

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 THIRD QUARTERLY 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\$452.1 million for the nine months ended 30 September 2017 (nine months ended 30 September 2016: approximately HK\$448.1 million).
- Profit attributable to the owners of the Company for the nine months ended 30 September 2017 amounted to approximately HK\$85.0 million (nine months ended 30 September 2016: approximately HK\$49.6million).
- Basic earnings per share amounted to approximately HK\$40.0 cents for the nine months ended 30 September 2017 (nine months ended 30 September 2016: approximately HK\$25.5 cents).
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2017 (nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2017

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	3	145,690	139,764	452,106	448,093
Cost of sales		(105,486)	(113,478)	(333,980)	(380,113)
Gross profit		40,204	26,286	118,126	67,980
Other income	4	752	212	1,717	834
Other gains	4	5,086	3,238	12,828	9,070
Selling and distribution expenses		(1,855)	(401)	(5,240)	(2,984)
Administrative expenses		(8,125)	(4,201)	(20,125)	(13,862)
Finance costs	5	(185)	(629)	(1,114)	(2,618)
Listing expenses		(3,218)	(5,346)	(9,629)	(5,346)
Profit before taxation	6	32,659	19,159	96,563	53,074
Income tax expense	7	(3,677)	-	(11,530)	(121)
Profit for the period		28,982	19,159	85,033	52,953
Other comprehensive income					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		8,796	1,936	15,059	5,548
Total comprehensive income for the period		37,778	21,095	100,092	58,501

	Note	Three months ended 30 September		Nine months ended 30 September	
		2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Profit for period attributable to:					
Owners of the Company		28,982	19,159	85,033	49,635
Non-controlling interests		-	-	-	3,318
		28,982	19,159	85,033	52,953
Total comprehensive income for the period attributable to:					
Owners of the Company		37,778	21,095	100,092	55,183
Non-controlling interest		-	-	-	3,318
		37,778	21,095	100,092	58,501
Earnings per share					
Basic (<i>HK cents</i>)	9	11.8	9.8	40.0	25.5

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2017

	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Foreign exchange reserve HK\$'000	Accumulated (losses) profits HK\$'000	Equity attributable to the owners of the Company HK\$'000	Non-controlling interest HK\$'000	Total 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	-	-	-	-	49,635	49,635	3,318	52,953
Other comprehensive income	-	-	-	5,548	-	5,548	-	5,548
Total comprehensive income for the period	-	-	-	5,548	49,635	55,183	3,318	58,501
Acquisition of additional interests in a subsidiary	-	-	68,865	-	-	68,865	(68,865)	-
Group Reorganisation (partial)	-	-	(915)	-	-	(915)	-	(915)
At 30 September 2016 (Unaudited)	125,903	114,329	48,804	(15,782)	46,688	319,942	-	319,942
At 1 January 2017 (Audited)	5	-	289,031	(21,245)	60,968	328,759	-	328,759
Profit for the period	-	-	-	-	85,033	85,033	-	85,033
Other comprehensive income	-	-	-	15,059	-	15,059	-	15,059
Total comprehensive income for the period	-	-	-	15,059	85,033	100,092	-	100,092
Issue of shares pursuant to Capitalisation Issue	1,945	(1,945)	-	-	-	-	-	-
Issue of shares under the Global offering	650	108,550	-	-	-	109,200	-	109,200
Expenses incurred in connection with the issue of shares	-	(11,071)	-	-	-	(11,071)	-	(11,071)
At 30 September 2017 (Unaudited)	2,600	95,534	289,031	(6,186)	146,001	526,980	-	526,980

Note: Other reserve represents (i) the contribution made by Futong Group Co., Ltd. ("Futong China"), an intermediate holding company, to the Group; (ii) the change in proportionate share of the carrying amount of the net assets of Transtech Optical Communication Company Limited ("Transtech") upon change in ownership interest without gaining or losing control; and (iii) share capital and share premium of Transtech and Futong Group Communication Technology (Thailand) Co., Ltd. ("Futong Thailand").

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended 30 September 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 nine months ended 30 September 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, and condensed consolidated statement of changes in equity for the nine months ended 30 September 2016 includes the results and changes in equity of the companies now comprising the Group as if the current group structure had been in existence throughout the nine months ended 30 September 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 Standards (“HKAS”) 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 nine months ended 30 September 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 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 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

	Nine months ended 30 September 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	292,741	159,365	-	452,106
Inter-segment sales	-	55,043	(55,043)	-
Segment revenue	<u>292,741</u>	<u>214,408</u>	<u>(55,043)</u>	<u>452,106</u>
Segment results	<u>41,907</u>	<u>71,879</u>	<u>(3,251)</u>	110,535
Unallocated corporate expense				(3,229)
Finance costs				(1,114)
Listing expenses				<u>(9,629)</u>
Profit before taxation				<u>96,563</u>

	Nine months ended 30 September 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	265,470	182,623	-	448,093
Inter-segment sales	-	5,583	(5,583)	-
Segment revenue	<u>265,470</u>	<u>188,206</u>	<u>(5,583)</u>	<u>448,093</u>
Segment results	<u>32,316</u>	<u>29,212</u>	<u>(469)</u>	61,059
Unallocated corporate expense				(21)
Finance costs				(2,618)
Listing expenses				<u>(5,346)</u>
Profit before taxation				<u>53,074</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 September		Nine months ended 30 September	
	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	160	132	483	500
Bank interest income	182	–	271	15
Others	410	80	963	319
	<u>752</u>	<u>212</u>	<u>1,717</u>	<u>834</u>
Other gains:				
Foreign exchange gains	5,086	3,238	12,828	9,061
Gain on disposals of property, plant and equipment	–	–	–	9
	<u>5,086</u>	<u>3,238</u>	<u>12,828</u>	<u>9,070</u>

5. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	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	<u>185</u>	<u>629</u>	<u>1,114</u>	<u>2,618</u>

6. PROFIT BEFORE TAXATION

	Three months ended 30 September		Nine months ended 30 September	
	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	286	59	1,026	177
Depreciation of property, plant and equipment	4,656	4,341	13,515	12,753
Directors' remuneration	1,108	352	2,242	990
Other staff costs				
Salaries and other benefits	8,551	7,102	25,585	19,953
Retirement benefits scheme contributions	180	146	514	453
Total staff costs	9,839	7,600	28,341	21,396
Minimum lease payments under operating leases in respect of land and buildings	<u>2,858</u>	<u>3,271</u>	<u>8,621</u>	<u>8,571</u>

7. INCOME TAX EXPENSE

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

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hong Kong Profits Tax:				
Current Tax	3,796	-	11,966	-
Under provision in prior years	-	-	-	121
Deferred taxation	(119)	-	(436)	-
	<u>3,677</u>	<u>-</u>	<u>11,530</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 period (nine months ended 30 September 2016: nil). The directors have determined that no dividend will be paid in respect of the current period.

9. EARNINGS PER SHARE

	Three months ended 30 September		Nine months ended 30 September	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Earnings				
Profit attributable to the owners of the Company for the purpose of basic earnings per share (<i>HK\$'000</i>)	<u>28,982</u>	<u>19,159</u>	<u>85,033</u>	<u>49,635</u>
Number of ordinary shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share (<i>thousands</i>)	<u>246,576</u>	<u>195,000</u>	<u>212,381</u>	<u>195,000</u>

The calculation of basic earnings per share for the three months and nine months ended 30 September 2017 is 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 approximately 246,576,000 and 212,381,000 respectively.

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 and the global offering of 65,000,000 shares ("Global Offering") on the Listing date, 20 July 2017 ("Listing Date").

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the periods.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW 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. To meet the requests from the customers, the Group also designs and manufactures specialty optical fibre cables 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. Transtech and Futong Thailand are the two major operating subsidiaries of the Group. Transtech is mainly 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.

Favourable government policies are still the strong driving factor to the development of the optical fibre cable market in Thailand and other Association of Southeast Asian Nations (“ASEAN”) markets during the reporting periods. 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.

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 nine months ended 30 September 2017, total revenue of the Group increased by about 0.9% to approximately HK\$452.1 million as compared with the corresponding period in 2016.

The increase in total revenue for the nine months ended 30 September 2017 was mainly due to (i) the increase of average selling prices of optical fibres and optical fibre cables due to stronger market demand; (ii) increased sales volume 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, the increase mentioned above was partly offset during the nine months ended 30 September 2017 by: (i) increased supply of optical fibres to Futong Thailand for the production of optical fibre cables and optical cable cores, which in turn reduced the sales volume of optical fibres to independent third party customers, (ii) decreased sales volume of optical fibre cables primarily due to increased market competition and (iii) change of customers' demand for optical fibre cables with different specification.

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 nine months ended 30 September 2017, the cost of sales of the Group decreased by about 12.1% to approximately HK\$334.0 million as compared with the corresponding period in 2016.

Such decrease for the nine months ended 30 September 2017 was mainly attributable to the net effect of (i) the drop of sales volume of optical fibres and optical fibre cables and (ii) increased sales volume of optical cable cores during the said periods. In addition, the unit costs of optical fibres and optical cable cores decreased mainly due to (i) the improvement on production efficiency and quality of two of the drawing production lines of our Group's major optical preform supplier for the production 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 approximately HK\$68.0 million, for the nine months ended 30 September 2016 to approximately HK\$118.1 million for the nine months ended 30 September 2017. The gross profit margin increased from approximately 15.2% for the nine months ended 30 September 2016 to approximately 26.1% for the nine months ended 30 September 2017. This is mainly because the gross profit margin of optical fibres and optical cable cores for the nine months ended 30 September 2017 increased by approximately 18.7% and 6.8% 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\$3.0 million for the nine months ended 30 September 2016 to approximately HK\$5.2 million for the nine months ended 30 September 2017, representing an increase of approximately 73.3%.

The increase in the selling and distribution expenses for the nine months ended 30 September 2017 was mainly due to the net effect of (i) increase in staff cost as a result of increase in 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\$13.9million for the nine months ended 30 September 2016 to approximately HK\$20.1 million for the nine months ended 30 September 2017, representing an increase of approximately 44.6%.

The increase in the administrative expenses for the nine months ended 30 September 2017 was mainly attributable to (i) increase in compliance cost incurred upon the Listing in July 2017, and (ii) the increase in staff cost as a result of increased headcount for Listing and salaries increment during the same periods.

Finance costs

Finance costs represent the interest expense on bank borrowings. The decrease for the nine months ended 30 September 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 in the third quarter of 2016. Listing expenses increased from approximately HK\$5.3 million for the nine months ended 30 September 2016 to approximately HK\$9.6 million for the nine months ended 30 September 2017, representing an increase of approximately 81.1%.

Profit for the period

Profit attributable to owners of the Company for the nine months ended 30 September 2017 amounted to approximately HK\$85.0 million (nine months ended 30 September 2016: approximately HK\$49.6 million).

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

CONTINGENT LIABILITIES

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

CHARGE OF ASSETS

As at 30 September 2017, the Group had pledged its land, buildings and machinery of approximately HK\$84.6 million (31 December 2016: approximately HK\$82.3 million) to secure the banking facilities granted to the Group. As at 30 September 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 September 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 September 2017, the Group did not hold any significant investment in equity interest in any other company.

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

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

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 dividend for the nine months ended 30 September 2017 (nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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. All Directors have confirmed that they have complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules regarding directors' securities transactions from Listing Date to 30 September 2017.

COMPETING INTERESTS

As at 30 September 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 close associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Innovax Capital Limited ("Innovax Capital"), as at 30 September 2017, except for the compliance adviser agreement entered into between the Company and Innovax Capital, neither Innovax Capital, nor any of its directors, employees or close associates (as defined in the GEM Listing Rules) had any interests in relation to the Company which are required to be notified to the Company pursuant to Rule 6A.32 of GEM Listing Rules.

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules and the Board is satisfied that the Company had complied with the CG Code from the Listing Date to 30 September 2017.

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

Hong Kong, 14 November 2017

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