,717
<b>Other gains and losses:</b>				
Foreign exchange gains/(losses)	(3,489)	5,086	(3,806)	12,828
Loss on disposals of property, plant and equipment	-	-	(5)	-
	(3,489)	5,086	(3,811)	12,828

# Notes to the Unaudited Condensed Consolidated Financial Statements

For the nine months ended 30 September 2018

## 5. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Interest on bank borrowings	257	185	425	1,114

## 6. PROFIT BEFORE TAXATION

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Profit before taxation has been arrived at after charging:</b>				
Auditor's remuneration	496	286	946	1,026
Depreciation of property, plant and equipment	4,613	4,656	13,956	13,515
Directors' remuneration	1,106	1,108	3,390	2,242
Other staff costs				
Salaries and other benefits	8,802	8,551	26,978	25,585
Retirement benefits scheme contributions	191	180	586	514
Total staff costs	10,099	9,839	30,954	28,341
Minimum lease payments under operating leases in respect of land and buildings	3,134	2,858	9,430	8,621

# Notes to the Unaudited Condensed Consolidated Financial Statements

For the nine months ended 30 September 2018

## 7. INCOME TAX EXPENSE

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

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Hong Kong Profits Tax:</b>				
Current Tax	3,811	3,796	13,001	11,966
Under provision in prior year	82	–	82	–
Deferred taxation	(152)	(119)	(589)	(436)
	<b>3,741</b>	3,677	<b>12,494</b>	11,530

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 nine months ended 30 September 2018

## 8. DIVIDEND

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

## 9. EARNINGS PER SHARE

	Three months ended 30 September		Nine months ended 30 September	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Earnings</b>				
Profit attributable to the owners of the Company for the purpose of basic earnings per share	17,938	28,982	74,424	85,033
	'000	'000	'000	'000
<b>Number of ordinary shares</b>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	260,000	246,576	260,000	212,381

The calculation of basic earnings per share for the three months and nine months ended 30 September 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 (three months and nine months ended 30 September 2017: 246,576,000 and 212,381,000 respectively).

The number of ordinary shares for the purpose of calculating basic earnings per share for the three months and nine months ended 30 September 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 and the global offering of 65,000,000 shares ("Global Offering") on 20 July 2017 ("Listing Date").

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

# Management Discussion and Analysis

## BUSINESS REVIEW

It is slightly over a year from the Listing date (i.e. July 2017) of the Group to the date of this report. The Company has started to use part of the net proceeds from the Global Offering for the expansion plan of construction of a new factory in Thailand (as disclosed in the “Future Plans and Use of Proceeds” section of the Prospectus) during the nine months ended 30 September 2018.

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.

For the nine months ended 30 September 2018, the Group reported its revenue of approximately HK\$399.6 million (nine months ended 30 September 2017: approximately HK\$452.1 million), representing a decrease of approximately 11.6% as compared to that of the same period in 2017. Conversely, the gross profit margin of the Group increased by approximately 2.4% to approximately 28.5% for the nine months ended 30 September 2018 as compared to a gross profit margin of 26.1% for the nine months ended 30 September 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 September 2018, the Group recorded a profit attributable to the owners of the Company of approximately HK\$74.4 million (nine months ended 30 September 2017: approximately HK\$85.0 million). By excluding the effect of non-recurrent listing expenses of approximately HK\$9.6 million during the nine months ended 30 September 2017, the profit attributable to the owners of the Company would decrease by approximately HK\$20.2 million, representing a decline of 21.4% based on the adjusted profit for the nine months ended 30 September 2017.



# Management Discussion and Analysis

## Futong Thailand

Futong Thailand is still the largest optical fibre cable provider in Thailand and the favorable government policies were persistently the main 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.

Being the consequence of the temporary hold up of requests from some customers to extend the delivery date to cope with the postponement of their infrastructure projects, the sales revenue of optical fibre cables in Thailand reduced from HK\$142.3 million during the nine months ended 30 September 2017 to HK\$95.7 million during the same period in the year 2018. Conversely, there were increase of sales in the other ASEAN countries from HK\$15.2 million during the nine months ended 30 September 2017 to HK\$86.7 million during the same period in the year 2018 because of the enhanced sales effort.

To cope with the changing market demand, Futong Thailand has changed its sales strategy by increasing the proportion of optical fibre cables and reducing that of optical cable cores in the sales product mix. Consequently, the sales revenue of optical cable cores decreased from HK\$133.2 million during the nine months ended 30 September 2017 to HK\$71.8 million during the same period in the year 2018. It is expected that the local sales performance of optical fibre cables in Futong Thailand will not be greatly improved in the last quarter of 2018 unless the customers resume to request for normal delivery.

On the other hand, the gross profit margin of Futong Thailand decreased from approximately 15.4% for the nine months ended 30 September 2017 to approximately 8.4% for the nine months ended 30 September 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

For the Group's business segment in Hong Kong, Transtech has reported its revenue and net profit in amount of approximately HK\$244.0 million and HK\$66.4 million respectively for the nine months ended 30 September 2018 (nine months ended 30 September 2017: HK\$214.4 million and HK\$60.0 million respectively), representing increases of approximately 13.8% and 10.7% respectively. The continuous satisfactory performance is mainly attributable to the increase of quantity and selling price of optical fibre to Futong Thailand for the production of optical fibre cables and optical cable cores during the reporting period.

# Management Discussion and Analysis

## PROSPECTS

Facing the ongoing challenges of the conflict of international trade dispute and the upward trend of interest rate, the Group will keep close watch to the relevant risks. Therefore, the management of the Group adopts a conservative attitude towards the business environment both in Hong Kong and Thailand because of the unforeseeable impacts to the global economy in the last quarter of 2018.

In the meantime, the performance of Futong Thailand will not be improved in the last three months in 2018 if the local customers do not resume their order requisition. Nevertheless, 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. As a result of the increasing risk of the depreciation of Renminbi (“RMB”), Transtech is expected to incur more exchange loss in the accounts receivable settlement in the last three months of 2018 as compared with the same period in 2017. 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.

The Group will continue to 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

## FINANCIAL REVIEW

### Revenue

For the nine months ended 30 September 2018, total revenue of the Group decreased by about 11.6% to approximately HK\$399.6 million as compared with the corresponding period in 2017.

The decrease in total revenue for the nine months ended 30 September 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 other than Thailand; (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, and (vi) increased supply of optical fibres to Futong Thailand for the production of optical fibre cables and optical cable cores, which in turn reduced the sales volume of optical fibres to independent third party customers.

### 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 nine months ended 30 September 2018, the cost of sales of the Group decreased by about 14.5% to approximately HK\$285.6 million as compared with the corresponding period in 2017.

# Management Discussion and Analysis

Such decrease for the nine months ended 30 September 2018 was mainly attributable to the net effect of (i) the increase of sales volume of optical fibre cables in ASEAN countries other than Thailand 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, optical fibre cables in Thailand and optical fibres to independent third party customers; (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 decreased from approximately HK\$118.1 million, for the nine months ended 30 September 2017 to approximately HK\$114.0 million for the nine months ended 30 September 2018. The gross profit margin increased from approximately 26.1% for the nine months ended 30 September 2017 to approximately 28.5% for the nine months ended 30 September 2018. This is mainly because the overall gross profit margin of optical fibre cables for the nine months ended 30 September 2018 increased by approximately 2.6%, as compared with the corresponding period in 2017.

## Other gain and losses

The Group's foreign exchange gain was approximately HK\$12.8 million for the nine months ended 30 September 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 nine months ended 30 September 2018, the Group recognised foreign exchange loss of approximately HK\$3.8 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\$5.2 million for the nine months ended 30 September 2017 to approximately HK\$5.9 million for the nine months ended 30 September 2018, representing an increase of approximately 13.5%.

The increase in the selling and distribution expenses for the nine months ended 30 September 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\$20.1 million for the nine months ended 30 September 2017 to approximately HK\$21.0 million for the nine months ended 30 September 2018, representing an increase of approximately 4.5%.

The increase in the administrative expenses for the nine months ended 30 September 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 nine months ended 30 September 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\$9.6 million for the nine months ended 30 September 2017 and completely settled in the year ended 31 December 2017.

## Profit for the period

Profit attributable to owners of the Company for the nine months ended 30 September 2018 amounted to approximately HK\$74.4 million (nine months ended 30 September 2017: approximately HK\$85.0 million).

The decrease in profit attributable to owners of the Company for the nine months ended 30 September 2018 was mainly attributable to the net effects of (i) the decrease 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

## CONTINGENT LIABILITIES

As at 30 September 2018, the Group had no material contingent liabilities (31 December 2017: nil).

## CHARGE OF ASSETS

As at 30 September 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 September 2018, guarantee was given by the Company in respect of a bank facility with maximum limit of HK\$50 million granted to Transtech and a charge was registered in the British Virgin Islands. Saved as disclosed above, the Company has not provided any other guarantees and financial assistance to its subsidiaries during the nine months ended 30 September 2018.

## 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

As at 30 September 2018, the Group did not have any significant capital commitments (31 December 2017: nil).

## SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 30 September 2018, the Group did not hold any significant investment in equity interest in any other company.

# Management Discussion and Analysis

## **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 <sup>(1)</sup>	Approximate shareholding percentage
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%

*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 nine months ended 30 September 2018. On the other hand, the Group has not entered into any loan agreement with condition imposing specific performance obligation on the substantial shareholders during the period under review.

## DIVIDENDS

The Board did not recommend a payment of dividend for the nine months ended 30 September 2018 (nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2018.

# Management Discussion and Analysis

## COMPLIANCE OF LOAN AGREEMENT

During the period under review, the Company or any of its subsidiaries have not breached any term of the loan agreement that is significant to the Group's operation.

## COMPETING INTERESTS

As at 30 September 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 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.

## INTERESTS OF THE COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Innovax Capital Limited ("Innovax Capital"), as at 30 September 2018, 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 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 results for the nine months ended 30 September 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 nine months ended 30 September 2018 and up to the date of this 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, 13 November 2018

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