

# **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

THIRD QUARTERLY REPORT

**2019**



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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.*

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## FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK\$247.0 million for the nine months ended 30 September 2019 (nine months ended 30 September 2018: approximately HK\$399.6 million).
- Profit attributable to the owners of the Company for the nine months ended 30 September 2019 amounted to approximately HK\$25.1 million (nine months ended 30 September 2018: approximately HK\$74.4 million).
- Basic earnings per share amounted to approximately HK\$9.6 cents for the nine months ended 30 September 2019 (nine months ended 30 September 2018: approximately HK\$28.6 cents).
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2019 (nine months ended 30 September 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 nine months ended 30 September 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 (UNAUDITED)

For the three months and nine months ended 30 September 2019

		Three months ended 30 September		Nine months ended 30 September	
	Notes	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Revenue</b>	4	69,359	115,767	247,004	399,645
Cost of sales		(50,429)	(82,699)	(189,483)	(285,596)
<b>Gross profit</b>		18,930	33,068	57,521	114,049
Other income	5	531	1,265	2,441	4,082
Other gains and losses	5	(6,805)	(3,489)	(7,621)	(3,811)
Loss allowance for trade receivables		173	–	(94)	–
Selling and distribution expenses		(1,036)	(2,129)	(3,525)	(5,930)
Administrative expenses		(5,935)	(6,779)	(18,778)	(21,047)
Finance costs	6	(187)	(257)	(1,029)	(425)
Profit before taxation	7	5,671	21,679	28,915	86,918
Income tax expense	8	(1,531)	(3,741)	(3,849)	(12,494)
Profit for the period		4,140	17,938	25,066	74,424
<b>Other comprehensive income</b>					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		2,053	5,784	20,059	3,315
Total comprehensive income for the period		6,193	23,722	45,125	77,739
<b>Earnings per share</b>					
Basic (HK cents)	10	1.6	6.9	9.6	28.6

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 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	-	-	-	-	74,424	74,424
Other comprehensive income	-	-	-	3,315	-	3,315
Total comprehensive income for the period	-	-	-	3,315	74,424	77,739
At 30 September 2018 (Unaudited)	2,600	95,534	289,031	2,013	238,813	627,991
<b>At 1 January 2019 (Audited)</b>	<b>2,600</b>	<b>95,534</b>	<b>289,031</b>	<b>(117)</b>	<b>243,947</b>	<b>630,995</b>
<b>Adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,132)</b>	<b>(2,132)</b>
<b>At 1 January 2019 (restated)</b>	<b>2,600</b>	<b>95,534</b>	<b>289,031</b>	<b>(117)</b>	<b>241,815</b>	<b>628,863</b>
<b>Profit for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,066</b>	<b>25,066</b>
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,059</b>	<b>-</b>	<b>20,059</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,059</b>	<b>25,066</b>	<b>45,125</b>
<b>At 30 September 2019 (Unaudited)</b>	<b>2,600</b>	<b>95,534</b>	<b>289,031</b>	<b>19,942</b>	<b>266,881</b>	<b>673,988</b>

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 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 nine months ended 30 September 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 nine months ended 30 September 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 year:

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;
- 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.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

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.

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 nine months ended 30 September 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 nine months ended 30 September 2019

## 4. REVENUE AND SEGMENT INFORMATION

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

For the period ended 30 September 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	—	75,028	75,028
Optical fibres	103,016	—	103,016
Optical cable cores	—	68,960	68,960
<b>Total</b>	<b>103,016</b>	<b>143,988</b>	<b>247,004</b>

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

	For the period ended 30 September 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	75,028	—	75,028	—	75,028
Sales of optical fibre	—	159,470	159,470	(56,454)	103,016
Sales of optical cable cores	68,960	—	68,960	—	68,960
<b>Segment revenue</b>	<b>143,988</b>	<b>159,470</b>	<b>303,458</b>	<b>(56,454)</b>	<b>247,004</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

## For the period ended 30 September 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	—	182,354	182,354
Optical fibres	145,452	—	145,452
Optical cable cores	—	71,839	71,839
<b>Total</b>	<b>145,452</b>	<b>254,193</b>	<b>399,645</b>

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

For the period ended 30 September 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	182,354	—	182,354	—	182,354
Sales of optical fibre	—	244,044	244,044	(98,592)	145,452
Sales of optical cable cores	71,839	—	71,839	—	71,839
<b>Segment revenue</b>	<b>254,193</b>	<b>244,044</b>	<b>498,237</b>	<b>(98,592)</b>	<b>399,645</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 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 (nine months ended 30 September 2018: 0 to 720 days) upon delivery.

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 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 nine months ended 30 September 2019

## Segment revenue and results

	Nine months ended 30 September 2019				
	Optical fibre cables and optical cable cores HK\$'000	Optical fibres HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	Combined HK\$'000
<b>Revenue</b>					
External sales	143,988	103,016	247,004	–	247,004
Inter-segment sales	–	56,454	56,454	(56,454)	–
Segment revenue	143,988	159,470	303,458	(56,454)	247,004
Segment results	10,473	23,005	33,478	(337)	33,141
Interest income					121
Unallocated corporate expense					(3,318)
Finance costs					(1,029)
Profit before taxation					28,915

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

	Nine months ended 30 September 2018				
	Optical fibre cables and optical cable cores HK\$'000	Optical fibres HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	Combined HK\$'000
<b>Revenue</b>					
External sales	254,193	145,452	399,645	–	399,645
Inter-segment sales	–	98,592	98,592	(98,592)	–
Segment revenue	254,193	244,044	498,237	(98,592)	399,645
Segment results	9,300	78,904	88,204	2,314	90,518
Interest income					429
Unallocated corporate expense					(3,604)
Finance costs					(425)
Profit before taxation					86,918

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, unallocated corporate expense, 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 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 2019

## 5. OTHER INCOME AND GAINS

	Three months ended 30 September		Nine months ended 30 September	
	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	138	161	304	407
Bank interest income	182	461	662	1,994
Others	211	643	1,475	1,681
	531	1,265	2,441	4,082
<b>Other gains and losses:</b>				
Foreign exchange losses	(6,805)	(3,489)	(7,621)	(3,806)
Loss on disposals of property, plant and equipment	–	–	–	(5)
	(6,805)	(3,489)	(7,621)	(3,811)

## 6. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Interest on bank borrowings	22	257	469	425
Interest on lease liabilities	165	–	560	–
	187	257	1,029	425

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

## 7. PROFIT BEFORE TAXATION

	Three months ended 30 September		Nine months ended 30 September	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Profit before taxation has been arrived at after charging:</b>				
Auditor's remuneration	397	496	1,106	946
Depreciation of property, plant and equipment	3,704	4,613	10,872	13,956
Depreciation of right-of-use assets	2,739	—	8,216	—
Directors' remuneration	1,206	1,106	3,659	3,390
Other Staff costs				
Salaries and other benefits	7,284	8,802	22,871	26,978
Retirement benefits scheme contributions	152	191	512	586
Total staff costs	8,642	10,099	27,042	30,954
Lease payments under operating leases in respect of land and buildings which are not included in lease liabilities	173	3,134	524	9,430

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

## 8. 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	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Hong Kong Profits Tax:</b>				
Current Tax	1,632	3,811	3,392	13,001
Under provision in prior year	–	82	–	82
Thailand withholding tax	38	–	117	–
Deferred taxation	(139)	(152)	340	(589)
	1,531	3,741	3,849	12,494

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 nine months ended 30 September 2019

## 9. DIVIDEND

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

## 10. EARNINGS PER SHARE

	Three months ended 30 September		Nine months ended 30 September	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
<b>Earnings</b>				
Profit attributable to the owners of the Company for the purpose of basic earnings per share (HK\$'000)	4,140	17,938	25,066	74,424
<b>Number of ordinary shares</b>				
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands)	260,000	260,000	260,000	260,000

The calculation of basic earnings per share for the three months and nine months ended 30 September 2019 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 (three months and nine months ended 30 September 2018: both 260,000,000).

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

Transtech Optelecom Science Holdings Limited (the “Company”) and its subsidiaries (collectively, 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.

The Company’s shares (the “Shares”) were listed on the GEM of the Stock Exchange on 20 July 2017 (the “Listing”). Pursuant to Chapter 9A and Appendix 28 of the Main Board Listing Rules, the Company submitted a formal application to the Stock Exchange on 30 May 2019 for the transfer of Listing (“Transfer of Listing”). Reference is made to the announcement of 30 May 2019, the Board 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.

For the nine months ended 30 September 2019 (the “Period”), the Group’s revenue was HK\$247.0 million (for the same period of 2018: HK\$399.6 million), while the profit attributable to owners of the Company HK\$25.1 million (for the same period of 2018: HK\$74.4 million), representing a decrease of 38.2% and 66.3% respectively as compared to the same period of 2018. The decrease is mainly due to a significant decrease in revenue and profit attributable to owners of the Company in respect of the business both in Hong Kong and Thailand, resulting from the decrease of demand in the People’s Republic of China (the “PRC”) and Thailand in the Period.



# MANAGEMENT DISCUSSION AND ANALYSIS

The construction of infrastructure projects relating to Fibre To The x (“FTTx”) and Fourth Generation (“4G”) technology are the main drivers to keep the demand for the Group’s products in the Period. Along with the final stage of completing the FTTx in the PRC optical fibre market and the 4G entered the maturity phase, the local telecommunication operators started to slow down greatly the installation of optical fibre. Until now the demand of optical fibre is low because the infrastructure projects applied the Fifth Generation (“5G”) technology have yet been kicked off. As a result of the great reduction of optical fibre demand and excessive inventory reserve in the PRC market, the optical fibre selling price is under pressure to be reduced in the competitive environment.

Throughout the Period, some factors such as trade frictions, the volatility of the financial market and policy uncertainties, global economic activity retained its sluggish momentum.

## Futong Thailand

Futong Thailand is one of the leading optical fibre cable providers in Thailand, its performance was badly affected by the general weak market in the telecommunication in the first half of 2019. The sales revenue of optical fibre cables in Thailand reduced from approximately HK\$95.7 million during the nine months ended 30 September 2018 to approximately HK\$67.4 million during the same period in the year 2019 due to the unstable environment in Thailand. There were also decrease of sales in the other ASEAN countries from approximately HK\$86.7 million during the nine months ended 30 September 2018 to approximately HK\$7.6 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 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. However, the drop of selling price of optical cable cores offset the effect of increase of sales volume of optical cable cores. Consequently, the sales revenue of optical cable cores slightly decreased from approximately HK\$71.8million during the nine months ended 30 September 2018 to approximately HK\$69.0 million during the same period in the year 2019. On the other hand, the gross profit margin of Futong Thailand increased from approximately 8.4% for the nine months ended 30 September 2018 to approximately 14.8% for the nine months ended 30 September 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 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

In respect of the manufacturing and sales of optical fibre in Hong Kong, Transtech has reported its revenue and net profit in amount of approximately HK\$159.5 million and HK\$18.6 million respectively for the nine months ended 30 September 2019 (nine months ended 30 September 2018: revenue approximately HK\$244.0 million and net profit HK\$66.4 million respectively). The main reasons for the worsen performance is mainly attributable to the fall of demand from the FTTx and 4G projects and limited orders from the 5G infrastructure projects in PRC in the Period. As a result of the reduction of demand in PRC which is the largest optical consumer in the world, Hong Kong market was vulnerable under this adverse circumstances. To cope with the weak demand, the management of Transtech successfully reduced the number of workers and rescheduled the production to minimize the manufacturing costs during the Period.

## PROSPECTS

Looking ahead to the last quarter of 2019, the optical fibre market is expected to be improved on condition that the PRC national policy of 5G development becoming clearer. With regard to the FTTx projects in the ASEAN countries, there are several millions of family users in Malaysia, Singapore, Thailand and Vietnam. Amongst the ASEAN countries, the FTTx projects development speed is different case by case, for instance, Philippine is fast while Indonesia is slow. Nevertheless, it is estimated that the growth rate of optical cables demand will be stable because the FTTx network provisioning rate is generally under 20% in most of the ASEAN countries except Singapore and Malaysia. With a clear national policy in place and the forthcoming developing projects, it is expected that the optical cable industry will start to recover. It was reported that one of Futong Thailand's main customers has entered into a cooperation agreement with one of the largest telecommunication operators in China in September 2019, in respect of the cooperation between them in the field of 5G technology development and network consolidation in the PRC and Thailand, Hence, the implementation of the 5G technology is expected to bring about further demand for optical communication products. To align with the improved market conditions, the Group will actively seek development of the business in both Hong Kong and ASEAN countries.

## FINANCIAL REVIEW

### Revenue

For the nine months ended 30 September 2019, total revenue of the Group decreased by about 38.2% to approximately HK\$247.0 million as compared with the corresponding period in 2018. The decrease in total revenue for the nine months ended 30 September 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, (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 nine months ended 30 September 2019, the cost of sales of the Group decreased by about 33.6% to approximately HK\$189.5 million as compared with the corresponding period in 2018. Such decrease for the nine months ended 30 September 2019 was mainly attributable to the generally lower sales volume of the Group's products during the nine months ended 30 September 2019. The gross profit of the Group decreased from approximately HK\$114.0 million, for the nine months ended 30 September 2018 to approximately HK\$57.5 million for the nine months ended 30 September 2019. The gross profit margin decreased from approximately 28.5% for the nine months ended 30 September 2018 to approximately 23.3% for the nine months ended 30 September 2019. This is mainly attributable to the decrease of the gross profit margin of optical fibres and optical fibre cables for the nine months ended 30 September 2019 by approximately 12.1% and approximately 8.4% respectively as compared to the corresponding period in 2018. Nevertheless, the gross profit margin of optical cable cores increased by approximately 4.9%, 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\$2.0 million for the nine months ended 30 September 2018 to approximately HK\$0.7 million for the nine months ended 30 September 2019 mainly due to less bank deposits having been placed as fixed deposits for the nine months ended 30 September 2019 as compared with the corresponding period.

## Other Gain and Losses

The Group's foreign exchange losses increased from approximately HK\$3.8 million for the nine months ended 30 September 2018 to approximately HK\$7.6 million for the nine months ended 30 September 2019 mainly because more depreciation charges being incurred as a result of fluctuation of Renminbi ("RMB") against Hong Kong Dollar ("HK\$") during the period as compared with the 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\$5.9 million for the nine months ended 30 September 2018 to approximately HK\$3.5 million for the nine months ended 30 September 2019, representing a decrease of approximately 40.7%.

The decrease in the selling and distribution expenses for the nine months ended 30 September 2019 was mainly due to the (i) the decrease in staff cost as a result of a decrease in the headcount for the sales and marketing department for Futong Thailand; and (ii) the decrease in export cost for the nine months ended 30 September 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\$21.0 million for the nine months ended 30 September 2018 to approximately HK\$18.8 million for the nine months ended 30 September 2019, representing a decrease of approximately 10.5%.

# MANAGEMENT DISCUSSION AND ANALYSIS

The decrease in the administrative expenses for the nine months ended 30 September 2019 was mainly attributable to the full depreciation of part of the leasehold improvement of Futong Thailand in November 2018, resulting in decrease in depreciation during the said period.

## Finance costs

Finance costs represent the interest expense on bank borrowings and lease liabilities. The finance costs of the Group increased from approximately HK\$0.4 million for the nine months ended 30 September 2018 to approximately HK\$1.0 million for the nine months ended 30 September 2019 due to 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 nine months ended 30 September 2019.

## Profit for the period

Profit attributable to owners of the Company for the nine months ended 30 September 2019 amounted to approximately HK\$25.1 million (nine months ended 30 September 2018: approximately HK\$74.4 million). The decrease in profit attributable to owners of the Company for the nine months ended 30 September 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 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.

## CONTINGENT LIABILITIES AND LITIGATION

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

## 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 in June 2019. As at 30 September 2019, a charge was registered in the British Virgin Islands in relation to a bank facility with maximum limit of HK\$50 million.



# MANAGEMENT DISCUSSION AND ANALYSIS

## FOREIGN CURRENCY RISK

Our Group's foreign currency exposures arise mainly from the exchange rate movements of the US\$ and Renminbi ("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, any depreciation of RMB will also reduce the amount of our revenue in Hong Kong. Anyway, our Group has established a foreign currency risk management policy to monitor and manage foreign currency risks.

## CAPITAL COMMITMENTS

As at 30 September 2019, the Group has capital commitments of approximately HK\$97.4 million (31 December 2018: HK\$56.1 million).

## SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 30 September 2019, the Group did not hold any significant investment in equity interest in any other company.

## 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.

## 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.

## DIVIDENDS

The Board did not recommend a payment of dividend for the nine months ended 30 September 2019 (nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## COMPETING INTERESTS

As at 30 September 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 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 at 30 September 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 results for the nine months ended 30 September 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 nine months ended 30 September 2019 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 2019

*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.*