

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



TSG

2020

INTERIM REPORT

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Guoqiang (*Chairman*)
Mr. He Xingfu (*Chief Executive Officer*)
Mr. Yu Jiangping
Mr. Xu Muzhong
Mr. Pan Jinhua

Independent Non-executive Directors

Mr. Leong Chew Kuan
Mr. Lau Siu Hang
Mr. Li Wei

BOARD COMMITTEES

Audit Committee

Mr. Leong Chew Kuan (*Chairman*)
Mr. Lau Siu Hang
Mr. Li Wei

Remuneration Committee

Mr. Lau Siu Hang (*Chairman*)
Mr. He Xingfu
Mr. Yu Jiangping
Mr. Leong Chew Kuan
Mr. Li Wei

Nomination Committee

Mr. Hu Guoqiang (*Chairman*)
Mr. Pan Jinhua
Mr. Leong Chew Kuan
Mr. Li Wei
Mr. Lau Siu Hang

AUTHORISED REPRESENTATIVES

Mr. He Xingfu
Mr. Ho Cheuk Wai (*CPA*)

COMPLIANCE OFFICER

Mr. He Xingfu

COMPANY SECRETARY

Mr. Ho Cheuk Wai (*CPA*)

REGISTERED OFFICE

PO Box 1350, Clifton House
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Cayman Islands

HEADQUARTERS, HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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North Point, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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CORPORATE INFORMATION

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LEGAL ADVISER

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PRINCIPAL BANKER

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Central
Hong Kong

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1 Garden Road
Hong Kong

STOCK CODE

8465

COMPANY'S WEBSITE

transtechoptel.com

FINANCIAL HIGHLIGHTS

Interim results for the six months ended 30 June 2020 compared with the six months ended 30 June 2019.

- The Group recorded a revenue of approximately HK\$127.0 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately HK\$177.6 million).
- Gross profit margin decreased by approximately 8.3% from 21.7% for the six months ended 30 June 2019 to approximately 13.4% for the six months ended 30 June 2020.
- Profit attributable to the owners of the Company for the six months ended 30 June 2020 amounted to approximately HK\$2.8 million (six months ended 30 June 2019: approximately HK\$20.9 million).
- Net profit margin decreased by approximately 9.6% from 11.8% for the six months ended 30 June 2019 to approximately 2.2% for the six months ended 30 June 2020.
- Basic earnings per share amounted to approximately HK\$1.1 cents for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately HK\$8.0 cents).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 six months ended 30 June 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

For the three months and six months ended 30 June 2020

	Notes	Three months ended 30 June		Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	3	61,421	77,281	127,005	177,645
Cost of sales		(55,081)	(60,716)	(110,043)	(139,054)
Gross profit		6,340	16,565	16,962	38,591
Other income	4	1,777	1,620	2,232	1,910
Other gains and losses	4	1,687	(4,278)	(1,991)	(816)
Loss allowance for trade receivables		347	10	290	(267)
Selling and distribution expenses		(873)	(1,136)	(1,709)	(2,489)
Administrative expenses		(5,577)	(6,089)	(11,376)	(12,843)
Finance costs	5	(339)	(306)	(753)	(842)
Profit before taxation	6	3,362	6,386	3,655	23,244
Income tax expense	7	(743)	(989)	(886)	(2,318)
Profit for the period		2,619	5,397	2,769	20,926
Other comprehensive (expense) income					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		17,901	9,548	(11,693)	18,006
Total comprehensive (loss) income for the period		20,520	14,945	(8,924)	38,932
Earnings per share					
Basic (HK cents)	9	1.0	2.1	1.1	8.0

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	164,600	163,424
Right-of-use assets	11	8,808	16,347
Deposits for acquisition of property, plant and equipment	12	117,717	103,996
Deposits	12	29	63
Deferred tax assets	20	88	98
		291,242	283,928
Current assets			
Inventories	13	66,839	69,191
Trade receivables	14	262,119	277,043
Tax receivable		1,627	–
Deposits, prepayments and other receivables	12	76,799	34,507
Bank balances and cash		41,778	135,920
		449,162	516,661
Current liabilities			
Trade and bills payables	15	19,284	45,865
Other payables and accrued charges	16	7,657	8,865
Contract liabilities	17	100	393
Lease liabilities	18	12,284	11,633
Bank borrowings	19	11,507	27,788
Tax payable		–	6,168
		50,832	100,712
Net current assets		398,330	415,949
Total assets less current liabilities		689,572	699,877

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Non-current liabilities			
Lease liabilities	18	–	6,493
Deferred tax liabilities	20	3,852	4,011
Bank borrowings	19	5,271	–
		9,123	10,504
Net assets			
		680,449	689,373
Capital and reserves			
Issued share capital	21	2,600	2,600
Reserves		677,849	686,773
Total Equity			
		680,449	689,373

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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 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
At 1 January 2020 (Audited)	2,600	95,534	289,031	24,630	277,578	689,373
Profit for the period	-	-	-	-	2,769	2,769
Other comprehensive loss	-	-	-	(11,693)	-	(11,693)
Total comprehensive loss for the period	-	-	-	(11,693)	2,769	(8,924)
At 30 June 2020 (Unaudited)	2,600	95,534	289,031	12,937	280,347	680,449

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 2020

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Net cash (used in) generated from operating activities	(48,138)	22,450
Investing activities		
Deposits paid for acquisition of property, plant and equipment	(16,722)	(98)
Purchase of property, plant and equipment	(12,526)	(19,986)
Interest received	133	501
Net cash used in investing activities	(29,115)	(19,583)
Financing activities		
New bank borrowings raised	63,168	27,014
Repayment of bank borrowings	(72,994)	(45,678)
Interest paid	(753)	(447)
Payment for lease liabilities	(2,750)	(6,006)
Net cash used in financing activities	(13,329)	(25,117)
Net decrease in cash and cash equivalents	(90,582)	(22,250)
Cash and cash equivalents at the beginning of period	135,920	187,014
Effect of foreign exchange rate changes	(3,560)	1,092
Cash and cash equivalents at the end of period representing by bank balances and cash	41,778	165,856

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 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 Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the applicable disclosure requirements of the GEM Listing Rules. The preparation of this unaudited interim 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 interim financial report was approved and authorized for issue by the Board on 14 August 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 HKICPA for the first time in the current interim period:

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 interim period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 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 six months ended 30 June 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 interim period. 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 six months ended 30 June 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2020

Segments	Optical fibres HK\$'000	Optical fibre cables and optical cable cores HK\$'000	Total HK\$'000
Types of goods			
Sales of goods— recognised at a point in time			
Optical fibre cables	–	50,021	50,021
Optical fibres	59,236	–	59,236
Optical cable cores	–	17,748	17,748
Total	59,236	67,769	127,005

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 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	50,021	–	50,021	–
Sales of optical fibre	–	65,459	65,459	(6,223)	59,236
Sales of optical cable cores	17,748	–	17,748	–	17,748
Segment revenue	67,769	65,459	133,228	(6,223)	127,005

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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
Types of goods			
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
Total	75,608	102,037	177,645

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
Segment revenue	102,037	110,924	212,961	(35,316)	177,645

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

(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 720 days (six months ended 30 June 2019: 0 to 365 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 2020

Segment revenue and results

	Six months ended 30 June 2020				
	Optical fibre cables and optical cable cores HK\$'000	Optical fibres HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	Total HK\$'000
Revenue					
External sales	67,769	59,236	127,005	-	127,005
Inter-segment sales	-	6,223	6,223	(6,223)	-
Segment revenue	67,769	65,459	133,228	(6,223)	127,005
Segment profit	1,995	4,904	6,899	(444)	6,455
Interest income					71
Unallocated corporate expenses					(2,118)
Finance costs					(753)
Profit before taxation					3,655

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

	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
Revenue					
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

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 2020

4. OTHER INCOME, GAINS AND LOSSES

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Other income:				
Income from sales of scrap products	16	130	149	166
Bank interest income	72	264	120	480
Others	1,689	1,226	1,963	1,264
	1,777	1,620	2,232	1,910
Other gains and losses:				
Foreign exchange (losses) gain	1,687	(4,278)	(1,991)	(816)
	1,687	(4,278)	(1,991)	(816)

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interest on bank borrowings	205	119	467	447
Interest on lease liabilities	134	187	286	395
	339	306	753	842

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

6. PROFIT BEFORE TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Profit before taxation has been arrived at after charging:				
Auditor's remuneration	353	446	709	709
Depreciation of property, plant and equipment	3,519	3,626	7,062	7,168
Less: amount capitalised in inventories	(3,161)	(3,188)	(6,323)	(6,282)
	358	438	739	886
Depreciation of right-of-use assets	2,224	2,738	4,447	5,477
Directors' remuneration	1,156	1,214	2,344	2,453
Other staff costs				
Salaries and other benefits	6,921	7,361	13,476	15,587
Retirement benefits scheme contributions	137	153	317	360
Total staff costs	8,214	8,728	16,137	18,400
Less: amount capitalised in inventories	(4,559)	(4,850)	(8,842)	(10,171)
	3,655	3,878	7,295	8,229
Cost of inventories recognised as cost of sales	55,081	60,716	110,043	139,054

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

7. INCOME TAX EXPENSE

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

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Hong Kong Profits Tax				
Current Tax	832	654	904	1,760
Thailand withholding tax	65	40	131	79
Deferred tax (Note 20)	(154)	295	(149)	479
	743	989	886	2,318

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 2020

8. DIVIDEND

No dividends were paid, declared and proposed by the Company during the current interim period (six months ended 30 June 2019: nil). The directors have determined that no dividend will be paid in respect of the current interim period.

9. EARNINGS PER SHARE

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Earnings				
Profit attributable to the owners of the Company for the purpose of basic earnings per share	2,619	5,397	2,769	20,926
	'000	'000	'000	'000
Number of ordinary shares				
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 2020 and 30 June 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.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired at cost, machinery of approximately HK\$1,104,000 (six months ended 30 June 2019: approximately HK\$5,099,000); furniture and fixtures of approximately HK\$65,000 (six months ended 30 June 2019: approximately HK\$16,000); and construction in progress of approximately HK\$11,357,000 (six months ended 30 June 2019: HK\$14,871,000). The Group disposed at cost, office equipment of approximately HK\$Nil (six months ended 30 June 2019: HK\$2,000).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

11. RIGHT-OF-USE ASSETS

	Leased properties HK\$'000
Carrying amount	
31 December 2019 (Audited)	16,347
30 June 2020 (Unaudited)	8,808

Amounts recognised in profits and loss

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Depreciation expense on right-of-use assets	4,447	5,477
Expense relating to short-term leases	377	351

The total cash outflow for leases amount to HK\$3,413,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$6,006,000).

For both periods, the Group leases a plant and office premises for its operations. Lease contracts are entered into for a fixed term of 5 years, with termination option as described below.

The Group regularly entered into short-term leases for staff quarters. As at 31 December 2019 and 30 June 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Termination option

The Group has a termination option in a lease for plant and office premises. This is used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The termination option held are exercisable only by the Group and not by the respective lessor. The Group was reasonable certain not to exercise the termination option, therefore, lease liabilities have been recognised for the remaining term of the lease as at 31 December 2019 and 30 June 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

12. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Electricity deposits	785	785
Other deposits	164	169
Prepayments	70,511	30,496
Other receivables	591	706
Value-added tax receivables	4,777	2,414
Deposits for acquisition of property, plant and equipment	117,717	103,996
Total	194,545	138,566
Presented as non-current assets	117,746	104,059
Presented as current assets	76,799	34,507
Total	194,545	138,566

13. INVENTORIES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Raw materials and consumables	47,318	34,675
Work in progress	7,707	10,075
Finished goods	10,804	15,723
Goods-in-transit	1,010	8,718
Total	66,839	69,191

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

14. TRADE RECEIVABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade receivables — sales of goods	263,644	278,884
Less: Loss allowance	(1,525)	(1,841)
Total trade receivables	262,119	277,043

The Group grants credit terms of 0–720 days (2019: 0–365 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.

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
0–180 days	98,813	149,439
181–270 days	75,622	47,044
Over 270 days	87,684	80,560
	262,119	277,043

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

15. TRADE AND BILLS PAYABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Bills payables	–	12,686
Trade payables	19,284	33,179
	19,284	45,865

The credit period on purchases of raw materials is 30 to 180 days. The following is an aged analysis of trade and bills payables presented based on the invoice date:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade and bills payables:		
0–30 days	11,021	12,933
31–60 days	3,870	24,024
61–90 days	2,279	4,220
91–180 days	1,167	3,022
Over 180 days	947	1,666
	19,284	45,865

16. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Accrued charges	7,604	7,829
Other payables	53	1,036
	7,657	8,865

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

17. CONTRACT LIABILITIES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Sales of optical fibre cables	100	393

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
For the period ended 30 June 2020 Revenue recognised that was included in the contract liabilities balance at the beginning of the period	393
For the period ended 30 June 2019 Revenue recognised that was included in the contract liabilities balance at the beginning of the period	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 20% (2019: 20–50%) deposit depends on the contract terms.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

18. LEASE LIABILITIES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Lease liabilities payable:		
Within one year	12,284	11,633
Within a period of more than 1 year and not later than 5 years	–	6,493
	12,284	18,126
Less: Amount due for settlement within 12 months shown under current liabilities	(12,284)	(11,633)
Amount due for settlement after 12 months shown under non-current liabilities	–	6,493

All the lease obligations are denominated in HK\$ as at 30 June 2020 and 31 December 2019.

19. BANK BORROWINGS

During the current interim period, the Group obtained new short-term bank borrowings with total amount of approximately HK\$63,168,000 (unaudited) (six months ended 30 June 2019: approximately HK\$27,014,000 (unaudited)). The bank borrowings carried variable interest at Chinese Yuan 6-month Chinese Renminbi Hong Kong Inter-bank Offered Rate (“CNHIBOR”) plus 2% per annum and Minimum Lending Rate of Thailand minus 2% per annum respectively (six months ended 30 June 2019: United States dollar (“US\$”) 3-month LIBOR plus 2% per annum) and were repayable within one year. For long-term loan of THB21,000,000, it is a soft loan from Thailand government due to COVID-19 which carried fixed interest at 2% per annum and was repayable within 24 months. 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 in June 2019.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

20. 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 2019 (Audited)	6	(3,811)	(3,805)
Credit (Charge) to profit or loss	42	(521)	(479)
At 30 June 2019 (Unaudited)	48	(4,332)	(4,284)
At 1 January 2020 (Audited)	98	(4,011)	(3,913)
Credit to profit or loss	(10)	159	149
At 30 June 2020 (Unaudited)	88	(3,852)	(3,764)

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 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Deferred tax assets	88	98
Deferred tax liabilities	(3,852)	(4,011)
	(3,764)	(3,913)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

21. SHARE CAPITAL

	Number of shares	HK\$'000
Authorised		
At 31 December 2019 and 30 June 2020		
— ordinary shares of HK\$0.01 each	1,000,000,000	10,000
Issued and fully paid		
At 31 December 2019 and 30 June 2020		
	260,000,000	2,600

22. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Fellow subsidiaries		
<u>Hangzhou Futong Communication Technology Co., Limited</u>		
Sales [#]	11,235	17,870
Related Company[^]		
<u>Futong Group International Limited</u>		
Payment of lease liabilities [#]	2,970	5,940

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

[#] The related party transactions are also defined as continuing connected transactions under the Listing Rules.

The sales 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 2020

(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 2019 and 30 June 2020 respectively, were as follows:

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Short-term benefits	2,335	2,444
Post-employment benefits	9	9
	2,344	2,453

23. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2020 (unaudited) and 31 December 2019.

24. CAPITAL COMMITMENT

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 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	26,141	56,822

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

25. EVENTS AFTER THE REPORTING PERIOD (UNAUDITED)

The Company has applied for the listing of its share in issued on the Main Board by way of the transfer of listing and the application was still processed at the date of this report.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The interim financial statements have been approved and authorised for issue by the Company's board of directors on 14 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Ministry of Industry and Information Technology of the PRC (“MIIT”) has issued 5G network communication licenses in 2019, marked the upcoming era of the 5G network communication industry in PRC. The Chinese government has listed 5G network as “New Infrastructure” (being new digital infrastructure) to promote economic transformation. Owing to delay in the 5G network overall planning, equipment selection and testing, and tendering of operators in the second half of 2019, coupled with the impact of the Coronavirus Disease 2019 (“COVID-19”) outbreak and overall unfavorable market conditions in the first half of 2020, the delivery of orders, business transactions, revenues, receipts and other areas for the Group experienced a delay.

The Company’s shares (the “Shares”) were listed on the GEM of the Stock Exchange of Hong Kong Limited (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. The application was still processed at the date of this report.

As a result of the successful Transfer of Listing, the Board also believes it will help to enhance status among investors which could enlarge 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. 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 neither raise any new capital nor the issue of any new Shares by the Company.

The Group has 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. Futong Thailand also designs and manufactures specialty optical fibre cables pursuant to requests from 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, Futong Thailand also sell optical cable cores and other related products, including power cable and other auxiliary products.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2020, the Group reported its revenue of approximately HK\$127.0 million (six months ended 30 June 2019: approximately HK\$177.6 million), representing a decrease of approximately 28.5% as compared to that of the same period in 2019. The gross profit margin of the Group decreased by approximately 8.3% to approximately 13.4% for the six months ended 30 June 2020 as compared to a gross profit margin of approximately 21.7% for the six months ended 30 June 2019. 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 2020, the Group recorded a profit attributable to the owners or the Company of approximately HK\$2.8 million (six months ended 30 June 2019: approximately HK\$20.9 million).

Futong Thailand

The sales revenue of optical fibre cables in Thailand reduced from approximately HK\$45.0 million during the six months ended 30 June 2019 to approximately HK\$37.8 million due to the drop of selling price resulting from the keen competition in the market and the spread of COVID-19. On the other hand, the sales in the other ASEAN countries increased from approximately HK\$6.8 million during the six months ended 30 June 2019 to approximately HK\$12.3 million during the same period in the year 2020 mainly because the sales department have strengthened their marketing efforts in the optical fibre cable market in other ASEAN countries (other than Thailand).

While the demand of optical cable cores have been reduced in the first half of 2020, the sales revenue of optical cable cores dropped from approximately HK\$50.3 million during the six months ended 30 June 2019 to approximately HK\$17.7 million during the same period in the year 2020.

Futong Thailand successfully maintained its leading status of being one of the largest optical fibre cable provider in Thailand. It was reported that the National Broadcasting and Telecommunications Commission in Thailand granted over 10 5G multiband licences to one of customers in February 2020. In general, the kick off of 5G network construction is a key factor to boost the markets in ASEAN countries.

On the other hand, the gross profit margin of Futong Thailand decreased from approximately 15.6% for the six months ended 30 June 2019 to approximately 8.1% for the six months ended 30 June 2020. It is mainly attributable to the aggregate effect of (i) the decrease of the selling price of optical fibre cables and optical cable cores; and (ii) the reduced demand in the optical cable cores market.

MANAGEMENT DISCUSSION AND ANALYSIS

Transtech

The Government of Hong Kong raised the Employment Support Scheme to relieve some companies to overcome hardship during the difficult times, particular the bad impact from COVID-19. The aim of the scheme is also to help the companies not to lay off the staff even the sales income dropped temporarily during the pandemic period. In fact, the Government of Hong Kong has the objective to help the business entities to revive and back to the right track after the pandemic is over. In fact, Transtech received approximately HK\$1.6 million under the Employment Support Scheme in June 2020. Transtech has reported its revenue and net profit in amount of approximately HK\$65.5 million and HK\$3.8 million respectively for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately HK\$110.9 million and HK\$12.9 million respectively), representing decreases of approximately 40.9% and 70.5% respectively. It is attributed by the slowdown of 5G network construction process and the spread of COVID-19, thus the increase in demand for optical fibres is minimal and 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 PRC Minister of MIIT, Mr. Miao Wei, delivered his speech at the National Conference on Industry and Information Technology held at the end of 2019, all prefecture-level cities in the country will be covered by the 5G network by the end of 2020.

As the 5G network construction project will be resumed fully in 2020, the Group expects that the 5G network scale construction will last for 3 to 5 years. After a short-period of challenges, the epidemic situation stabilised and improved, the progress of the industry, and the order delivery of the Group will become back on track. The Group is currently performing close watch to the market change to cope with its production and sales strategy.

Although the outbreak of the COVID-19 in the PRC and other countries since early 2020 could have an impact on the operations of the Group, the supply chain, production and sales of the Group were not materially affected by the spread of COVID-19 as at the reporting date. The Group expects that many nations will increase the investment effect in telecommunications and infrastructure development to stimulate economic growth and to reduce economic downward pressure in the second half of year 2020. During the pandemic, the social distancing practiced by the people has increased the demand for telecommunications, therefore it will increase the demand of the Group's products in the long run.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2020, total revenue of the Group decreased by about 28.5% to approximately HK\$127.0 million as compared with the corresponding period in 2019.

The decrease in total revenue for the six months ended 30 June 2020 was mainly due to the competition in the market and the spread of COVID-19 which resulted in less demand from the Group's customers, as compared with the corresponding period in 2019, resulting in decrease in sales volume and selling prices of the Group's products (except for sales volume of optical fibre cables). The sales volume of optical fibre cables increased as compared with the corresponding period in 2019 because the sales department of Futong Thailand have strengthened their marketing efforts, which partially offset the effect of the drop of sales volume and selling prices of other 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, 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 2020, the cost of sales of the Group decreased by about 20.9% to approximately HK\$110.0 million as compared with the corresponding period in 2019.

Such decrease for the six months ended 30 June 2020 was mainly attributable to the generally lower sales volume of the Group's products during the six months ended 30 June 2020.

The gross profit of the Group decreased from approximately HK\$38.6 million, for the six months ended 30 June 2019 to approximately HK\$17.0 million for the six months ended 30 June 2020. The gross profit margin decreased from approximately 21.7% for the six months ended 30 June 2019 to approximately 13.4% for the six months ended 30 June 2020. This is mainly attributable to the decrease of the gross profit margin of optical fibres, optical fibre cables and optical cable cores for the six months ended 30 June 2020 by approximately 4.1%, approximately 5.7% and approximately 14.6% respectively as compared to the corresponding period in 2019.

Loss allowance for trade receivables

Loss allowance for trade receivables represented expected credit losses on trade receivables, which decreased by approximately HK\$0.6 million, or approximately 208.6% from a loss allowance of approximately HK\$0.3 million for the first half of 2019 to a reversal of loss allowance of approximately HK\$0.3 million for the first half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income, Gain and Losses

The Group recognised a grant of approximately HK\$1.6 million under the “Employment Support Scheme” from the Government of Hong Kong for the six months ended 30 June 2020.

The Group recognised foreign exchange losses of approximately HK\$2.0 million for the six months ended 30 June 2020 as compared with approximately HK\$0.8 million for the six months ended 30 June 2019, mainly due to the fluctuation of exchange rates among Renminbi (“RMB”), Hong Kong Dollar (“HK\$”), Thai Baht (“THB”), and United States dollar (“US\$”) during the period.

Selling and distribution expenses

Selling and distribution expenses comprised mainly staff cost, sales commission expense, transportation expense, export cost and other selling and distribution expenses.

The Group’s selling and distribution expenses decreased from approximately HK\$2.5 million for the six months ended 30 June 2019 to approximately HK\$1.7 million for the six months ended 30 June 2020, representing an decrease of approximately 32.0%.

The decrease in the selling and distribution expenses for the six months ended 30 June 2020 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 transportation expenses, travelling expenses and system transaction charge for the six months ended 30 June 2020.

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\$12.8 million for the six months ended 30 June 2019 to approximately HK\$11.4 million for the six months ended 30 June 2020, representing a decrease of approximately 10.9%.

The decrease in the administrative expenses for the six months ended 30 June 2020 was mainly attributable to (i) the decrease in staff cost; and (ii) the decrease of professional fee for compliance adviser and other administrative expenses such as travelling, repair and maintenance, etc. in order to save cost.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

Finance costs represent the interest expense on bank borrowings and lease liabilities. The finance costs of the Group decreased from approximately HK\$842,000 for the six months ended 30 June 2019 to approximately HK\$753,000 for the six months ended 30 June 2020 mainly due to the decrease in interest on lease liabilities for the six months ended 30 June 2020.

Taxation

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

Income tax expense decreased by approximately 60.9% from approximately HK\$2.3 million for the six months ended 30 June 2019 to approximately HK\$0.9 million for the six months ended 30 June 2020. Such decrease was mainly caused by the decrease in profit before tax.

Profit for the period

Profit attributable to owners of the Company for the six months ended 30 June 2020 amounted to approximately HK\$2.8 million (six months ended 30 June 2019: approximately HK\$20.9 million).

The decrease in profit attributable to owners of the Company for the six months ended 30 June 2020 was mainly attributable to the net effects of (i) the decrease in gross profit; (ii) the increase of foreign exchange losses; and (iii) the decrease of selling and distribution expenses and administrative expenses, as compared with the corresponding period in 2019.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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\$41.8 million as at 30 June 2020 (31 December 2019: approximately HK\$135.9 million). As at 30 June 2020, the Group had total bank borrowings of approximately HK\$16.8 million (31 December 2019: approximately HK\$27.8 million). In the details of the bank borrowings can be referenced to note 19 of the unaudited condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

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. Gearing ratio decreased from approximately 4.0% as at 31 December 2019 to approximately 2.5% as at 30 June 2020. Such decrease was primarily resulted from the repayment of bank borrowings.

CAPITAL STRUCTURE

As at 30 June 2020, 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 2020, the Group had no material contingent liabilities and litigation (31 December 2019: 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 27 March 2020 (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

As at 30 June 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 30 June 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 RMB against 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 2020, the Group has capital commitments of approximately HK\$26.1 million. (31 December 2019: approximately HK\$56.8 million).

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 30 June 2020, the Group did not hold any significant investment in equity interest in any other company.

MANAGEMENT DISCUSSION AND ANALYSIS

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 three years ended 31 December 2019 and the six months ended 30 June 2020. The Company intends to utilise such net proceeds as disclosed in the “Future Plans and Use of Proceeds” section of the Prospectus.

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 2020 (HK\$million)	Unused amount as at 30 June 2020 (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	58.2	15.2	The expansion plan for Futong Thailand's factory commenced in the second-half of 2018, however, it remained in the contract negotiation stage during most of the time in FY2018. The contract negotiation process was completed in January 2019 and the construction of the factory was commenced in first half of 2019. Based on the latest construction and implementation plan and barring unforeseeable circumstances, the construction of the Group's Thailand factory is scheduled to be completed and start production at the factory in the second half of FY2021 because the machinery and equipment delivery will be delayed as the suppliers temporarily suspended their production due to the outbreak of pneumonia illness by new coronavirus in PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Strategies as Stated in the Prospectus	Proposed amount to be used (HK\$million)	Actual amount utilized up to 30 June 2020 (HK\$million)	Unused amount as at 30 June 2020 (HK\$million)	Explanation
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 2020, there are little change of customers' demand for new type of products. It is expected to utilize this proceeds by 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	2.5	2.1	In line of the business development in the ASEAN countries, it is estimated that most of the unused amount will be used in FY2020.
Approximately 10% of the net proceeds will be used as the general working capital and for general corporate purposes.	9.2	9.2	0	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	70.2	21.6	

Up to the date of this report, HK\$9.2 million of the net proceeds from the Global offering has been utilised for settlement of payable for factory rent and utility fee in Hong Kong, HK\$2.5 million for developing customers relationship, HK\$0.3 million for research and development and HK\$58.2 million and HK\$15.2 million for the new factory construction and deposits respectively in Thailand. The unutilised net proceeds of approximately HK\$6.4 million is deposited in a licensed bank in Thailand.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE AND EMOLUMENT POLICIES

As at 30 June 2020, the employee headcount (including Directors) of the Group was 203 (31 December 2019: 208) and the total staff costs, including directors' emoluments, amounted to approximately HK\$16.1 million during the six months ended 30 June 2020 (six months ended 30 June 2019: approximately HK\$18.4 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.

OTHER INFORMATION

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 ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2020. In addition, the Group had no significant investments held during the six months ended 30 June 2020.

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.

OTHER INFORMATION

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

Notes:

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

OTHER INFORMATION

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 2020.

DIVIDENDS

The Board did not recommend a payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 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.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the six months ended 30 June 2020 and up to the date of this report, at least 25% of the issued shares of the Company are held by public Shareholders and the Company has maintained the prescribed public float required by the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

OTHER INFORMATION

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 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code during the six months ended 30 June 2020.

COMPETING INTERESTS

As at 30 June 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 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.

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 2020 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.

OTHER INFORMATION

CORPORATE GOVERNANCE

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 2020 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 also adopted and complied with the CG code as set out in Appendix 15 of the Listing Rules as its own code of corporate governance practices during the reporting period.

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

By Order of the Board

Transtech Optelecom Science Holdings Limited

Hu Guoqiang

Chairman

Hong Kong, 14 August 2020

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.