

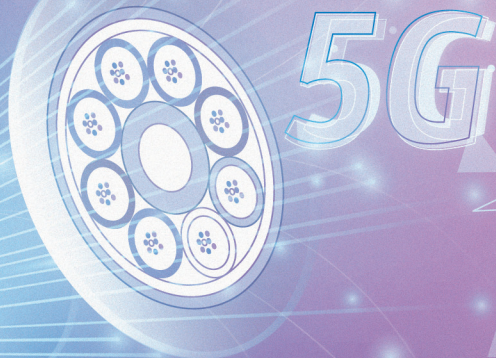
Transtech Optelecom Science Holdings Limited 高科橋光導科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 9963

2021

INTERIM REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Guoqiang (*Chairman*)
Mr. He Xingfu (*Chief Executive Officer*)
Mr. Pan Jinhua
Mr. Yu Jiangping (Resigned)*
Miss Sun Jing (newly appointed)*
Mr. Xu Muzhong (Resigned)*
Mr. Ren Guodong (newly appointed)*

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 (Resigned)*
Miss Sun Jing (newly appointed)*
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

Windward 3, Regatta Office Park
PO Box 1350
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

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

No. 3 Dai Kwai Street
Tai Po Industrial Estate
Tai Po
New Territories
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
2103B, 21/F, 148 Electric Road
North Point, Hong Kong

* Refer to the header "Events after the reporting period" in section "Other Information" of this report.

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway, Hong Kong

PRINCIPAL BANKER

Industrial and Commercial Bank
of China (Asia) Limited
33/F, ICBC Tower
3 Garden Road
Central
Hong Kong

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Hong Kong

STOCK CODE

9963

COMPANY'S WEBSITE

www.transtechoptel.com

FINANCIAL HIGHLIGHTS

Interim results for the six months ended 30 June 2021 compared with the six months ended 30 June 2020.

- The Group recorded a revenue of approximately HK\$84.1 million for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK\$127.0 million).
- Gross profit margin increased by approximately 0.1% from 13.4% for the six months ended 30 June 2020 to approximately 13.5% for the six months ended 30 June 2021.
- Profit attributable to the owners of the Company for the six months ended 30 June 2021 amounted to approximately HK\$2.6 million (six months ended 30 June 2020: approximately HK\$2.8 million).
- Net profit margin increased by approximately 0.9% from 2.2% for the six months ended 30 June 2020 to approximately 3.1% for the six months ended 30 June 2021.
- Basic earnings per share amounted to approximately HK\$1.0 cents for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK\$1.1 cents).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: 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 2021 together with the comparative unaudited figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	3	84,057	127,005
Cost of sales		(72,687)	(110,043)
Gross profit		11,370	16,962
Other income	4	883	2,232
Other gains and losses	4	4,296	(1,991)
Loss allowance for trade receivables under expected credit loss model, net of reversal		(865)	290
Selling and distribution expenses		(1,241)	(1,709)
Administrative expenses		(10,389)	(11,376)
Finance costs	5	(617)	(753)
Profit before taxation	6	3,437	3,655
Income tax expense	7	(843)	(886)
Profit for the period		2,594	2,769
Other comprehensive expense			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(23,669)	(11,693)
Total comprehensive expense for the period		(21,075)	(8,924)
Earnings per share			
Basic (HK cents)	9	1.0	1.1

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	153,849	169,900
Right-of-use assets	11	–	4,383
Deposits for acquisition of property, plant and equipment	12	113,679	121,469
Deposits	12	24	69
Deferred tax assets	20	154	106
		267,706	295,927
Current assets			
Inventories	13	42,246	38,360
Trade receivables	14	320,836	320,803
Deposits, prepayments and other receivables	12	141,136	85,831
Bank balances and cash		8,056	28,620
		512,274	473,614
Current liabilities			
Trade payables	15	15,068	13,304
Other payables and accrued charges	16	6,245	7,117
Contract liabilities	17	85	11
Lease liabilities	18	–	6,479
Bank and other borrowings	19	57,839	18,733
Tax payable		1,680	1,622
		80,917	47,266
Net current assets		431,357	426,348
Total assets less current liabilities		699,063	722,275

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Non-current liabilities			
Deferred tax liabilities	20	3,193	3,517
Bank and other borrowings	19	–	1,813
		3,193	5,330
Net assets			
		695,870	716,945
Capital and reserves			
Issued share capital	21	2,600	2,600
Reserves		693,270	714,345
Total Equity			
		695,870	716,945

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	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 2020 (Audited)	2,600	95,534	289,031	24,630	277,578	689,373
Profit for the period	-	-	-	-	2,769	2,769
Other comprehensive expense	-	-	-	(11,693)	-	(11,693)
Total comprehensive expense 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
At 1 January 2021 (Audited)	2,600	95,534	289,031	23,971	305,809	716,945
Profit for the period	-	-	-	-	2,594	2,594
Other comprehensive expense	-	-	-	(23,669)	-	(23,669)
Total comprehensive expense for the period	-	-	-	(23,669)	2,594	(21,075)
At 30 June 2021 (Unaudited)	2,600	95,534	289,031	302	308,403	695,870

Note: Other reserve represents (i) the contribution made by Futong Group Co., Ltd. ("Futong China", the Group's parent company not forming part of the Group) 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 2021

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Net cash used in operating activities	(52,543)	(48,138)
Investing activities		
Deposits paid for acquisition of property, plant and equipment	(276)	(16,722)
Purchase of property, plant and equipment	(314)	(12,526)
Interest received	9	133
Net cash used in investing activities	(581)	(29,115)
Financing activities		
New bank borrowings raised	71,567	63,168
Repayment of bank borrowings	(31,551)	(72,994)
Interest paid	(617)	(753)
Payment for lease liabilities	(6,479)	(2,750)
Net cash generated from (used in) financing activities	32,920	(13,329)
Net decrease in cash and cash equivalents	(20,204)	(90,582)
Cash and cash equivalents at the beginning of period	28,620	135,920
Effect of foreign exchange rate changes	(360)	(3,560)
Cash and cash equivalents at the end of period representing by bank balances and cash	8,056	41,778

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL AND BASIS OF PREPARATION

The Company was incorporated as an exempted company in the Cayman Islands with limited liability on 6 September 2016. The Company's shares were listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of global offering on 20 July 2017. Then, the Company successfully transferred its share listing from GEM to Main Board on 5 November 2020. Its immediate holding company is Hong Kong Futong Optical Fiber Company Limited ("Futong HK"), a company incorporated in Hong Kong, and ultimate holding company is Hangzhou Futong Investments Co., Ltd., a company incorporated in the People's Republic of China ("PRC"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in this report.

The Company is an investment holding company. The Group's principal activity is the manufacturing and sales of optical fibre and optical fibre cable in Hong Kong and Thailand respectively.

The unaudited consolidated financial results of the Group for the six months ended 30 June 2021 (the "Consolidated Financial Results") are presented in Hong Kong dollars ("HK\$"), unless otherwise stated. The Consolidated Financial Results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Listing Rules. The Consolidated Financial Results have been prepared under the historical cost convention.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2020, except for the adoption of all the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years. The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the unaudited consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

The preparation of the Consolidated Financial Results in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The Consolidated Financial Results should be read in conjunction with the Group's audited consolidated financial statements and notes thereto for the year ended 31 December 2020.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The condensed consolidated financial statements have not been audited by the Company's independent auditors, but have been reviewed by the audit committee of the Company (the "Audit Committee").

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2021

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	–	33,200	33,200
Optical fibres	35,284	–	35,284
Optical cable cores	–	15,573	15,573
Total	35,284	48,773	84,057

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 2021				
	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	33,200	–	33,200	–	33,200
Sales of optical fibre	–	37,190	37,190	(1,906)	35,284
Sales of optical cable cores	15,573	–	15,573	–	15,573
Segment revenue	48,773	37,190	85,963	(1,906)	84,057

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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	Optical fibres	Total segment revenue	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of optical fibre cables	50,021	-	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

(ii) Performance obligations for contracts with customers

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

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

Following the delivery, the customers have full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 0 to 365 days (six months ended 30 June 2020: 0 to 720 days) upon delivery.

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

Segment revenue and results

	Six months ended 30 June 2021				
	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	48,773	35,284	84,057	-	84,057
Inter-segment sales	-	1,906	1,906	(1,906)	-
Segment revenue	48,773	37,190	85,963	(1,906)	84,057
Segment profit	1,633	4,485	6,118	(95)	6,023
Interest income					2
Unallocated corporate expenses					(1,971)
Finance costs					(617)
Profit before taxation					3,437

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

	Six months ended 30 June 2020				
	Optical fibre cables and optical cable cores	Optical fibres	Sub-total	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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

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 2021

4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Other income:		
Income from sales of scrap products	77	149
Bank interest income	9	120
Others	797	1,963
	883	2,232
Other gains and losses:		
Foreign exchange gain (losses)	4,296	(1,991)
	4,296	(1,991)

5. FINANCE COSTS

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interest on bank borrowings	562	467
Interest on lease liabilities	55	286
	617	753

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	724	709
Depreciation of property, plant and equipment	6,912	7,062
Less: amount capitalised in inventories	(6,260)	(6,323)
	652	739
Depreciation of right-of-use assets	4,383	4,447
Less: amount capitalised in inventories	(4,383)	(4,447)
	-	-
Directors' remuneration	1,837	2,344
Other staff costs		
Salaries and other benefits	12,095	13,476
Retirement benefits scheme contributions	277	317
Total staff costs	14,209	16,137
Less: amount capitalised in inventories	(7,569)	(8,842)
	6,640	7,295
Cost of inventories recognised as an expense	72,687	110,043

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

7. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Hong Kong Profits Tax		
Current Tax	966	904
Thailand Corporate Income Tax		
Current Tax	107	–
Thailand withholding tax	142	131
Deferred tax (Note 20)	(372)	(149)
	843	886

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: (i) the full 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 ended 28 February 2021 (“Exemption Period”). No Corporate Income tax has been provided within the Exemption Period; and (ii) the 50% exemption from payment of corporate income tax during the period from 1 March 2021 to 28 February 2025 (“50% Exemption Period”), 50% Corporate Income Tax has been provided by the direct application of Corporate Income Tax rate to the profit before tax of management account during the “50% Exemption Period”.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

8. DIVIDEND

No dividends were paid, declared and proposed by the Company during the current interim period (six months ended 30 June 2020: nil). The directors have determined that no dividend will be paid in respect of the current interim period.

9. EARNINGS PER SHARE

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Earnings		
Profit attributable to the owners of the Company for the purpose of basic earnings per share	2,594	2,769
	'000	'000
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	260,000	260,000

The calculation of basic earnings per share for the six months ended 30 June 2021 and 30 June 2020 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 are 260,000,000 in both periods.

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 2021, the Group acquired at cost, machinery of approximately HK\$Nil (six months ended 30 June 2020: approximately HK\$1,104,000); furniture and fixtures of approximately HK\$87,000 (six months ended 30 June 2020: approximately HK\$65,000); and construction in progress of approximately HK\$227,000 (six months ended 30 June 2020: HK\$11,357,000).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

11. RIGHT-OF-USE ASSETS

	Leased properties HK\$'000
Carrying amount	
31 December 2020 (Audited)	4,383
30 June 2021 (Unaudited)	–

Amounts recognised in profits and loss

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Depreciation expense on right-of-use assets	4,383	4,447
Less: amount capitalised in inventories	(4,383)	(4,447)
	–	–
Expense relating to short-term leases	363	377

The total cash outflow for leases amount to HK\$6,897,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$3,413,000).

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 2020 and 30 June 2021, 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 2020 and 30 June 2021.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

12. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Electricity deposits	785	785
Other deposits	135	179
Prepayments	135,829	79,545
Other receivables	226	1,141
Value-added tax receivables	4,185	4,250
Deposits for acquisition of property, plant and equipment	113,679	121,469
Total	254,839	207,369
Presented as non-current assets	113,703	121,538
Presented as current assets	141,136	85,831
Total	254,839	207,369

13. INVENTORIES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Raw materials and consumables	25,277	26,621
Work in progress	6,742	6,711
Finished goods	9,702	4,326
Goods-in-transit	525	702
Total	42,246	38,360

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

14. TRADE RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade receivables		
— sales of goods	325,472	324,760
Less: Loss allowance	(4,636)	(3,957)
Total trade receivables	320,836	320,803

The Group grants credit terms of 0–365 days (2020: 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 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
0–180 days	68,374	115,946
181–270 days	42,178	39,622
Over 270 days	210,284	165,235
	320,836	320,803

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

15. TRADE PAYABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade payables	15,068	13,304
	15,068	13,304

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade payables:		
0–30 days	3,152	3,135
31–60 days	2,254	3,496
61–90 days	4,277	4,552
91–180 days	4,382	1,952
Over 180 days	1,003	169
	15,068	13,304

16. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Accrued charges	6,222	6,775
Other payables	23	342
	6,245	7,117

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

17. CONTRACT LIABILITIES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Sales of optical fibre cables	85	11

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 2021	
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	11
For the period ended 30 June 2020	
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	393

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 15%-50% (2020: 20%-50%) deposit depends on the contract terms.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

18. LEASE LIABILITIES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Lease liabilities payable:		
Within one year	–	6,479
Within a period of more than 1 year but not exceeding 2 years	–	–
	–	6,479
Less: Amount due for settlement within 12 months shown under current liabilities	–	(6,479)
Amount due for settlement after 12 months shown under non-current liabilities	–	–

All the lease obligations are denominated in HK\$ as at 30 June 2021 and 31 December 2020. Details of lease agreement made after 30 June 2021 can be referred to the header “Events after the reporting period” in section “Other Information” of this report.

19. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new short-term bank borrowings with total amount of approximately HK\$71,567,000 (unaudited) (six months ended 30 June 2020: approximately HK\$63,168,000 (unaudited)). The bank borrowings carried variable interest at Chinese Yuan 6-month Chinese Renminbi Hong Kong Inter-bank Offered Rate (“CNHHIBOR”) plus 2% per annum and Minimum Lending Rate of Thailand minus 2% per annum respectively (six months ended 30 June 2020: Chinese Yuan 6-month CNHHIBOR plus 2% per annum and Minimum Lending Rate of Thailand minus 2% per annum respectively) and were repayable within one year. Other borrowing of THB17,500,000, it is a soft loan from Thailand government due to COVID-19 which carried fixed interest at 2% per annum and was repayable with monthly payment from 29 May 2021 till 29 April 2022.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

20. DEFERRED TAXATION

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

	ECL provision HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1 January 2020 (Audited)	98	(4,011)	(3,913)
Credit (Charge) to profit or loss	(10)	159	149
At 30 June 2020 (Unaudited)	88	(3,852)	(3,764)
At 1 January 2021 (Audited)	106	(3,517)	(3,411)
Credit (Charge) to profit or loss	48	324	372
At 30 June 2021 (Unaudited)	154	(3,193)	(3,039)

The following is the analysis of the deferred taxation for presentation purpose in the condensed consolidated statement of financial position:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Deferred tax assets	154	106
Deferred tax liabilities	(3,193)	(3,517)
	(3,039)	(3,411)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

21. SHARE CAPITAL

	Number of shares	HK\$'000
Authorised		
At 31 December 2020 and 30 June 2021		
— ordinary shares of HK\$0.01 each	1,000,000,000	10,000
Issued and fully paid		
At 31 December 2020 and 30 June 2021	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	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Fellow subsidiaries		
<u>Hangzhou Futong Communication Technology Co., Limited</u>		
Sales [#]	17,836	11,235
Related Company[^]		
<u>Futong Group International Limited</u>		
Payment of lease liabilities [#]	6,534	2,970

[^] 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 2021

(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 2020 and 30 June 2021 respectively, were as follows:

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Short-term benefits	1,837	2,335
Post-employment benefits	9	9
	1,846	2,344

23. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2021 (unaudited) and 31 December 2020.

24. CAPITAL COMMITMENT

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 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	18,723	19,482

25. APPROVAL OF THE FINANCIAL STATEMENTS

The interim financial statements have been approved and authorised for issue by the Company's board of directors on 13 August 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has recorded dissatisfied financial results for the six months ended 30 June 2021. It recorded a total revenue of approximately HK\$84.1 million which represented a decline of approximately 33.8% as compared with the six months ended 30 June 2020 (the "Last Period"). The Group has realised a gross profit of approximately HK\$11.4 million for the Reporting Period, which represented a decline of approximately 33.0% as compared with the one for the Last Period. Profit for the Reporting Period attributable to the owners of the Company was approximately HK\$2.6 million, which represented a decline of approximately 6.3% as compared with the Last Period. The decrease in revenue was mainly attributable to the decrease in sale of optical fibre by approximately 40.4% to approximately HK\$35.3 million (the Last Period: approximately HK\$59.2 million). The sale of optical fibre cables decreased by approximately 33.6% to approximately HK\$33.2 million (the Last Period: approximately HK\$50.0 million).

In general, the growth rate of the communication cable industry in the Reporting Period was not satisfactory. The main reason was that 4G construction in China has nearly come to the end while a scalable commercialisation of 5G is yet to come. The communication cable industry in China is in a lean season. Demand shrank because of few new communication network expansions, which led to an oversupply of goods and exerting a downward pressure on prices. The Group's business has been adversely affected.

In addition, the outbreak of COVID-19 during the Reporting Period persistently interrupted the Group's sale activities, which adversely affected the Group's business performance. Nevertheless, the current new infrastructure policy in Mainland China closely links with the communication network industry, in particular optical fibre cables, communication copper cables and structured cabling system products industries, which is expected to stimulate the market demand. The industry's prospects continue to stabilise to good.

MANAGEMENT DISCUSSION AND ANALYSIS

Futong Thailand

In Thailand and other ASEAN countries, the telecommunications industry has not yet recovered due to the spread of COVID-19, our directors believe the demand will not increase until the 5G network construction is kicked off.

The sales revenue of optical fibre cables in Thailand reduced from approximately HK\$37.8 million during the six months ended 30 June 2020 to approximately HK\$29.1 million during the same period in the year 2021 due to the drop of selling price resulting from the keen competition in the market and the spread of COVID-19. The sales in the other ASEAN countries reduced from approximately HK\$12.3 million during the six months ended 30 June 2020 to approximately HK\$4.1 million during the same period in the year 2021 mainly because sales activities were seriously reduced due to travel restriction for quarantine purpose in the optical fibre cable market in other ASEAN countries (other than Thailand) as a result of spread of COVID-19.

While the demand of optical cable cores have been reduced in the first half of 2021, the sales revenue of optical cable cores dropped from approximately HK\$17.7 million during the six months ended 30 June 2020 to approximately HK\$15.6 million during the same period in the year 2021.

On the other hand, the gross profit margin of Futong Thailand increased from approximately 8.1% for the six months ended 30 June 2020 to approximately 9.5% for the six months ended 30 June 2021. It is mainly attributable to the net effect of (i) the decrease of the selling price of optical fibre cables; (ii) the reduced demand in the optical fibre cables and the optical cable cores market; (iii) the increase of the selling price of optical cable cores; and (iv) the drop of unit cost in both optical fibre cables and optical cable cores.

MANAGEMENT DISCUSSION AND ANALYSIS

Transtech

Transtech has reported its revenue and net profit in amount of approximately HK\$37.2 million and HK\$3.8 million respectively for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK\$65.5 million and HK\$3.8 million respectively), representing decreases of approximately 43.2% and 0.8% respectively. It is attributed by the slowdown of 5G network construction process and the spread of COVID-19, thus the demand for optical fibres is reduced 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 of revenue accordingly.

PROSPECTS

The Chinese Government once again proposed to increase investments in the construction of 5G network and gigabit optical network to enrich the application scenarios. For the communications cable industry, which provides fundamental network support, the construction of 5G network and gigabit optical network will undoubtedly bring a huge amount of optical fibre cables resource consumption, sizable market prospects and a certain market increment. The Ministry of Industry and Information Technology vigorously promotes the development of 5G applications and accelerates the construction of 5G networks. At the same time, driven by the construction of optical fibre networks, the demand for optical fibre cables will maintain a relatively stable growth in the next few years. The expansion of market demand in the optical fibre cables industry will also drive the accelerated layout of the industrial chain. Year 2021 is the start of the 14th Five-Year Plan for China's national development. China's information and communications industry will be guided by the "14th Five-Year Plan" to further push forward constructions in Internet Power and Digital Power, expand the 5G network coverage, speed up construction over data centres and other new infrastructures, and strive for a continuous high-quality development in the information and communications industry.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2021, total revenue of the Group decreased by about 33.8% to approximately HK\$84.1 million as compared with the corresponding period in 2020.

The decrease in total revenue for the six months ended 30 June 2021 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 2020, resulting in decrease in sales volume and selling prices of the Group's products (except for selling price of optical cable cores). The selling price of optical cable cores increased as compared with the corresponding period in 2020, 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 2021, the cost of sales of the Group decreased by about 33.9% to approximately HK\$72.7 million as compared with the corresponding period in 2020.

Such decrease for the six months ended 30 June 2021 was mainly attributable to the generally lower sales volume of the Group's products during the six months ended 30 June 2021.

The gross profit of the Group decreased from approximately HK\$17.0 million, for the six months ended 30 June 2020 to approximately HK\$11.4 million for the six months ended 30 June 2021. The gross profit margin increased from approximately 13.4% for the six months ended 30 June 2020 to approximately 13.5% for the six months ended 30 June 2021. This is mainly attributable to the increase of the gross profit margin of optical fibres and optical cable cores for the six months ended 30 June 2021 by approximately 1.9% and approximately 19.2% respectively as compared to the corresponding period in 2020. Nevertheless, the gross profit margin of optical fibre cables decreased by approximately 10.3% for the six month ended 30 June 2021, which partially offset the increase in gross profit margin mentioned above.

Loss allowance for trade receivables

Loss allowance for trade receivables represented expected credit losses on trade receivables, which increased by approximately HK\$1.2 million, or approximately 400.0% from a reversal of loss allowance of approximately HK\$0.3 million for the first half of 2020 to a loss allowance of approximately HK\$0.9 million for the first half of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income, Gain and Losses

The Group recognised foreign exchange gains of approximately HK\$4.3 million for the six months ended 30 June 2021 as compared with approximately HK\$2.0 million exchange losses for the six months ended 30 June 2020, 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\$1.7 million for the six months ended 30 June 2020 to approximately HK\$1.2 million for the six months ended 30 June 2021, representing an decrease of approximately 29.4%.

The decrease in the selling and distribution expenses for the six months ended 30 June 2021 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 and export cost as a result of the reduction of sales activities for the six months ended 30 June 2021.

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\$11.4 million for the six months ended 30 June 2020 to approximately HK\$10.4 million for the six months ended 30 June 2021, representing a decrease of approximately 8.8%.

The decrease in the administrative expenses for the six months ended 30 June 2021 was mainly attributable to (i) the decrease in staff cost; (ii) the decrease of listing maintenance fee due to termination of the service provided by compliance adviser as effective from 1 April 2020; and (iii) the decrease of other administrative expenses such as travelling, motor vehicle expense, 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\$753,000 for the six months ended 30 June 2020 to approximately HK\$617,000 for the six months ended 30 June 2021 mainly due to the decrease in interest on lease liabilities for the six months ended 30 June 2021.

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.

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: (i) the full 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 ended 28 February 2021 (“Exemption Period”). No Corporate Income tax has been provided within the Exemption Period; and (ii) the 50% exemption from payment of corporate income tax during the period from 1 March 2021 to 28 February 2025 (“50% Exemption Period”), 50% Corporate Income Tax has been provided by the direct application of Corporate Income Tax rate to the profit before tax of management account during the “50% Exemption Period”.

Income tax expense decreased by approximately 4.9% from approximately HK\$886,000 for the six months ended 30 June 2020 to approximately HK\$843,000 for the six months ended 30 June 2021. 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 2021 amounted to approximately HK\$2.6 million (six months ended 30 June 2020: approximately HK\$2.8 million).

The decrease in profit attributable to owners of the Company for the six months ended 30 June 2021 was mainly attributable to the net effects of (i) the decrease in gross profit; (ii) the change from foreign exchange losses to foreign exchange gains; and (iii) the decrease of selling and distribution expenses and administrative expenses, as compared with the corresponding period in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

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\$8.1 million as at 30 June 2021 (31 December 2020: approximately HK\$28.6 million). As at 30 June 2021, the Group had total bank and other borrowings of approximately HK\$57.8 million (31 December 2020: approximately HK\$20.5 million). In the details of the bank and other borrowings can be referenced to note 19 of the unaudited condensed consolidated financial statements.

GEARING RATIO

Gearing ratio is calculated as total borrowings (including payables not incurred in the ordinary course of business of the Group) divided by the total equity as at the respective reporting dates. Gearing ratio increased from approximately 2.9% as at 31 December 2020 to approximately 8.3% as at 30 June 2021. Such increase was primarily resulted from the new bank borrowings raised.

CAPITAL STRUCTURE

As at 30 June 2021, 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 2021, the Group had no material contingent liabilities and litigation (31 December 2020: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020 Annual Report issued by the Company dated 29 March 2021 (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.

CHARGE OF ASSETS

As at 30 June 2021, the Group had not pledged its land, buildings and machinery to secure the banking facilities granted to the Group (31 December 2020: nil).

CHARGE OF REGISTER

As at 30 June 2021, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

INTEREST RATE RISK

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits, lease liabilities and bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets, mainly restricted bank balances and bank balances which carried at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. The management of the Group maintains a balanced portfolio of fixed rate and variable rate borrowings.

CREDIT RISK

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to trade receivables arising from contracts with customers and other receivables. In order to minimise the credit risk, the senior management are responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. In this regard, the Directors consider that the Group's credit risk is significantly reduced. Besides, the management of the Group performs impairment assessment on individual debtor basis to estimate the amount of expected credit loss of trade and other receivables based on internal credit ratings, ageing, collateral, repayment history and/or past due status of respective other receivables and adjusted for forward-looking information. For bank deposits and balances, the management of the Group assessed that the Group's bank deposits and bank balances are at low credit risk because they are placed with reputable banks with higher internal credit ratings with reference to international credit-rating agencies, and expected credit loss ("ECL") is insignificant.

LIQUIDITY RISK

The Group's management monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

CAPITAL COMMITMENTS

As at 30 June 2021, the Group has capital commitments of approximately HK\$18.7 million. (31 December 2020: approximately HK\$19.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investment in equity interest in any other company during the Reporting Period.

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 four years ended 31 December 2020 and the six months ended 30 June 2021. 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 2021 (HK\$million)	Unused amount as at 30 June 2021 (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	65.8	7.6	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 FY2022 because the machinery and equipment delivery will be delayed as the suppliers temporarily suspended their production due to the outbreak of COVID-19 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 2021 (HK\$million)	Unused amount as at 30 June 2021 (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 2021, there are little change of customers' demand for new type of products. It is expected to utilize this proceeds by the end of FY2022.
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	2.6	2.0	In line of the business development in the ASEAN countries, it is estimated that most of the unused amount will be used in the first half of FY2022 after the COVID-19 ends.
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	77.9	13.9	

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\$2.6 million for developing customers relationship, HK\$0.3 million for research and development and HK\$65.8 million and HK\$7.6 million for the new factory construction and deposits respectively in Thailand.

EMPLOYEE AND EMOLUMENT POLICIES

As at 30 June 2021, the employee headcount (including Directors) of the Group was 177 (31 December 2020: 195) and the total staff costs, including directors' emoluments, amounted to approximately HK\$14.2 million during the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HK\$16.1 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 2021. In addition, the Group had no significant investments held during the six months ended 30 June 2021.

DISCLOSURE OF DIRECTORS’ AND SUBSTANTIAL SHAREHOLDERS’ INTERESTS

(a) Directors’ and Chief Executives’ Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

As the period from the six months ended 30 June 2021 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 Model Code for Security Transactions by Directors of Listed Issuers (the “Model Code”).

OTHER INFORMATION

(b) Substantial Shareholders' Interest in Shares or Underlying Shares of the Company

So far as is known to the Directors, as the period from the six months ended 30 June 2021 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.

OTHER INFORMATION

- (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, as the period from the six months ended 30 June 2021 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 2021.

DIVIDENDS

The Board did not recommend a payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: 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 2021 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.

OTHER INFORMATION

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the six months ended 30 June 2021 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 2021, 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 Appendix 10 to the Listing Rules. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct for the six months ended 30 June 2021 and up to the date of this report.

COMPETING INTERESTS

As at 30 June 2021, 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 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.

OTHER INFORMATION

AUDIT COMMITTEE

The Company has established an audit committee with the written terms of reference in compliance with the 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 2021 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.

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to 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 during the six months ended 30 June 2021. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code. 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.

OTHER INFORMATION

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcement dated 30 June 2021, Mr. Yu Jiangping (“Mr. Yu”) and Mr. Xu Muzhong resigned as Executive Directors and Mr. Yu ceased to be a member of the Remuneration Committee while Miss Sun Jing (“Miss Sun”) and Mr. Ren Guodong were appointed as Executive Directors and Miss Sun commenced to be a member of the Remuneration Committee with effect from 1 July 2021.

References are made to the announcements dated 7, 16 and 19 July 2021, Transtech and Futong Group International Limited renewed the premises licence agreement for a term of one year commencing on 1 July 2021 and terminating on 30 June 2022 which constitute continuing connected transactions for the Group.

Save as disclosed above, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 30 June 2021 and up to the approval date of this report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the six months ended 30 June 2021, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

PUBLICATION OF THE INTERIM REPORT

This interim report is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.com.hk) and the Company (www.transtechoptel.com).

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

Hong Kong, 13 August 2021

As at the date of this report, the executive Directors are Mr. Hu Guoqiang, Mr. He Xingfu, Mr. Pan Jinhua, Miss Sun Jing and Mr. Ren Guodong; and the independent non-executive Directors are Mr. Li Wei, Mr. Leong Chew Kuan and Mr. Lau Siu Hang.