

# Transtech Optelecom Science Holdings Limited

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(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8465

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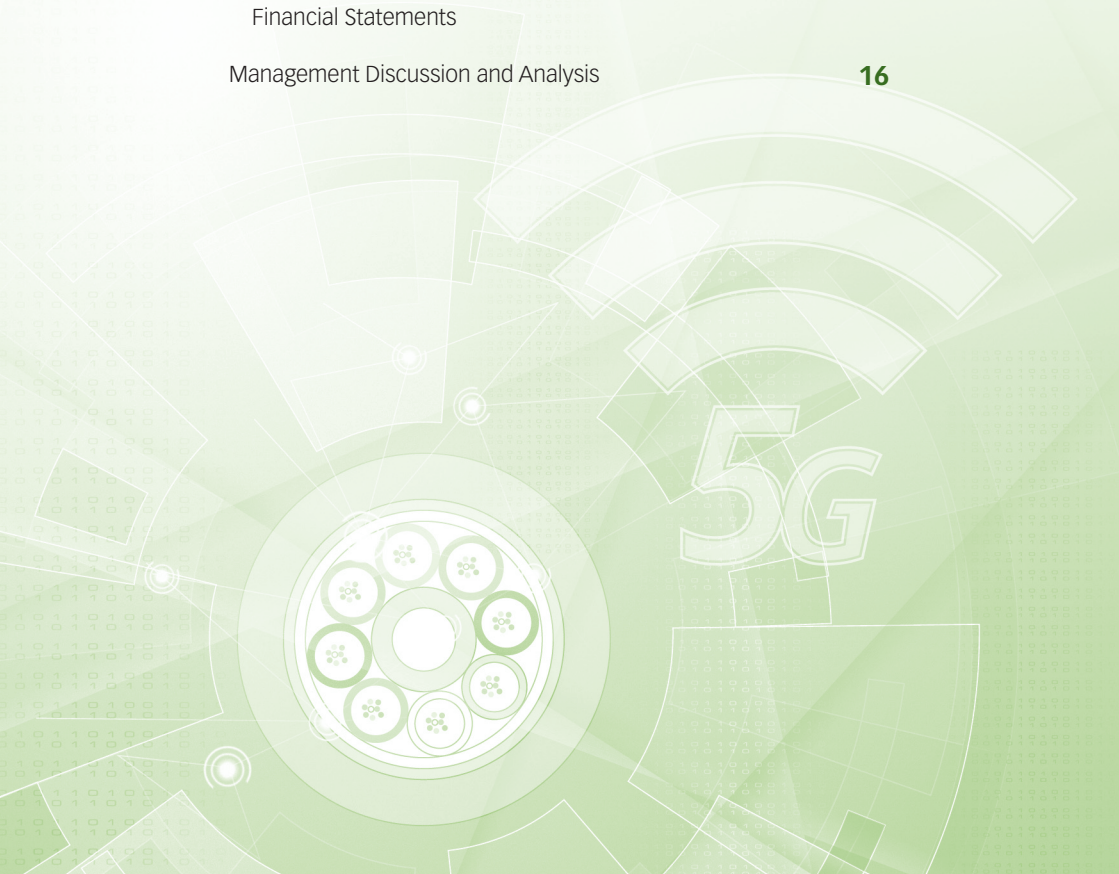
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*This report, for which the directors (the "Directors") of Transtech Optelecom Science Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the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

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## FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK\$65.6 million for the three months ended 31 March 2020 (three months ended 31 March 2019: approximately HK\$100.4 million).
- Profit attributable to the owners of the Company for the three months ended 31 March 2020 amounted to approximately HK\$0.2 million (three months ended 31 March 2019: approximately HK\$15.5 million).
- Basic earnings per share amounted to approximately HK\$0.06 cents for the three months ended 31 March 2020 (three months ended 31 March 2019: approximately HK\$5.97 cents).
- The Board does not recommend the payment of any dividend for the three months ended 31 March 2020 (three months ended 31 March 2019: nil).

## FINANCIAL RESULTS

The board of directors (the “Board”) of Transtech Optelecom Science Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2020 together with the comparative unaudited figures for the corresponding period in 2019 as follows:

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

For the three months ended 31 March 2020

	Notes	Three months ended 31 March	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Revenue</b>	3	<b>65,584</b>	100,364
Cost of sales		<b>(54,962)</b>	(78,338)
<b>Gross profit</b>		<b>10,622</b>	22,026
Other income	4	<b>455</b>	290
Other gains and losses	4	<b>(3,678)</b>	3,462
Loss allowance for trade receivables		<b>(57)</b>	(277)
Selling and distribution expenses		<b>(836)</b>	(1,353)
Administrative expenses		<b>(5,799)</b>	(6,754)
Finance costs	5	<b>(414)</b>	(536)
Profit before taxation	6	<b>293</b>	16,858
Income tax expense	7	<b>(143)</b>	(1,329)
Profit for the period		<b>150</b>	15,529
<b>Other comprehensive (loss) income</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<b>(29,594)</b>	8,458
Total comprehensive (loss) income for the period		<b>(29,444)</b>	23,987
<b>Earnings per share</b>			
Basic (HK cents)	9	<b>0.06</b>	5.97

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2020

	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (note)	Foreign exchange reserve HK\$'000	Accumulated profits HK\$'000	Equity attributable to the owners of the Company HK\$'000
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	-	-	-	-	15,529	15,529
Other comprehensive income	-	-	-	8,458	-	8,458
Total comprehensive income for the period	-	-	-	8,458	15,529	23,987
At 31 March 2019 (Unaudited)	2,600	95,534	289,031	8,341	257,344	652,850
At 1 January 2020 (Audited)	2,600	95,534	289,031	24,630	277,578	689,373
Profit for the period	-	-	-	-	150	150
Other comprehensive loss	-	-	-	(29,594)	-	(29,594)
Total comprehensive loss for the period	-	-	-	(29,594)	150	(29,444)
At 31 March 2020 (Unaudited)	2,600	95,534	289,031	(4,964)	277,728	659,929

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 three months ended 31 March 2020

## 1. BASIS OF PREPARATION AND PRESENTATION

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

The unaudited condensed consolidated financial statements of the Group have been prepared under the historical cost convention and are presented in Hong Kong dollars (“HK\$”), which is the functional currency of the Company, and prepared in accordance with Hong Kong Accounting Standards (“HKAS”) issued by the HKICPA, and the applicable disclosure requirements of the GEM Listing Rules. The preparation of this unaudited quarterly financial report requires management to make judgments, estimates and assumptions that affect the application of the policies and reported amount of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The unaudited quarterly financial report was approved and authorized for issue by the Board on 11 May 2020.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### 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:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, is effective for the current year.



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2020

## **Amendments to HKAS 1 and HKAS 8 Definition of Material**

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

## **Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards**

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2020

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for the current year. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

Saved for the above, the significant accounting policies that have been used in the preparation of the unaudited condensed consolidated financial statements for the three months ended 31 March 2020 are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2019 included in the 2019 Annual Report.

## 3. REVENUE AND SEGMENT INFORMATION

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

For the period ended 31 March 2020

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	–	23,003	23,003
Optical fibres	30,048	–	30,048
Optical cable cores	–	12,533	12,533
<b>Total</b>	<b>30,048</b>	<b>35,536</b>	<b>65,584</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2020

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 31 March 2020				
	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	23,003	–	23,003	–	23,003
Sales of optical fibre	–	36,272	36,272	(6,224)	30,048
Sales of optical cable cores	12,533	–	12,533	–	12,533
<b>Segment revenue</b>	<b>35,536</b>	<b>36,272</b>	<b>71,808</b>	<b>(6,224)</b>	<b>65,584</b>

## For the period ended 31 March 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	–	31,726	31,726
Optical fibres	42,464	–	42,464
Optical cable cores	–	26,174	26,174
<b>Total</b>	<b>42,464</b>	<b>57,900</b>	<b>100,364</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2020

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 31 March 2019				
	Optical fibre cables and optical cable cores	Optical fibres	Total segment revenue	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of optical fibre cables	31,726	–	31,726	–	31,726
Sales of optical fibre	–	62,240	62,240	(19,776)	42,464
Sales of optical cable cores	26,174	–	26,174	–	26,174
<b>Segment revenue</b>	<b>57,900</b>	<b>62,240</b>	<b>120,140</b>	<b>(19,776)</b>	<b>100,364</b>

## (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 425 days (three months ended 31 March 2019: 0 to 365 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 three months ended 31 March 2020

## Segment revenue and results

	Three months ended 31 March 2020				
	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	35,536	30,048	65,584	-	65,584
Inter-segment sales	-	6,224	6,224	(6,224)	-
Segment revenue	35,536	36,272	71,808	(6,224)	65,584
Segment results	2,332	(271)	2,061	(255)	1,806
Interest income					44
Unallocated corporate expense					(1,143)
Finance costs					(414)
Profit before taxation					293

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2020

	Three months ended 31 March 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	57,900	42,464	100,364	–	100,364
Inter-segment sales	–	19,776	19,776	(19,776)	–
Segment revenue	57,900	62,240	120,140	(19,776)	100,364
Segment results	7,108	10,573	17,681	870	18,551
Interest income					46
Unallocated corporate expense					(1,203)
Finance costs					(536)
Profit before taxation					16,858

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, 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 three months ended 31 March 2020

## 4. OTHER INCOME AND GAINS AND LOSSES

	Three months ended 31 March	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Other income:</b>		
Income from sales of scrap products	133	36
Bank interest income	48	216
Others	274	38
	455	290
<b>Other gains and losses:</b>		
Foreign exchange (losses)/gains	(3,678)	3,462

## 5. FINANCE COSTS

	Three months ended 31 March	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interest on bank borrowings	262	328
Interest on lease liabilities	152	208
	414	536

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2020

## 6. PROFIT BEFORE TAXATION

	Three months ended 31 March	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Profit before taxation has been arrived at after charging:</b>		
Auditor's remuneration	356	263
Depreciation of property, plant and equipment	3,543	3,542
Depreciation of right-of-use assets	2,223	2,739
Directors' remuneration	1,188	1,239
Other staff costs		
Salaries and other benefits	6,555	8,226
Retirement benefits scheme contributions	180	207
Total staff costs	7,923	9,672

## 7. INCOME TAX EXPENSE

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

	Three months ended 31 March	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Hong Kong Profits Tax:</b>		
Current Tax	72	1,106
Thailand withholding tax	66	39
Deferred taxation	5	184
	143	1,329



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2020

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.

## 8. DIVIDEND

No dividends were paid, declared and proposed by the Company during the current period (three months ended 31 March 2019: nil). The directors have determined that no dividend will be paid in respect of the current period.

## 9. EARNINGS PER SHARE

	Three months ended 31 March	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Earnings</b>		
Profit attributable to the owners of the Company for the purpose of basic earnings per share (HK\$'000)	150	15,529
<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

The calculation of basic earnings per share for the three months ended 31 March 2020 and 31 March 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.

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

For the three months ended 31 March 2020, the Group reported a lower revenue of approximately HK\$65.6 million (three months ended 31 March 2019: approximately HK\$100.4 million), representing a decrease of approximately 34.7% as compared to the corresponding period in 2019.

In the first quarter of 2020, revenue and net profit of the Group were under great pressure due to the industry impacts. The prices and demand of optical fibres, optical cable cores and optical fibre cables (collectively “optical fibres and optical fibre cables products”) were all dropped compared with same period in 2019 which were mainly attributable to the intensified competition in the optical fibres and optical fibre cables products industry and the great impact of the coronavirus (COVID-19) outbreak. Against the backdrop of challenges, the Group focused on the strategic development and continued to implement its strategic measures. It kept a balanced price and volume relationship to reinforce its advantages in the optical fibres and optical fibre cables products business and maintained its leading position in the telecom market in Hong Kong and Thailand. It also actively expanded the other ASEAN countries market.

During the reporting period, as the construction of 4G networks and Fibre To The Home (FTTH) reached peak level while the large-scale construction of 5G networks has yet commenced in the market of China, the growth of the optical cable demand slowed down. Meanwhile, China had excess optical fibre and cable capacity, the movement in supply and demand structure caused the optical fibre and cable price to drop sharply. The outbreak of COVID-19 has brought a huge negative effect to the telecommunication infrastructure industry globally. The Group’s net profit has decreased to approximately HK\$0.2 million for the three month ended 31 March 2020 (three month ended 31 March 2019: approximately HK\$15.5 million).

Facing the unfavourable market conditions, the Company, on the one hand, strengthened its product quality management to ensure the products were supplied in good quality to the satisfaction of customers, and utilized its distinctive brand and quality advantages to minimize the negative influence of low-price competition. Therefore, the cost control of the production is a core factor influencing the profitability of each company in the industry when the industry chain comes under price pressure. In the meantime, the Company keeps identifying market opportunities, particularly focusing on 5G construction requirement.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK

In response to the increasingly complex and intensified competition, the Company will insist on its long-term development strategy. Relying on its own innovation and technology skill, the Company will follow the high-quality brand strategy and maintain the leading position of its products in both domestic and overseas markets. Meanwhile, it will continue to implement the established strategy of regional expansion and relevant diversification steadily, ensuring the sustainable and healthy development of the Company.

The Group has adopted various effective anti-virus measures in a timely manner to deal of the COVID-19 outbreak. After the virus outbreak, the Group requested all employees who returned to Hong Kong and Thailand from overseas to take leaves, and encouraged those office employees to work from home by adopting telecommunication medium whenever it is necessary to do so. The Group established an emergency response group responsible for the monitoring of the epidemic situation and requested all employees of the each subsidiary company to report their body temperature and health condition on a daily basis. For employees who must go outbound for business trips, the Group took a series of measures, such as prior notification, in-and-out registration and temperature measurement, and provided masks and other protective articles. During the period from December 2019 to the date of this report, no COVID-19 infection case has been found in the two subsidiary companies in both Hong Kong and Thailand. Our Directors consider the performance will become worse if this epidemic cannot be controlled in few months; however, the Group will monitor the development of COVID-19 situation closely, assess and react actively to its impact on the financial position and operating results of the Group.

On the other hand, the Group is free to full use of the potential productivity without any restriction from the COVID-19 outbreak during the reporting period. While implementing the companywide epidemic prevention and control, the Company has actively fulfilled its social responsibility to do its part to the epidemic fighting work.

In the remaining period of 2020, the competition in the local optical fibres, optical cable cores and optical fibre cables market will remain fierce. Under the current market conditions, it is one of the crucial parts of the industrial competition to ensure the profitability of optical fibres and optical fibre cables products. On the other hand, the Company will continue to strengthen the relationship with end customers both at home and abroad to ensure excellence. The Company will closely follow the market demand and make more efforts in promoting optical fibres to meet customers' request to generate more revenue and profit.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

For the three months ended 31 March 2020, total revenue of the Group decreased by about 34.7% to approximately HK\$65.6 million as compared with the corresponding period in 2019.

The decrease in total revenue for the three months ended 31 March 2020 was mainly due to intensified competition in the optical fibres and optical fibre cables products industry and the great impact of COVID-19 outbreak as compared with the corresponding period in 2019, resulting in decrease in sales volume and selling prices of the above products.

### 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 and 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 three months ended 31 March 2020, the cost of sales of the Group decreased by about 29.8% to approximately HK\$55.0 million as compared with the corresponding period in 2019.

Such decrease for the three months ended 31 March 2020 was mainly attributable to the decrease of sales volume of optical fibres and optical fibre cables products during the said periods.

The gross profit of the Group decreased from approximately HK\$22.0 million, for the three months ended 31 March 2019 to approximately HK\$10.6 million for the three months ended 31 March 2020. The gross profit margin decreased from approximately 21.9% for the three months ended 31 March 2019 to approximately 16.2% for the three months ended 31 March 2020. This is mainly because the gross profit margin of optical fibres, optical fibre cables and optical cable cores for the three months ended 31 March 2020 decreased by approximately 1.5%, 2.2% and 17.5% respectively, as compared with the corresponding period in 2019.

### Other Gain and Losses

The Group's foreign exchange gain was approximately HK\$3.5 million for the three months ended 31 March 2019. The Group recognised foreign exchange loss of approximately HK\$3.7 million for the three months ended 31 March 2020 mainly due to 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 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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\$1.4 million for the three months ended 31 March 2019 to approximately HK\$0.8 million for the three months ended 31 March 2020, representing a decrease of approximately 42.9%.

The decrease in the selling and distribution expenses for the three months ended 31 March 2020 was mainly due to decrease in sales volume of our Group's products as compared with the corresponding period in 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\$6.8 million for the three months ended 31 March 2019 to approximately HK\$5.8 million for the three months ended 31 March 2020, representing a decrease of approximately 14.7%.

The decrease in the administrative expenses for the three months ended 31 March 2020 was mainly attributable to the decrease in staff cost and traveling expenses as compared with the corresponding period in 2019.

## Finance costs

Finance costs represent the interest expense on bank borrowings and lease liabilities. The finance costs of the Group decreased from approximately HK\$0.5 million for the three months ended 31 March 2019 to approximately HK\$0.4 million for the three months ended 31 March 2020 due to (i) the decrease in the average bank borrowings throughout the said periods as compared with the corresponding period in 2019 and (ii) decrease in interest of lease liabilities.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Profit for the period

Profit attributable to owners of the Company for the three months ended 31 March 2020 amounted to approximately HK\$0.2 million (three months ended 31 March 2019: approximately HK\$15.5 million).

The decrease in profit attributable to owners of the Company for the three months ended 31 March 2020 was mainly attributable to (i) the decrease in gross profit; and (ii) the change from foreign exchange gain to foreign exchange loss, as compared with the corresponding period in 2019.

## CONTINGENT LIABILITIES AND LITIGATION

As at 31 March 2020, the Group had no material contingent liabilities and litigations (31 December 2019: nil).

## CHARGE OF ASSETS

As at 31 March 2020, the Group had not pledged its land, buildings and machinery to secure the banking facilities granted to the Group (31 December 2019: nil).

## CHARGE OF REGISTER

As at 31 March 2020, 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 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 31 March 2020, the Group has capital commitments of approximately HK\$36.2 million (31 December 2019: HK\$56.8 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 31 March 2020, 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%



# MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

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

Save as disclosed above, 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 three months ended 31 March 2020 (three months ended 31 March 2019: nil).

## SHARE OPTION SCHEME

The Company has no share option scheme.

# MANAGEMENT DISCUSSION AND ANALYSIS

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the three months ended 31 March 2020 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 three months ended 31 March 2020, 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 Group has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. All Directors have confirmed that they have complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules regarding directors' securities transactions during the three months ended 31 March 2020.

## COMPETING INTERESTS

As at 31 March 2020, save as disclosed in "Relationship with Controlling Shareholders" section of the Prospectus, none of the Directors, and the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

## INTERESTS OF THE COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Innovax Capital Limited ("Innovax Capital"), as at 31 March 2020, except for the compliance adviser agreement entered into between the Company and Innovax Capital, neither Innovax Capital, nor any of its directors, employees or close associates (as defined in the GEM Listing Rules) had any interests in relation to the Company which are required to be notified to the Company pursuant to Rule 6A.32 of GEM Listing Rules.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 financial information in this report has not been audited by the auditor of the Company, but the audit committee has reviewed this report and has provided advice and comments thereon.

## CORPORATE GOVERNANCE

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 15 of the GEM Listing Rules and the Board is satisfied that the Company had complied with the CG Code during the three months ended 31 March 2020.

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

Hong Kong, 11 May 2020

*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.*