

# 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)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

### 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 announcement, for which the directors (the “Directors”) of Transtech Optelecom Science Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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 announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

The board (the “Board”) of directors of Transtech Optelecom Science Holdings Limited is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018 as follows:

## **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.**

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## FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK\$177.6 million for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately HK\$283.9 million).
- Profit attributable to the owners of the Company for the six months ended 30 June 2019 amounted to approximately HK\$20.9 million (six months ended 30 June 2018: approximately HK\$56.5 million).
- Basic earnings per share amounted to approximately HK\$8.0 cents for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately HK\$21.7 cents).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: 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 2019 together with the comparative unaudited figures for the corresponding period in 2018 as follows:

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

For the three months and six months ended 30 June 2019

	Notes	Three months ended 30 June		Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Revenue</b>	4	<b>77,281</b>	141,043	<b>177,645</b>	283,878
Cost of sales		<b>(60,716)</b>	(98,920)	<b>(139,054)</b>	(202,897)
<b>Gross profit</b>		<b>16,565</b>	42,123	<b>38,591</b>	80,981
Other income	5	<b>1,620</b>	1,532	<b>1,910</b>	2,817
Other gains and losses	5	<b>(4,278)</b>	(11,071)	<b>(816)</b>	(322)
Loss allowance for trade receivables		<b>10</b>	–	<b>(267)</b>	–
Selling and distribution expenses		<b>(1,136)</b>	(1,906)	<b>(2,489)</b>	(3,801)
Administrative expenses		<b>(6,089)</b>	(6,732)	<b>(12,843)</b>	(14,268)
Finance costs	6	<b>(306)</b>	(126)	<b>(842)</b>	(168)
Profit before taxation	7	<b>6,386</b>	23,820	<b>23,244</b>	65,239
Income tax expense	8	<b>(989)</b>	(3,649)	<b>(2,318)</b>	(8,753)
Profit for the period		<b>5,397</b>	20,171	<b>20,926</b>	56,486
<b>Other comprehensive income (expense)</b>					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		<b>9,548</b>	(12,845)	<b>18,006</b>	(2,469)
Total comprehensive income for the period		<b>14,945</b>	7,326	<b>38,932</b>	54,017
<b>Earnings per share</b>					
Basic (HK cents)	10	<b>2.1</b>	7.8	<b>8.0</b>	21.7

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	138,285	120,088
Right-of-use assets	12	21,825	–
Deposits for acquisition of property, plant and equipment	13	73,845	73,747
Deposits	13	33	101
Deferred tax assets	21	48	6
		<b>234,036</b>	193,942
<b>Current assets</b>			
Inventories	14	60,135	97,566
Trade receivables	15	284,686	237,004
Deposits, prepayments and other receivables	13	5,601	2,868
Bank balances and cash		165,856	187,014
		<b>516,278</b>	524,452
<b>Current liabilities</b>			
Trade and bills payables	16	46,786	53,926
Other payables and accrued charges	17	5,605	7,635
Contract liabilities	18	122	285
Lease liabilities	19	11,480	–
Bank borrowings	20	–	18,035
Tax payable		1,851	3,707
		<b>65,844</b>	83,588
<b>Net current assets</b>		<b>450,434</b>	440,864
<b>Total assets less current liabilities</b>		<b>684,470</b>	634,806

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
<b>Non-current liabilities</b>			
Deferred tax liabilities	21	4,332	3,811
Lease liabilities	19	12,343	–
		16,675	3,811
<b>Net assets</b>			
		667,795	630,995
<b>Capital and reserves</b>			
Issued share capital	22	2,600	2,600
Reserves		665,195	628,395
<b>Total Equity</b>			
		667,795	630,995

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	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
At 1 January 2018 (Restated)	2,600	95,534	289,031	(1,302)	164,389	550,252
Profit for the period	-	-	-	-	56,486	56,486
Other comprehensive income	-	-	-	(2,469)	-	(2,469)
Total comprehensive income for the period	-	-	-	(2,469)	56,486	54,017
At 30 June 2018 (Unaudited)	2,600	95,534	289,031	(3,771)	220,875	604,269
At 1 January 2019 (Audited)	2,600	95,534	289,031	(117)	243,947	630,995
Adjustment	-	-	-	-	(2,132)	(2,132)
At 1 January 2019 (restated)	2,600	95,534	289,031	(117)	241,815	628,863
Profit for the period	-	-	-	-	20,926	20,926
Other comprehensive income	-	-	-	18,006	-	18,006
Total comprehensive income for the period	-	-	-	18,006	20,926	38,932
At 30 June 2019 (Unaudited)	2,600	95,534	289,031	17,889	262,741	667,795

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 2019

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Net cash generated from (used in) operating activities	22,450	(42,216)
Investing activities		
Deposits paid for acquisition of property, plant and equipment	(98)	–
Purchase of property, plant and equipment	(19,986)	(523)
Interest received	501	1,582
Net cash (used in) generated from investing activities	(19,583)	1,059
Financing activities		
New bank borrowings raised	27,014	20,426
Repayment of bank borrowings	(45,678)	(1,290)
Interest paid	(447)	(168)
Payment for lease liabilities	(6,006)	–
Net cash (used in) generated from financing activities	(25,117)	18,968
Net decrease in cash and cash equivalents	(22,250)	(22,189)
Cash and cash equivalents at the beginning of period	187,014	279,551
Effect of foreign exchange rate changes	1,092	935
Cash and cash equivalents at the end of period representing by bank balances and cash	165,856	258,297

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 1. GENERAL INFORMATION

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. The address of its registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, 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 Investments Co., Ltd. (“Futong Investments”), a company incorporated in the People’s Republic of China. The Company is an investment holding company and its shares have been listed on the GEM of the Stock Exchange on 20 July 2017 (the “Listing”). 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.

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

## 2. BASIS OF PRESENTATION

This condensed consolidated financial information for the six months ended 30 June 2019 has been prepared to comply with the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated financial information should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”).

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current interim period:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

### HKFRS 16 Leases

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under HKAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

Saved for the above, the significant accounting policies that have been used in the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018 included in the 2018 Annual Report.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 4. REVENUE AND SEGMENT INFORMATION

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

For the six months ended 30 June 2019

Segments	Optical fibres HK\$'000	Optical fibre cables and optical cable cores HK\$'000	Total HK\$'000
<b>Types of goods</b>			
Sales of goods — recognised at a point in time			
Optical fibre cables	–	51,783	51,783
Optical fibres	75,608	–	75,608
Optical cable cores	–	50,254	50,254
<b>Total</b>	<b>75,608</b>	<b>102,037</b>	<b>177,645</b>

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

	For the six months ended 30 June 2019				
	Optical fibre cables and optical cable cores HK\$'000	Optical fibres HK\$'000	Total segment revenue HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Sales of optical fibre cables	51,783	–	51,783	–	51,783
Sales of optical fibre	–	110,924	110,924	(35,316)	75,608
Sales of optical cable cores	50,254	–	50,254	–	50,254
<b>Segment revenue</b>	<b>102,037</b>	<b>110,924</b>	<b>212,961</b>	<b>(35,316)</b>	<b>177,645</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## For the six months ended 30 June 2018

Segments	Optical fibres HK\$'000	Optical fibre cables and optical cable cores HK\$'000	Total HK\$'000
<b>Types of goods</b>			
Sales of goods			
— recognised at a point in time			
Optical fibre cables	—	116,260	116,260
Optical fibres	117,417	—	117,417
Optical cable cores	—	50,201	50,201
<b>Total</b>	<b>117,417</b>	<b>166,461</b>	<b>283,878</b>

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

	For the six months ended 30 June 2018				
	Optical fibre cables and optical cable cores HK\$'000	Optical fibres HK\$'000	Total segment revenue HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Sales of optical fibre cables	116,260	—	116,260	—	116,260
Sales of optical fibre	—	170,587	170,587	(53,170)	117,417
Sales of optical cable cores	50,201	—	50,201	—	50,201
<b>Segment revenue</b>	<b>166,461</b>	<b>170,587</b>	<b>337,048</b>	<b>(53,170)</b>	<b>283,878</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## (ii) Performance obligations for contracts with customers

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

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

Following the delivery, the customers have full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 0 to 365 days (six months ended 30 June 2018: 0 to 720 days) upon delivery.

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

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

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## Segment revenue and results

	Six months ended 30 June 2019				
	Optical fibre cables and optical cable cores HK\$'000	Optical fibres HK\$'000	sub-total HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>Revenue</b>					
External sales	102,037	75,608	177,645	-	177,645
Inter-segment sales	-	35,316	35,316	(35,316)	-
Segment revenue	102,037	110,924	212,961	(35,316)	177,645
Segment profit	9,969	15,571	25,540	744	26,284
Interest income					77
Unallocated corporate expenses					(2,275)
Finance costs					(842)
Profit before taxation					23,244

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

	Six months ended 30 June 2018				
	Optical fibre cables and optical cable cores HK\$'000	Optical fibres HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>Revenue</b>					
External sales	166,461	117,417	283,878	–	283,878
Inter-segment sales	–	53,170	53,170	(53,170)	–
Segment revenue	166,461	170,587	337,048	(53,170)	283,878
Segment profit	7,441	56,753	64,194	3,312	67,506
Interest income					328
Unallocated corporate expenses					(2,427)
Finance costs					(168)
Profit before taxation					65,239

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 bank interest income, corporate expenses, finance costs and income tax expense.

Inter-segment sales are charged at prevailing market rates.

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

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 5. OTHER INCOME, GAINS AND LOSSES

	Three months ended 30 June		Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Other income:</b>				
Income from sales of scrap products	130	134	166	246
Bank interest income	264	733	480	1,533
Others	1,226	665	1,264	1,038
	1,620	1,532	1,910	2,817
<b>Other gains and losses:</b>				
Foreign exchange losses	(4,278)	(11,066)	(816)	(317)
Loss on disposals of property, plant and equipment	–	(5)	–	(5)
	(4,278)	(11,071)	(816)	(322)

## 6. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Interest on bank borrowings	119	126	447	168
Interest on lease liabilities	187	–	395	–
	306	126	842	168

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 7. PROFIT BEFORE TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Profit before taxation has been arrived at after charging:				
Auditor's remuneration	446	225	709	450
Depreciation of property, plant and equipment	3,626	4,655	7,168	9,343
Less: amount capitalised in inventories	(3,188)	(3,723)	(6,282)	(7,470)
	438	932	886	1,873
Depreciation of right-of-use assets	2,738	-	5,477	-
Directors' remuneration	1,214	1,159	2,453	2,284
Other staff costs				
Salaries and other benefits	7,361	9,226	15,587	18,176
Retirement benefits scheme contributions	153	180	360	395
Total staff costs	8,728	10,565	18,400	20,855
Less: amount capitalised in inventories	(4,850)	(6,258)	(10,171)	(12,222)
	3,878	4,307	8,229	8,633
Lease payments under operating leases in respect of land and buildings which are not included in lease liabilities	167	3,133	351	6,296
Cost of inventories recognised as cost of sales	60,716	98,920	139,054	202,897

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 8. 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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Hong Kong Profits Tax				
Current Tax	654	3,936	1,760	9,190
Thailand withholding tax	40	–	79	–
Deferred tax	295	(287)	479	(437)
	989	3,649	2,318	8,753

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

Accordingly, starting from the year ended 31 December 2018, the Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

Futong Thailand has been granted preferential tax treatments by the Board of Investment in Thailand relating to manufacturing of cables by virtue of the provisions of the Industrial Investment Promotion Act B.E.2520 of Thailand. The preferential tax treatments granted include 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 2019

## 9. DIVIDEND

No dividends were paid, declared and proposed by the Company during the current interim period (six months ended 30 June 2018: nil). The directors have determined that no dividend will be paid in respect of the current interim period.

## 10. EARNINGS PER SHARE

	Three months ended 30 June		Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Earnings</b>				
Profit attributable to the owners of the Company for the purpose of basic earnings per share	5,397	20,171	20,926	56,486
	'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	260,000	260,000	260,000

The calculation of basic earnings per share for the six months ended 30 June 2019 and 30 June 2018 are based on the profit for the period attributable to the equity holders of the Company, and the weighted average number of issued ordinary shares is 260,000,000.

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 2019

## 11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired at cost, machinery of approximately HK\$5,099,000 (six months ended 30 June 2018: approximately HK\$190,000); office equipment of approximately HK\$Nil (six months ended 30 June 2018: approximately HK\$15,000); furniture and fixtures of approximately HK\$16,000 (six months ended 30 June 2018: approximately HK\$317,000); and construction in progress of approximately HK\$14,871,000 (six months ended 30 June 2018: HK\$Nil). The Group disposed at cost, office equipment of approximately HK\$2,000 (six months ended 30 June 2018: HK\$Nil).

## 12. RIGHT-OF-USE ASSETS

The Group leases several assets including buildings. Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from more than 1 year to 5 years.

	Buildings HK\$'000
Net carrying amount	
1 January 2019 (Unaudited)	27,302
30 June 2019 (Unaudited)	21,825
Depreciation expense for the period ended 30 June 2019 (Unaudited)	5,477

### Amounts recognised in profits and loss

	30 June 2019 HK\$'000 (Unaudited)
Depreciation expense on right-of-use assets	5,477
Interest expense on lease liabilities	395
Expense relating to short-term leases	351

At 30 June 2019, the Group is committed to HK\$0.3 million for short-term leases.

The total cash outflow for leases amount to HK\$6.0 million during the six months ended 30 June 2019.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Electricity deposits	785	785
Other deposits	172	170
Prepayments	3,544	908
Other receivables	513	180
Value-added tax receivables	620	926
Deposits for acquisition of property, plant and equipment	73,845	73,747
Total	79,479	76,716
Presented as non-current assets	73,878	73,848
Presented as current assets	5,601	2,868
Total	79,479	76,716

## 14. INVENTORIES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Raw materials and consumables	31,500	58,888
Work in progress	10,557	9,814
Finished goods	12,886	19,960
Goods-in-transit	5,192	8,904
Total	60,135	97,566

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 15. TRADE RECEIVABLES

	<b>30 June 2019 HK\$'000 (Unaudited)</b>	31 December 2018 HK\$'000 (Audited)
Trade receivables		
— sales of goods	<b>286,075</b>	238,074
Less: Loss allowance	<b>(1,389)</b>	(1,070)
Total trade receivables	<b>284,686</b>	237,004

The Group grants credit terms of 0–720 days to its customers from the date of invoice. The following is an aged analysis of the trade receivables, net of allowance for credit losses presented based on invoice date at the end of the reporting period.

	<b>30 June 2019 HK\$'000 (Unaudited)</b>	31 December 2018 HK\$'000 (Audited)
0–180 days	<b>160,768</b>	152,965
181–270 days	<b>55,073</b>	61,168
Over 270 days	<b>68,845</b>	22,871
	<b>284,686</b>	237,004

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 16. TRADE AND BILLS PAYABLES

	<b>30 June 2019 HK\$'000 (Unaudited)</b>	31 December 2018 HK\$'000 (Audited)
Bills payables	<b>21,841</b>	25,409
Trade payables	<b>24,945</b>	28,517
	<b>46,786</b>	53,926

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:

	<b>30 June 2019 HK\$'000 (Unaudited)</b>	31 December 2018 HK\$'000 (Audited)
Trade and bills payables:		
0–30 days	<b>24,720</b>	10,767
31–60 days	<b>12,517</b>	18,329
61–90 days	<b>4,673</b>	18,024
91–180 days	<b>4,153</b>	6,623
Over 180 days	<b>723</b>	183
	<b>46,786</b>	53,926

## 17. OTHER PAYABLES AND ACCRUED CHARGES

	<b>30 June 2019 HK\$'000 (Unaudited)</b>	31 December 2018 HK\$'000 (Audited)
Accrued charges	<b>3,787</b>	5,198
Other payables	<b>1,818</b>	2,437
	<b>5,605</b>	7,635

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 18. CONTRACT LIABILITIES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Sales of optical fibre cables	122	285

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

	Sales of Optical fibre cables HK\$'000
Revenue recognised that was included in the contract liabilities	285

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives a 4%–54% deposit depends on the contract terms.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 19. LEASE LIABILITIES

	30 June 2019 HK\$'000 (Unaudited)
Non-current	12,343
Current	11,480
	23,823
<b>Maturity analysis</b>	
Not later than 1 year	–
Later than 1 year and not later than 5 years	23,823
Later than 5 years	–
	23,823

## 20. BANK BORROWINGS

During the current interim period, the Group obtained new short-term bank borrowings with total amount of approximately HK\$27,014,000 (unaudited) (six months ended 30 June 2018: approximately HK\$20,426,000 (unaudited)). The bank borrowings carried variable interest at United States dollar ("US\$") 3-month London Interbank Offered Rate ("LIBOR") plus 2% per annum (six months ended 30 June 2018: 3-month LIBOR plus 2% per annum) and were repayable within one year. Pursuant to the loan agreements, the bank borrowings were secured by land, buildings and machinery of the Group. The pledges of land, buildings and machinery have been released on 6 June 2019 and 21 June 2019 respectively.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 21. DEFERRED TAXATION

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

	Expected credit losses provision HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1 January 2018 (Restated)	3	(4,550)	(4,547)
Credit to profit or loss	–	437	437
At 30 June 2018 (Unaudited)	3	(4,113)	(4,110)
At 1 January 2019 (Audited)	<b>6</b>	<b>(3,811)</b>	<b>(3,805)</b>
Credit to profit or loss	<b>42</b>	<b>(521)</b>	<b>(479)</b>
<b>At 30 June 2019 (Unaudited)</b>	<b>48</b>	<b>(4,332)</b>	<b>(4,284)</b>

The above deferred tax asset and liabilities within the same tax jurisdiction have been offset for presentation purpose in the condensed consolidated statement of financial position. The following is the analysis of the deferred taxation:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Deferred tax assets	48	6
Deferred tax liabilities	(4,332)	(3,811)
	<b>(4,284)</b>	<b>(3,805)</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 22. SHARE CAPITAL

	Number of shares	HK\$'000
<b>Authorised</b>		
At 31 December 2018 and 30 June 2019		
— ordinary shares of HK\$0.01 each	1,000,000,000	10,000
<b>Issued and fully paid</b>		
<b>At 31 December 2018 and 30 June 2019</b>	<b>260,000,000</b>	<b>2,600</b>

## 23. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Fellow subsidiaries</b>		
<u>Hangzhou Futong Communication Technology Co., Limited</u>		
Sales	17,870	24,480
<b>Related Company<sup>^</sup></b>		
<u>Futong Group International Limited</u>		
Rental expense	N/A	5,940
Payment of lease liabilities	5,940	N/A

- <sup>^</sup> Controlled by a shareholder of Hangzhou Futong Investments Co., Ltd., ultimate holding company of the Company.

The sales, rental expenses and payment of lease liabilities 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 2019

## (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 2018 and 30 June 2019 respectively, were as follows:

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Short-term benefits	2,444	2,275
Post-employment benefits	9	9
	<b>2,453</b>	2,284

## 24. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2019 (unaudited) and 31 December 2018.

## 25. CAPITAL COMMITMENT

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	115,266	56,129

## 26. EVENTS AFTER THE REPORTING PERIOD (UNAUDITED)

No important events affecting the Group have occurred since the end of the six months ended 30 June 2019 and up to the date of this interim report.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Company's shares (the "Shares") were listed on the GEM of the Stock Exchange on 20 July 2017 (the "Listing"). To enhance the profile of the Group and the attractiveness of the Shares to institutional and retail investors, the Company has submitted a formal application to the Stock Exchange on 30 May 2019 for the transfer of Listing ("Transfer of Listing") pursuant to Chapter 9A and Appendix 28 of the Main Board Listing Rules. Reference is made to the announcement of 30 May 2019.

The Board also believes that the Main Board enjoys an enhanced status among investors which could result in a larger investor base leading to greater trading liquidity in the Shares, and that the listing of the Shares on the Main Board will be beneficial to the future growth, business development and financial flexibility of the Group. Additionally, the Group has been improving its sales efforts in the ASEAN markets, and it is believed that through its enhanced listing status as a Main Board listed issuer on the Stock Exchange, given the fact that a number of the Group's competitors are Main Board listed issuers on the Stock Exchange, the Group will be able to capture more business opportunities and develop its business with a stronger corporate image, and better promote itself as a prominent market player in the optical telecommunication products manufacturing industry. The Transfer of Listing will not involve the issue of any new Shares by the Company.

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 2019, the Group reported its revenue of approximately HK\$177.6 million (six months ended 30 June 2018: approximately HK\$283.9 million), representing a decrease of approximately 37.4% as compared to that of the same period in 2018. The gross profit margin of the Group decreased by approximately 6.8% to approximately 21.7% for the six months ended 30 June 2019 as compared to a gross profit margin of approximately 28.5% for the six months ended 30 June 2018. The decreases of the Group's revenue and gross profit margin are the net effect of the performance in Transtech and Futong Thailand.

During the period ended 30 June 2019, the Group recorded a profit attributable to the owners or the Company of approximately HK\$20.9 million (six months ended 30 June 2018: approximately HK\$56.5 million).

## 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 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 approximately HK\$57.9 million during the six months ended 30 June 2018 to approximately HK\$45.0 million during the same period in the year 2019 due to the temporary unstable environment in Thailand during the first half of 2019. There were also decrease of sales in the other ASEAN countries from approximately HK\$58.3 million during the six months ended 30 June 2018 to approximately HK\$6.8 million during the same period in the year 2019 mainly because order placement from customers in the ASEAN countries (other than Thailand) was slow given that relevant construction projects on telecommunication infrastructure have yet to fully commence during the reporting period, which resulted in a reduced demand in the optical fibre cable market in ASEAN countries (other than Thailand).

As a result of the change of sales strategy, Futong Thailand has increased the proportion of optical cable cores and reduced that of optical fibre cables in the sales product mix. Consequently, the sales revenue of optical cable cores slightly increased from approximately HK\$50.2 million during the six months ended 30 June 2018 to approximately HK\$50.3 million during the same period in the year 2019.

On the other hand, the gross profit margin of Futong Thailand increased from approximately 9.2% for the six months ended 30 June 2018 to approximately 15.6% for the six months ended 30 June 2019. It is mainly attributable to the aggregate effect of (i) the decrease of the price of optical fibre; (ii) the change of customers' demand for optical fibre cables with different specification; (iii) the temporary unstable environment in Thailand, and (iv) the reduced demand in the optical fibre cable market in the ASEAN countries (other than Thailand).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Transtech

Regarding to the other business segment in Hong Kong, Transtech has reported its revenue and net profit in amount of approximately HK\$110.9 million and HK\$12.9 million respectively for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately HK\$170.6 million and HK\$48.0 million respectively), representing decreases of approximately 35.0% and 73.1% respectively. It's mainly due to the slowdown of China's 5G commercial process, the increase in demand for optical fibres is minimal, thus the export of optical fibres for Transtech was affected during the reporting period. Consequently, Transtech received less orders from their customers and recorded a downturn in terms of its revenue accordingly.

## PROSPECTS

The Group is expected to have improvement of sales revenue in Thailand in the second half year of 2019. 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.

Indeed, the Ministry of Industry and Information Technology of the Chinese government started to issue the 5G commercial licence to four telecommunication operators on 6 June 2019, it is a milestone to commence the 5G period in the Mainland of China and it is believed the operators will start their infrastructure projects in the second half of 2019. This new policy will certainly enhance the national manufacturing power and facilitate the development of the 5G of mobile communication and will in turn accelerate the integration of the information and communication technologies and industries to drive the growth in data traffic. These favorable factors may also promote industrial upgrade and stimulate the demand for optical fibre cables, for the construction of the high-speed broadband network infrastructure. The demand for optical fibre cables in the PRC is believed to remain promising in view of the development of the optical broadband and wireless broadband mobile communications, and such increasing demand in China will in turn bring a positive effect to the price and demand for optical fibre and optical fibre cables in the Hong Kong and ASEAN market in the second half of FY2019. In view of those factors, the Group will continue to implement its production capacity expansion plan by developing the factory in Thailand in order to capture those opportunities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

For the six months ended 30 June 2019, total revenue of the Group decreased by about 37.4% to approximately HK\$177.6 million as compared with the corresponding period in 2018.

The decrease in total revenue for the six months ended 30 June 2019 was mainly due to the increased competition in the market which resulted in less demand from the Group's customers, as compared with the corresponding period in 2018, resulting in decrease in sales volume and selling prices of the Group's products (except for sales volume of optical cable cores and selling price of optical fibre cable to customers in ASEAN markets (other than Thailand)). The sales volume of optical cable cores increased as compared with the corresponding period in 2018 primarily due to the shift of proportion of product mix from optical fibre cables to optical cable cores. While the general demand for optical fibre cables in ASEAN markets (other than Thailand) was lower during the reporting period as compared to that of 2018, we received orders for optical fibre cables of different specification which has a higher selling price from customers in ASEAN markets (other than Thailand), therefore, the drop in demand and the resulting revenue was partially offset by the effect of such orders.

### 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 and right-of-use assets, rent, consumables, utilities, and other expenses related to the manufacturing our products and (iv) change in inventories of finished goods and work in progress.

For the six months ended 30 June 2019, the cost of sales of the Group decreased by about 31.4% to approximately HK\$139.1 million as compared with the corresponding period in 2018.

Such decrease for the six months ended 30 June 2019 was mainly attributable to the generally lower sales volume of the Group's products during the six months ended 30 June 2019.

The gross profit of the Group decreased from approximately HK\$81.0 million, for the six months ended 30 June 2018 to approximately HK\$38.6 million for the six months ended 30 June 2019. The gross profit margin decreased from approximately 28.5% for the six months ended 30 June 2018 to approximately 21.7% for the six months ended 30 June 2019. This is mainly attributable to the decrease of the gross profit margin of optical fibres and optical fibre cables for the six months ended 30 June 2019 by approximately 15.1% and approximately 9.7% respectively as compared to the corresponding period in 2018. Nevertheless, the gross profit margin of optical cable cores increased by approximately 8.3% in 1H2019, which partially offset the decrease in gross profit margin mentioned above.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Other Income

The Group's bank interest income decreased from approximately HK\$1.5 million for the six months ended 30 June 2018 to approximately HK\$0.5 million for the six months ended 30 June 2019 mainly due to less bank deposits having been placed as fixed deposits for the six months ended 30 June 2019 as compared with the corresponding period.

## Other Gain and Losses

The Group's foreign exchange losses increased from approximately HK\$0.3 million for the six months ended 30 June 2018 to approximately HK\$0.8 million for the six months ended 30 June 2019 mainly because the depreciation extent of Renminbi ("RMB") against Hong Kong Dollar ("HK\$") during the period was more than that of corresponding period in 2018.

## 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 decreased from approximately HK\$3.8 million for the six months ended 30 June 2018 to approximately HK\$2.5 million for the six months ended 30 June 2019, representing an decrease of approximately 34.2%.

The decrease in the selling and distribution expenses for the six months ended 30 June 2019 was mainly due to the (i) the decrease in staff cost as a result of a decrease in the headcount for Futong Thailand; and (ii) the decrease in export cost as there was no sale of optical cable cores with shipping term of DDP for the six months ended 30 June 2019.

## Administrative expenses

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

The Group's administrative expenses decreased from approximately HK\$14.3 million for the six months ended 30 June 2018 to approximately HK\$12.8 million for the six months ended 30 June 2019, representing a decrease of approximately 10.5%.

# MANAGEMENT DISCUSSION AND ANALYSIS

The decrease in the administrative expenses for the six months ended 30 June 2019 was mainly attributable to (i) the full depreciation of part of the leasehold improvement of Futong Thailand in November 2018, resulting in decrease in depreciation during the said period; (ii) the decrease in staff cost as a result of a decrease in the headcount for Futong Thailand.

## Finance costs

Finance costs represent the interest expense on bank borrowings and lease liabilities. The finance costs of the Group increased from approximately HK\$0.2 million for the six months ended 30 June 2018 to approximately HK\$0.8 million for the six months ended 30 June 2019 due to (i) the increase in the bank borrowings during the six months ended 30 June 2019 as compared to the six months ended 30 June 2018 and (ii) lease liabilities was recognised since the Group had applied new and amended accounting policies. For the impact on the Group's accounting treatment due to "HKFRS 16 Leases", see Note 3 to the unaudited condensed consolidated financial statements for the six months ended 30 June 2019.

## Profit for the period

Profit attributable to owners of the Company for the six months ended 30 June 2019 amounted to approximately HK\$20.9 million (six months ended 30 June 2018: approximately HK\$56.5 million).

The decrease in profit attributable to owners of the Company for the six months ended 30 June 2019 was mainly attributable to the net effects of (i) the decrease in gross profit; (ii) the decrease in bank interest income; (iii) the increase of interests in bank borrowing and lease liabilities and foreign exchange losses; and (iv) the decrease of selling and distribution expenses and administrative expenses, as compared with the corresponding period in 2018.

## 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\$165.9 million as at 30 June 2019 (31 December 2018: approximately HK\$187.0 million). As at 30 June 2019, the Group had no bank borrowings (31 December 2018: approximately HK\$18.0 million). In the details of the bank borrowings can be referenced to note 20 of the unaudited 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 31 December 2018, the gearing ratio were approximately 2.9%. As at 30 June 2019, the Group did not have bank borrowing, thus no gearing ratio is calculated.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL STRUCTURE

As at 30 June 2018, the Company's authorized and issued share capital were HK\$10,000,000 and HK\$2,600,000 respectively. The number of its issued ordinary shares was 260,000,000 of HK\$0.01 each.

There has been no change in the capital structure of the Group since the Listing Date and up to the date of this report. The capital of the Company only comprises of ordinary shares.

## TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period. To manage liquidity risk, the management closely monitors the Group's liquidity position and maintain sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to settle the payables of the Group.

## CONTINGENT LIABILITIES AND LITIGATION

As at 30 June 2019, the Group had no material contingent liabilities and litigation (31 December 2018: nil).

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts to the environment from its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to comply with related environmental laws and legislations, and continual improvement on its performance. For details, please refer to the Environmental, Social and Governance Report in the Annual Report issued by the Company dated 28 March 2019 (the "ESG Report").

## KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## CHARGE OF ASSETS

The Group had pledged its land, buildings and machinery of approximately HK\$79.0 million as at 31 December 2018 to secure the banking facilities granted to the Group. The pledges of land, buildings and machinery have been released on 6 June 2019 and 21 June 2019 respectively. As at 30 June 2019, 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") and RMB against HK\$. Any depreciation of THB will reduce the amount of revenue we generate in Thailand in terms of our reporting currency and adversely impact our results of operations. Similarly, Transtech might also suffer exchange loss if RMB depreciates against HK\$ because some of the sales revenue are fixed in the currency of RMB. However, our Group has established a foreign currency risk management policy to monitor and manage foreign currency risks.

## CAPITAL COMMITMENTS

As at 30 June 2019, the Group has capital commitments of approximately HK\$115.3 million. (31 December 2018: approximately HK\$56.1 million).

## SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 30 June 2019, 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 two years ended 31 December 2018 and the six months ended 30 June 2019. 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	Proposed amount to be used (HK\$million)	Actual amount utilized up to 30 June 2019 (HK\$million)	Unused amount as at 30 June 2019 (HK\$million)	Explanation
Approximately 80% of the net proceeds will be used for implementing the expansion plan of new production facility in Thailand, including the construction of a factory in Thailand.	73.4	16.0	57.4	The site construction commence in first half of FY2019 and the unused amount will be expected to be fully utilized by the end of FY2020.
Approximately 5% of the net proceeds will be used for strengthening the research and development capabilities and expanding the range of products.	4.6	0.3	4.3	The main reason for the delay in the use of proceeds for the research and development expenditure is that it depends on the change of market demand. For the period from the Listing Date to 30 June 2019, there are little change of customers' demand for new type of products. It is expected to utilize this proceeds over another two years to the end of FY2020.
Approximately 5% of the net proceeds will be used for enhancing the relationship with existing customers and exploring new customers in Hong Kong and the ASEAN.	4.6	2.0	2.6	In line of the business development in the ASEAN countries, it is estimated that most of the unused amount will be used in FY2019 and the remaining in first half of FY2020.
Approximately 10% of the net proceeds will be used as the general working capital and for general corporate purposes.	9.2	9.2	–	Fully utilized for factory rent and electricity fee in Hong Kong for the period from the Listing Date to 31 December 2017
Total	91.8	27.5	64.3	

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 June 2019, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

## EMPLOYEE AND EMOLUMENT POLICIES

As at 30 June 2019, the employee headcount (including Directors) of the Group was 220 (31 December 2018: 251) and the total staff costs, including directors’ emoluments, amounted to approximately HK\$18.4 million during the six months ended 30 June 2019 (six months ended 30 June 2018: approximately HK\$20.9 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

Throughout the reporting period 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, throughout the reporting period 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, throughout the reporting period 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 2019.

## DIVIDENDS

The Board did not recommend a payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: 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 2019 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 2019, 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 2019.

## COMPETING INTERESTS

As at 30 June 2019, 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 2019, 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 2019 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 2019 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, 13 August 2019

*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.*

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

Hong Kong, 13 August 2019

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

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

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