

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

2017 INTERIM REPORT



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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.

FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK\$306.4 million for the six months ended 30 June 2017 (six months ended 30 June 2016: approximately HK\$308.3 million).
- Profit attributable to the owners of the Company for the six months ended 30 June 2017 amounted to approximately HK\$56.1 million (six months ended 30 June 2016: approximately HK\$30.5 million).
- Basic earnings per share amounted to approximately HK\$28.7 cents for the six months ended 30 June 2017 (six months ended 30 June 2016: approximately HK\$15.6 cents).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

FINANCIAL RESULTS

The board of directors (the “Board”) of Transtech Optelecom Science Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June 2017 together with the comparative unaudited figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2017

	Notes	Three months ended 30 June		Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	3	168,429	173,115	306,416	308,329
Cost of sales		<u>(126,543)</u>	<u>(147,434)</u>	<u>(228,494)</u>	<u>(266,635)</u>
Gross profit		41,886	25,681	77,922	41,694
Other income	4	520	377	965	622
Other gains	4	3,223	2,739	7,742	5,832
Selling and distribution expenses		(2,078)	(1,836)	(3,385)	(2,583)
Administrative expenses		(6,252)	(4,808)	(12,000)	(9,661)
Finance costs	5	(240)	(1,090)	(929)	(1,989)
Listing expenses		(2,085)	-	(6,411)	-
Profit before taxation	6	34,974	21,063	63,904	33,915
Income tax expense	7	(4,653)	-	(7,853)	(121)
Profit for the period		30,321	21,063	56,051	33,794
Other comprehensive (expense) income					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		(909)	545	6,263	3,612
Total comprehensive income for the period		29,412	21,608	62,314	37,406

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Note	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit for period attributable to:				
Owners of the Company	30,321	18,783	56,051	30,476
Non-controlling interests	-	2,280	-	3,318
	30,321	21,063	56,051	33,794
Total comprehensive income for the period attributable to:				
Owners of the Company	29,412	19,328	62,314	34,088
Non-controlling interest	-	2,280	-	3,318
	29,412	21,608	62,314	37,406
Earnings per share				
Basic (<i>HK cents</i>)	9	15.5	9.6	28.7
		15.6		15.6

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	137,677	141,896
Deposits	13	27	139
		137,704	142,035
Current assets			
Inventories	11	89,427	79,719
Trade receivables	12	273,401	253,101
Deposits, prepayments and other receivables	13	8,769	6,184
Bank balances and cash		92,415	58,574
		464,012	397,578
Current liabilities			
Trade and bills payables	14	153,193	134,752
Other payables and accrued charges	15	15,196	10,102
Bank borrowings	16	27,778	57,651
Tax payable		9,670	1,500
Amount due to an intermediate holding company	17	–	915
		205,837	204,920
Net current assets		258,175	192,658
Total assets less current liabilities		395,879	334,693

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		4,806	5,123
Bank borrowings	16	—	811
		<u>4,806</u>	<u>5,934</u>
Net assets		<u>391,073</u>	<u>328,759</u>
Capital and reserves			
Share capital	18	5	5
Reserves		<u>391,068</u>	<u>328,754</u>
Total Equity		<u>391,073</u>	<u>328,759</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital	Share premium	Other reserve	Foreign exchange reserve	Accumulated (losses) profits	Equity attributable to the owners of the Company	Non-controlling interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016 (Audited)	125,903	114,329	(19,146)	(21,330)	(2,947)	196,809	65,547	262,356
Profit for the period	-	-	-	-	30,476	30,476	3,318	33,794
Other comprehensive income	-	-	-	3,612	-	3,612	-	3,612
Total comprehensive income for the period	-	-	-	3,612	30,476	34,088	3,318	37,406
Acquisition of additional interests in a subsidiary	-	-	68,865	-	-	68,865	(68,865)	-
At 30 June 2016 (Unaudited)	125,903	114,329	49,719	(17,718)	27,529	299,762	-	299,762
At 1 January 2017 (Audited)	5	-	289,031	(21,245)	60,968	328,759	-	328,759
Profit for the period	-	-	-	-	56,051	56,051	-	56,051
Other comprehensive income	-	-	-	6,263	-	6,263	-	6,263
Total comprehensive income for the period	-	-	-	6,263	56,051	62,314	-	62,314
At 30 June 2017 (Unaudited)	5	-	289,031	(14,982)	117,019	391,073	-	391,073

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 2017

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from (used in) operating activities	67,550	(38,795)
Investing activities		
Purchase of property, plant and equipment	(773)	(1,002)
Proceeds from disposal of property, plant and equipment	–	30
Advance to a related company	–	(16,900)
Repayment from related companies	–	14,987
Interest received	89	15
Net cash used in investing activities	(684)	(2,870)
Financing activities		
Repayment to an intermediate holding company	(915)	–
New bank borrowings raised	58,048	71,152
Repayment of bank borrowings	(90,060)	(62,354)
Interest paid	(929)	(2,081)
Net cash (used in) generated from financing activities	(33,856)	6,717

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net increase (decrease) in cash and cash equivalents	33,010	(34,948)
Cash and cash equivalents at the beginning of period	58,574	50,711
Effect of foreign exchange rate changes	831	396
Cash and cash equivalents at the end of period representing by bank balances and cash	92,415	16,159

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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”).

Pursuant to a group reorganisation (the “Reorganisation”), the Company became the holding company of the subsidiaries now comprising the Group on 7 October 2016, the details of which are as set out in the prospectus issued by the Company dated 30 June 2017 (the “Prospectus”). As the Company and its subsidiaries have been under the common controls of Futong China historically and throughout the period prior to the completion of the Reorganisation, the Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the condensed consolidated financial statements have been prepared on the basis as if the Company had always been the holding company of the Group throughout the six months ended 30 June 2016 under the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting, Under Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 June 2016 includes the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the six months ended 30 June 2016.

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

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA, and the applicable disclosure requirements of the GEM Listing Rules.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention.

The significant accounting policies that have been used in the preparation of the condensed consolidated financial statements for the six months ended 30 June 2017 are consistent with those followed in the preparation of the Group’s financial information for each of the three years ended 31 December 2016 included in the accountants’ report for inclusion in the Prospectus except as stated below.

In the current interim period, the Group has applied, for the first time, amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the accounting period beginning on or after 1 January 2017.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

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

Segment revenue and results

	Six months ended 30 June 2017			
	Optical fibre cables, optical cable cores and other related products <i>HK\$'000</i>	Optical fibres <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Revenue				
External sales	190,395	116,021	-	306,416
Inter-segment sales	-	30,301	(30,301)	-
Segment revenue	<u>190,395</u>	<u>146,322</u>	<u>(30,301)</u>	<u>306,416</u>
Segment results	<u>26,290</u>	<u>48,627</u>	<u>(2,980)</u>	71,937
Unallocated corporate expense				(693)
Finance costs				(929)
Listing expenses				<u>(6,411)</u>
Profit before taxation				<u>63,904</u>

	Six months ended 30 June 2016			
	Optical fibre cables, optical cable cores and other related products <i>HK\$'000</i>	Optical fibres <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Revenue				
External sales	186,388	121,941	-	308,329
Inter-segment sales	-	-	-	-
Segment revenue	<u>186,388</u>	<u>121,941</u>	<u>-</u>	<u>308,329</u>
Segment results	<u>21,958</u>	<u>13,946</u>	<u>-</u>	35,904
Finance costs				<u>(1,989)</u>
Profit before taxation				<u>33,915</u>

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 unallocated corporate expense, finance costs, listing expenses and income tax expense.

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

4. OTHER INCOME AND GAINS

	Three months ended 30 June		Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Other income:				
Income from sales of scrap products	154	192	323	368
Bank interest income	52	15	89	15
Others	314	170	553	239
	520	377	965	622
Other gains:				
Foreign exchange gains	3,223	2,739	7,742	5,823
Gain on disposals of property, plant and equipment	–	–	–	9
	3,223	2,739	7,742	5,832

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on bank borrowings	240	1,090	929	1,989

6. PROFIT BEFORE TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Profit before taxation has been arrived at after charging:

Auditor's remuneration	181	59	740	118
Depreciation of property, plant and equipment	4,469	4,221	8,859	8,412
Directors' remuneration	824	329	1,134	638
Other staff costs				
Salaries and other benefits	10,694	6,511	17,034	12,851
Retirement benefits scheme contributions	165	138	334	307
Total staff costs	11,683	6,978	18,502	13,796
Minimum lease payments under operating leases in respect of land and buildings	2,898	2,434	5,763	5,300

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	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Hong Kong Profits Tax:				
Current Tax	4,653	–	8,170	–
Under provision in prior years	–	–	–	121
Deferred taxation	–	–	(317)	–
	<u>4,653</u>	<u>–</u>	<u>7,853</u>	<u>121</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit arising in or derived from Hong Kong for both periods.

Futong Thailand has been granted preferential tax treatments by the Board of Investment in Thailand relating to manufacturing of cables by virtue of the provisions of the Industrial Investment Promotion Act B.E.2520 of Thailand. The preferential tax treatments granted include the exemption from payment of corporate income tax on net profit of the promoted business of the manufacturing of cables for a period of eight years from the date on which the income is first derived from such operations (the “Exemption Period”). No income tax has been provided for both periods as Futong Thailand was operating within the Exemption Period.

8. DIVIDEND

No dividends were paid, declared and proposed by the Company during the current interim period (six months ended 30 June 2016: 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	
	2017	2016	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit attributable to the owners of the Company for the purpose of basic earnings per share (<i>HK\$'000</i>)	30,321	18,783	56,051	30,476
Number of ordinary shares for the purpose of basic earnings per share (<i>thousands</i>)	195,000	195,000	195,000	195,000

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and the capitalisation of 194,500,000 shares in preparation for the Listing ("Capitalisation Issue") had been effective on 1 January 2016.

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 2017, the Group acquired at cost, leasehold improvements of approximately HK\$81,000 (six months ended 30 June 2016: HK\$nil); machinery of approximately HK\$170,000 (six months ended 30 June 2016: approximately HK\$65,000); office equipment of approximately HK\$456,000 (six months ended 30 June 2016: approximately HK\$593,000); furniture and fixtures of approximately HK\$66,000 (six months ended 30 June 2016: approximately HK\$137,000); and motor vehicles of HK\$nil (six months ended 30 June 2016: approximately HK\$207,000).

11. INVENTORIES

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Raw materials and consumables	37,923	32,771
Work in progress	9,161	12,658
Finished goods	15,403	16,121
Goods-in-transit	26,940	18,169
Total	89,427	79,719

12. TRADE RECEIVABLES

The Group grants credit terms of 0–270 days to its customers from the date of invoices. The following is an aged analysis of the trade receivables presented based on the invoice date:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
0–180 days	235,796	176,647
181–270 days	30,753	57,743
Over 270 days	6,852	18,711
	<u>273,401</u>	<u>253,101</u>

13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Electricity deposits	784	785
Other deposits	160	297
Prepayments	584	766
Other receivables	189	158
Value-added tax receivables	1,209	587
Deferred listing expenses	<u>5,870</u>	<u>3,730</u>
Total	<u>8,796</u>	<u>6,323</u>
Presented as non-current assets	27	139
Presented as current assets	<u>8,769</u>	<u>6,184</u>
Total	<u>8,796</u>	<u>6,323</u>

14. TRADE AND BILLS PAYABLES

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Bills payables	26,695	26,230
Trade payables	126,498	108,522
	153,193	134,752

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 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Trade and bills payables:		
0–30 days	43,829	43,482
31–60 days	32,103	28,217
61–90 days	22,651	19,672
91–180 days	54,434	43,211
Over 180 days	176	170
	153,193	134,752

15. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Accrued charges	4,140	2,888
Other payables	2,954	4,204
Accrued charges for listing expenses	8,102	3,010
	15,196	10,102

16. BANK BORROWINGS

During the current interim period, the Group obtained new short-term bank borrowings with total amount of HK\$58,048,000 (unaudited) (six months ended 30 June 2016: HK\$71,152,000 (unaudited)). The bank borrowings carry variable interest at United States dollar ("US\$") 3-month London Interbank Offered Rate plus 3% per annum and are repayable within one year. Pursuant to the loan agreements, the bank borrowings were secured by land, buildings and machinery of the Group.

17. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

Amount due to an intermediate holding company represents considerations payable to Futong China for the acquisition of 0.6% equity interest in Futong Thailand in the Reorganisation, which is unsecured, interest-free and repayable on demand. The amount was fully settled in March 2017.

18. SHARE CAPITAL

The Company	Number of shares	<i>HK\$'000</i>
Authorised		
At 6 September 2016 (date of incorporation) – ordinary shares of US\$0.01 each	5,000,000	390
At 7 October 2016 and 31 December 2016 – ordinary shares of HK\$0.01 each	39,000,000	390
At 30 June 2017 (unaudited) – ordinary share of HK\$0.01 each	1,000,000,000	10,000
Issued and fully paid		
At 6 September 2016 (date of incorporation)	100	–
Redenomination of shares	680	–
Issue of shares on Reorganisation	499,220	5
At 31 December 2016 and 30 June 2017 (unaudited)	500,000	5

The Company was incorporated in the Cayman Islands on 6 September 2016 with an authorised share capital of US\$50,000 divided into 5,000,000 ordinary shares of US\$0.01 each. On 7 October 2016, the currency denomination of the shares of the Company was changed from US\$ into HK\$ resulting in an authorised share capital of HK\$390,000 divided into 39,000,000 ordinary shares of HK\$0.01 each, and the number of shares in issue was changed from 100 ordinary shares of US\$0.01 each to 780 ordinary shares of HK\$0.01 each. On 7 October 2016, through the Reorganisation (set out in note 1) 499,220 ordinary shares were allotted, issued, credited as fully paid to Futong HK.

On 23 June 2017, written resolutions of the shareholders of the Company was passed and resolved that the authorised share capital of the Company be increased to HK\$10,000,000 by the creation of 961,000,000 new shares of HK\$0.01 each.

19. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Intermediate holding company		
<u>Futong China</u>		
Sales	9,744	–
Technical support service fee expense	–	261
Tutorial fee expense	–	311
Maintenance expense	69	72
Fellow subsidiaries		
<u>Futong Group (Hongkong) Company Limited</u>		
Sales	–	76,312
Purchases	–	1,092
Sales commission expense	–	1,165
<u>富通集團上海國際貿易有限公司</u>		
Purchases	–	481
Purchase of assets	–	7
<u>富通光纖光纜(深圳)有限公司</u>		
Tutorial fee expense	–	783
<u>杭州富通通信技術股份有限公司</u>		
Sales	–	8,360
Purchases	–	46,864
<u>深圳市金泰科技有限公司</u>		
Purchases	–	30,047

Six months ended 30 June
2017 2016
HK\$'000 *HK\$'000*
(Unaudited) (Unaudited)

The then non-controlling interest of Transtech[@]

Technical support service fee expense	–	130
Loan guarantee service fee	–	29
Glass rod recycle sales	–	205

Subsidiary of the then non-controlling interest of Transtech

Purchases	–	43,514
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Related Companies[^]

<u>Hangzhou Futong (H.K.) Development Limited</u>		
Management fee expense	–	200
<u>Futong Group International Limited</u>		
Rental expense	5,400	5,400

[@] With significant influence over Transtech before its disposal of 49% equity interest in Transtech to Futong China on 18 May 2016.

[^] Controlled by a shareholder of Futong Investments, ultimate holding company of the Company, and He Xingfu, director of the Company.

The sales, purchases, service fees paid, management fee paid, and rental expenses are all at the terms agreed between the relevant parties.

(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 2016 and 30 June 2017 respectively, were as follows:

	Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Short-term benefits	1,125	629
Post-employment benefits	9	9
	1,134	638

20. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2017 (unaudited) and 31 December 2016.

21. EVENT AFTER THE REPORTING PERIOD (UNAUDITED)

The shares of the Company have been listed on the GEM of the Stock Exchange by way of global offering (“Global Offering”) on 20 July 2017. On the same date, 194,500,000 of the Company’s new shares were issued through capitalisation of HK\$1,945,000 standing to the credit of share premium account of the Company. Also, 65,000,000 shares of the Company of HK\$0.01 each of the Company were issued at an offer price of HK\$1.68 per share.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The Group is principally engaged in manufacturing and sales of optical fibre cables with various standard specifications that are widely used in the telecommunications industry. The Group also designs and manufactures specialty optical fibre cables pursuant to requests from our customers, including rodent resistant optical fibre cable, flame-retardant optical fibre cable and non-metallic optical fibre cable. In addition, we manufacture optical fibres for our production of optical fibre cables, as well as for sale to third parties. Furthermore, we sell optical cable cores and other related products, including power cable and other auxiliary products. There are two major operating subsidiaries, namely, Transtech and 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.

During the reporting periods, favourable government policies have been a strong driving factor to the development of the optical fibre cable market in Thailand and other Association of Southeast Asian Nations (“ASEAN”) markets. We believe that, being the largest optical fibre cable provider in Thailand, such policies provide significant growth potential to our business. Accordingly, we plan to utilise 80% of our net proceeds from the Global Offering to expand our production facility to meet the future demand.

In Hong Kong, we intend to further increase the manufacturing efficiency in the production of optical fibres by improving our technologies and machine operation hours. We believe that the stable supply of key raw materials both from ourselves and from our long-term business partners have contributed, and will continue to contribute to, our economies of scale and production cost reduction.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2017, total revenue of the Group decreased by about 0.6% to approximately HK\$306.4 million as compared with the corresponding period in 2016.

For the three months ended 30 June 2017, total revenue of the Group decreased by about 2.7% to approximately HK\$168.4 million as compared with the corresponding period in 2016.

The decrease for the six months ended and three months ended 30 June 2017 in total revenue was mainly due to the net effect of (i) increased supply of optical fibres to Futong Thailand for the production of optical fibre cables and optical cable cores during the six months ended 30 June 2017, which in turn reduced the sales of optical fibres to independent third party customers, (ii) decreased sales of optical fibre cables during the six months ended 30 June 2017 primarily due to increased market competition and (iii) increased sales of optical cable cores mainly due to our sales to a new customer of our Group since the second-half of 2016, as a result of our effort in expanding our optical cable core market to external customers. However, such increase in sales of optical cable cores cannot completely offset the drop of sales of optical fibres and optical fibre cables as mentioned above.

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, 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 2017, the cost of sales of the Group decreased by about 14.3% to approximately HK\$228.5 million as compared with the corresponding period in 2016.

For the three months ended 30 June 2017, the cost of sales of the Group decreased by about 14.2% to approximately HK\$126.5 million as compared with the corresponding period in 2016.

Such decrease for the six months ended and three months ended 30 June 2017 was mainly attributable to the net effect of (i) the drop of sales of optical fibres and optical fibres cables and (ii) increased sales of optical cable cores during the said periods. Cost of sales as a percentage of revenue decreased for the six months ended and three months ended 30 June 2017, primarily because the overall sales of our products decreased, while the cost of sales decreased at faster rate mainly due to (i) the improvement on production efficiency of optical fibres during the current period, (ii) preferential prices offered by suppliers of raw materials for the production of optical fibres to maintain long-term business relationship and (iii) relatively lower raw materials consumption for producing optical cable cores compared with optical fibre cables.

The gross profit of the Group increased from HK\$41.7 million, for the six months ended 30 June 2016 to HK\$77.9 million for the six months ended 30 June 2017. The gross profit margin increased from 13.5% for the six months ended 30 June 2016 to 25.4% for the six months ended 30 June 2017. This is mainly because the average selling price of optical fibres and optical fibre cables for the six months ended 30 June 2017 increased by approximately 26.8% and 25.0%, respectively, as compared with the corresponding period in 2016.

The gross profit of the Group increased from HK\$25.7 million, for the three months ended 30 June 2016 to HK\$41.9 million for the three months ended 30 June 2017. The gross profit margin increased from 14.8% for the three months ended 30 June 2016 to 24.9% for the three months ended 30 June 2017. This is mainly because the average selling price of optical fibres and optical fibre cables for the three months ended 30 June 2017 increased by approximately 22.4% and 26.6%, respectively, as compared with the corresponding period in 2016.

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 increased from approximately HK\$2.6 million for the six months ended 30 June 2016 to approximately HK\$3.4 million for the six months ended 30 June 2017, representing an increase of approximately 30.8%.

The Group's selling and distribution expenses increased from approximately HK\$1.8 million for the three months ended 30 June 2016 to approximately HK\$2.1 million for the three months ended 30 June 2017, representing an increase of approximately 16.7%.

The increase in the selling and distribution expenses for the six months ended and three months ended 30 June 2017 was mainly due to the net effect of (i) increase in staff cost as a result of increase the headcount of sales and marketing department in Futong Thailand and (ii) decrease in sales commission expense as we conducted our sales in PRC through Parent Company, which involves no commission payment during the same periods.

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 increased from approximately HK\$9.7 million for the six months ended 30 June 2016 to approximately HK\$12.0 million for the six months ended 30 June 2017, representing an increase of approximately 23.7%.

The Group's administrative expenses increased from approximately HK\$4.8 million for the three months ended 30 June 2016 to approximately HK\$6.3 million for the three months ended 30 June 2017, representing an increase of approximately 31.3%.

The increase in the administrative expenses for the six months ended and three months ended 30 June 2017 was mainly attributable to the increase in staff cost as a result of (i) increase headcount for listing and (ii) salaries increment during the same periods.

Finance costs

Finance costs represent the interest expense on bank borrowings. The decrease for the six months ended and three months ended 30 June 2017 was mainly due to the decrease in the bank borrowings outstanding during the said periods as compared with the corresponding periods in 2016.

Listing expenses

The Company started preparation work for the Listing after June 2016 and therefore, no Listing expenses have been incurred for the six months ended and three months ended 30 June 2016. For the six months ended 30 June 2017, we incurred listing expenses of approximately HK\$ 6.4 million.

Profit for the period

Profit attributable to owners of the Company for the six months ended 30 June 2017 amounted to approximately HK\$56.1 million (six months ended 30 June 2016: approximately HK\$30.5 million).

Profit attributable to owners of the Company for the three months ended 30 June 2017 amounted to approximately HK\$30.3 million (three months ended 30 June 2016: approximately HK\$18.8 million).

The increase in profit attributable to owners of the Company for the six months ended and three months ended 30 June 2017 was mainly attributable to the net effects of (i) the increase in gross profit; (ii) the increase in staff cost and (iii) non-recurring Listing expenses incurred during the same periods.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of funds are used to finance working capital, and the growth and expansion of the Group's operations and sales network. The Group's principal sources of funds are cash generated from operations and bank borrowings. The Group had cash and cash equivalents

of approximately HK\$92.4 million as at 30 June 2017 (31 December 2016: approximately HK\$58.6 million). As at 30 June 2017, the Group had total bank borrowings of approximately HK\$27.8 million (31 December 2016: approximately HK\$58.5 million). In the details of the bank borrowings can be referenced to note 16 of the condensed consolidated financial statements.

GEARING RATIO

Gearing ratio is calculated as total borrowings (including payables not incurred in the ordinary course of business of the Group) divided by the total equity as at the respective reporting dates. As at 30 June 2017 and 31 December 2016, the gearing ratio were 7.1% and 17.8%, respectively.

CAPITAL STRUCTURE

As at 30 June 2017, the Company's issued share capital was HK\$5,000 and the number of its issued ordinary shares was 500,000 of HK\$0.01 each.

The Company's shares were successfully listed on GEM on 20 July 2017 (the "Listing Date"). As a result of the issuance of 194,500,000 and 65,000,000 shares of the Company pursuant to the Capitalisation Issue and Global Offering, respectively, the total number of issued shares of the company increased to 260,000,000 as at the Listing Date. 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

As at 30 June 2017, the Group had no material contingent liabilities (31 December 2016: nil).

CHARGE OF ASSETS

As at 30 June 2017, the Group had pledged its land, buildings and machinery of approximately HK\$82.5 million (31 December 2016: approximately HK\$82.3 million) to secure the banking facilities granted to the Group. As at 30 June 2017, a charge was registered in the British Virgin Islands in relation to a bank facility with maximum limit of HK\$50 million.

FOREIGN CURRENCY RISK

Our Group's foreign currency exposures arise mainly from the exchange rate movements of the US\$ and Renminbi ("RMB") against Thai Baht ("THB"). 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. Our Group has established a foreign currency risk management policy to monitor and manage foreign currency risks.

CAPITAL COMMITMENTS

As at 30 June 2017, the Group did not have any significant capital commitments (31 December 2016: nil).

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 30 June 2017, the Group did not hold any significant investment in equity interest in any other company.

USE OF PROCEEDS

As the Listing took place on 20 July 2017, no net proceeds from the Global Offering has been received or utilised by the Company during the six months ended 30 June 2017. 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	Actual progress up to the date of this report
<ul style="list-style-type: none"> approximately HK\$73.4 million, representing 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; 	Nil
<ul style="list-style-type: none"> approximately HK\$4.6 million, representing approximately 5% of the net proceeds will be used for strengthening the research and development capabilities and expanding the range of products; 	Nil
<ul style="list-style-type: none"> approximately HK\$4.6 million, representing 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; and 	Nil
<ul style="list-style-type: none"> approximately HK\$9.2 million, representing approximately 10% of the net proceeds will be used as the general working capital and for general corporate purposes. 	Nil

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the “Future Plans and Use of Proceeds” section of the Prospectus, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 June 2017, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEE AND EMOLUMENT POLICIES

As at 30 June 2017, the employee headcount (including Directors) of the Group was 263 (31 December 2016: 270) and the total staff costs, including directors' emoluments, amounted to approximately HK\$18.5 million during the six months ended 30 June 2017 (six months ended 30 June 2016: approximately HK\$13.8 million). The Group recruits and promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff and to enable smooth operations within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis. The emoluments of the Directors and senior management are reviewed and approved by the Board of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As the Listing took place on 20 July 2017, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") and section 352 of the SFO were not applicable as at 30 June 2017.

As at the Listing Date and up to the date of this report, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES OR UNDERLYING SHARES OF THE COMPANY

As the Listing took place on 20 July 2017, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable as at 30 June 2017.

So far as is known to the Directors, as at the Listing Date 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.

Save as disclosed above, as at Listing Date and up to the date of this report, the Directors were not aware of any other persons or companies who had any interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIVIDENDS

The Board did not recommend a payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: 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 2017 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. As the Listing took place on 20 July 2017, the Directors were not required to comply with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules regarding directors' securities transactions for the six months ended 30 June 2017.

COMPETING INTERESTS

As at 30 June 2017, save as disclosed in "Relationship with Controlling Shareholders" section of the Prospectus, none of the Directors, and the controlling shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

INTERESTS OF THE COMPLIANCE ADVISER

As at 30 June 2017, neither Innovax Capital Limited, the compliance adviser of the Company, nor any of its directors, employees or associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with the written terms of reference in compliance with the GEM Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Leong Chew Kuan, who has the appropriate accounting and financial related management expertise and serves as the chairman of the audit committee, Mr. Lau Siu Hang and Mr. Li Wei. The financial information in this report has not been audited by the auditor of the Company, but the audit committee has reviewed this report and has provided advice and comments thereon.

CORPORATE GOVERNANCE

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 15 of the GEM Listing Rules.

As the Listing took place on 20 July 2017, the Company was not required to comply with the provisions of the CG Code for the six months ended 30 June 2017.

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

Hong Kong, 14 August 2017

As at the date of this report, the executive Directors are Hu Guoqiang, He Xingfu, Wei Guoqing, Pan Jinhua and Xu Muzhong; and the independent non-executive Directors are Li Wei, Leong Chew Kuan and Lau Siu Hang.