

# 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

FIRST QUARTERLY REPORT  
**2019**



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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.*

## CONTENTS

Financial Highlights	3
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)	4
Condensed Consolidated Statement of Changes in Equity (Unaudited)	5
Notes to the Unaudited Condensed Consolidated Financial Statements	6
Management Discussion and Analysis	18

## FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK\$100.4 million for the three months ended 31 March 2019 (three months ended 31 March 2018: approximately HK\$142.8 million).
- Profit attributable to the owners of the Company for the three months ended 31 March 2019 amounted to approximately HK\$15.5 million (three months ended 31 March 2018: approximately HK\$36.3 million).
- Basic earnings per share amounted to approximately HK\$5.97 cents for the three months ended 31 March 2019 (three months ended 31 March 2018: approximately HK\$13.97 cents).
- The Board does not recommend the payment of any dividend for the three months ended 31 March 2019 (three months ended 31 March 2018: nil).

## FINANCIAL RESULTS

The board of directors (the “Board”) of Transtech Optelecom Science Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2019 together with the comparative unaudited figures for the corresponding period in 2018 as follows:

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

For the three months ended 31 March 2019

	Notes	Three months ended 31 March	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Revenue</b>	3	<b>100,364</b>	142,835
Cost of sales		<b>(78,338)</b>	(103,977)
<b>Gross profit</b>		<b>22,026</b>	38,858
Other income	4	<b>290</b>	1,285
Other gains	4	<b>3,462</b>	10,749
Loss allowance for trade receivables		<b>(277)</b>	–
Selling and distribution expenses		<b>(1,353)</b>	(1,895)
Administrative expenses		<b>(6,754)</b>	(7,536)
Finance costs	5	<b>(536)</b>	(42)
Profit before taxation	6	<b>16,858</b>	41,419
Income tax expense	7	<b>(1,329)</b>	(5,104)
Profit for the period		<b>15,529</b>	36,315
<b>Other comprehensive income</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<b>8,458</b>	10,376
Total comprehensive income for the period		<b>23,987</b>	46,691
<b>Earnings per share</b>			
Basic (HK cents)	9	<b>5.97</b>	13.97

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2019

	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (note)	Foreign exchange reserve HK\$'000	Accumulated profits HK\$'000	Equity attributable to the owners of the Company HK\$'000
At 1 January 2018 (Audited)	2,600	95,534	289,031	(1,302)	164,389	550,252
Profit for the period	-	-	-	-	36,315	36,315
Other comprehensive income	-	-	-	10,376	-	10,376
Total comprehensive income for the period	-	-	-	10,376	36,315	46,691
At 31 March 2018 (Unaudited)	2,600	95,534	289,031	9,074	200,704	596,943
At 1 January 2019 (Audited)	2,600	95,534	289,031	(117)	243,947	630,995
Adjustment	-	-	-	-	(2,132)	(2,132)
At 1 January 2019 (restated)	2,600	95,534	289,031	(117)	241,815	628,863
Profit for the period	-	-	-	-	15,529	15,529
Other comprehensive income	-	-	-	8,458	-	8,458
Total comprehensive income for the period	-	-	-	8,458	15,529	23,987
At 31 March 2019 (Unaudited)	2,600	95,534	289,031	8,341	257,344	652,850

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



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

## 1. BASIS OF PREPARATION AND PRESENTATION

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

The unaudited condensed consolidated financial statements of the Group have been prepared under the historical cost convention and are presented in Hong Kong dollars (“HK\$”), which is the functional currency of the Company, and prepared in accordance with Hong Kong Accounting Standards (“HKAS”) issued by the HKICPA, and the applicable disclosure requirements of the GEM Listing Rules. The preparation of this unaudited quarterly financial report requires management to make judgments, estimates and assumptions that affect the application of the policies and reported amount of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The unaudited quarterly financial report was approved and authorized for issue by the Board on 6 May 2019.

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

### New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

## HKFRS 16 Leases

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under HKAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

Saved for the above, the significant accounting policies that have been used in the preparation of the unaudited condensed consolidated financial statements for the three months ended 31 March 2019 are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018 included in the 2018 Annual Report.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

## 3. REVENUE AND SEGMENT INFORMATION

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

For the period ended 31 March 2019

Segments	Optical fibres HK\$'000	Optical fibre cables and optical cable cores HK\$'000	Total HK\$'000
<b>Types of goods</b>			
Sales of goods			
— recognised at a point in time			
Optical fibre cables	–	31,726	31,726
Optical fibres	42,464	–	42,464
Optical cable cores	–	26,174	26,174
<b>Total</b>	<b>42,464</b>	<b>57,900</b>	<b>100,364</b>

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

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

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

## For the period ended 31 March 2018

Segments	Optical fibres HK\$'000	Optical fibre cables and optical cable cores HK\$'000	Total HK\$'000
<b>Types of goods</b>			
Sales of goods			
— recognised at a point in time			
Optical fibre cables	–	50,610	50,610
Optical fibres	60,073	–	60,073
Optical cable cores	–	32,152	32,152
<b>Total</b>	<b>60,073</b>	<b>82,762</b>	<b>142,835</b>

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the period ended 31 March 2018				
	Optical fibre cables and optical cable cores HK\$'000	Optical fibres HK\$'000	Total segment revenue HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Sales of optical fibre cables	50,610	–	50,610	–	50,610
Sales of optical fibre	–	86,765	86,765	(26,692)	60,073
Sales of optical cable cores	32,152	–	32,152	–	32,152
<b>Segment revenue</b>	<b>82,762</b>	<b>86,765</b>	<b>169,527</b>	<b>(26,692)</b>	<b>142,835</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

## (ii) Performance obligations for contracts with customers

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

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

Following the delivery, the customers have full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 0 to 720 days (three months ended 31 March 2018: 0 to 365 days) upon delivery.

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

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

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

## Segment revenue and results

	Three months ended 31 March 2019				
	Optical fibre cables and optical cable cores HK\$'000	Optical fibres HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	Combined HK\$'000
<b>Revenue</b>					
External sales	57,900	42,464	100,364	–	100,364
Inter-segment sales	–	19,776	19,776	(19,776)	–
Segment revenue	57,900	62,240	120,140	(19,776)	100,364
Segment results	7,108	10,573	17,681	870	18,551
Interest income					46
Unallocated corporate expense					(1,203)
Finance costs					(536)
Profit before taxation					16,858

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

	Three months ended 31 March 2018				
	Optical fibre cables and optical cable cores HK\$'000	Optical fibres HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	Combined HK\$'000
<b>Revenue</b>					
External sales	82,762	60,073	142,835	–	142,835
Inter-segment sales	–	26,692	26,692	(26,692)	–
Segment revenue	82,762	86,765	169,527	(26,692)	142,835
Segment results	6,505	35,984	42,489	107	42,596
Interest income					161
Unallocated corporate expense					(1,296)
Finance costs					(42)
Profit before taxation					41,419

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of bank interest income, unallocated corporate expense, finance costs and income tax expense.

## Inter-segment sales are charged at prevailing market rates

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

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

## 4. OTHER INCOME AND GAINS

	Three months ended 31 March	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Other income:</b>		
Income from sales of scrap products	36	112
Bank interest income	216	800
Others	38	373
	290	1,285
<b>Other gains:</b>		
Foreign exchange gains	3,462	10,749

## 5. FINANCE COSTS

	Three months ended 31 March	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Interest on bank borrowings	328	42
Interest on lease liabilities	208	–
	536	42



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

## 6. PROFIT BEFORE TAXATION

	Three months ended 31 March	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Profit before taxation has been arrived at after charging:</b>		
Auditor's remuneration	263	225
Depreciation of property, plant and equipment	3,542	4,688
Depreciation of right-of-use assets	2,739	–
Directors' remuneration	1,239	1,125
Other staff costs		
Salaries and other benefits	8,226	8,950
Retirement benefits scheme contributions	207	215
Total staff costs	9,672	10,290
Lease payments under operating leases in respect of land and buildings which are not included in lease liabilities	184	3,163

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

## 7. INCOME TAX EXPENSE

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

	Three months ended 31 March	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Hong Kong Profits Tax:</b>		
Current Tax	1,106	5,254
Thailand withholding tax	39	–
Deferred taxation	184	(150)
	<b>1,329</b>	5,104

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the year ended 31 December 2018, the Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

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

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

## 8. DIVIDEND

No dividends were paid, declared and proposed by the Company during the current period (three months ended 31 March 2018: nil). The directors have determined that no dividend will be paid in respect of the current period.

## 9. EARNINGS PER SHARE

	Three months ended 31 March	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
<b>Earnings</b>		
Profit attributable to the owners of the Company for the purpose of basic earnings per share (HK\$'000)	15,529	36,315
<b>Number of ordinary shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands)	260,000	260,000

The calculation of basic earnings per share for the three months ended 31 March 2019 and 31 March 2018 are based on the profit for the period attributable to the equity holders of the Company, and the weighted average number of issued ordinary shares is 260,000,000.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND PROSPECTS

For the three months ended 31 March 2019, the Group reported a lower revenue of approximately HK\$100.4 million (three months ended 31 March 2018: approximately HK\$142.8 million), representing a decrease of approximately 29.7% as compared to the corresponding period in 2018. Other than Futong Thailand's customers based in Thailand, order placement from customers in the ASEAN was slow given that relevant construction projects on telecommunication infrastructure have yet to fully commence during the reporting period, which resulted in a reduced demand in the optical fibre cable market in ASEAN countries (other than Thailand). Due to the slowdown of China's 5G commercial process, the increase in demand for optical fibres is minimal, thus the export of optical fibres for Transtech was affected during the reporting period. Consequently, two subsidiaries of the Group received less orders from their customers and recorded a downturn in terms of its revenue accordingly.

Similar to 2018, the favorable government policies in Thailand in support of telecommunication infrastructure development remain as a strong driver for the Group's sales in Thailand in 2019, which had partially offset the effect from the temporary unstable environment in Thailand during the first quarter of 2019. In such connection, the Group has recorded an improvement in its revenue in March 2019 as compared to that of January and February 2019. For Transtech, it is believed that the Chinese government will continue to implement policies to enhance the national manufacturing power and facilitate the development of the 5G of mobile communications. These policies will in turn accelerate the integration of the information and communication technologies and industries, and drive the growth in data traffic. These factors may also promote industrial upgrade and in turn stimulate the demand for optical fibre cables, as optical fibre cables may be utilised for the construction of the high-speed broadband network infrastructure. The demand for optical fibre cables in the PRC is believed to remain promising in view of the development of the optical broadband and wireless broadband mobile communications, and such increasing demand in China will in turn bring a positive effect to the price and demand for optical fibre and optical fibre cables in the second half of FY2019. In view of those factors, the Group will continue to implement its production capacity expansion plan by developing the factory in Thailand in order to capture those opportunities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

For the three months ended 31 March 2019, total revenue of the Group decreased by about 29.7% to approximately HK\$100.4 million as compared with the corresponding period in 2018.

The decrease in total revenue for the three months ended 31 March 2019 was mainly due to less demand in optical fibres, optical cable cores and optical fibre cables in ASEAN markets (other than Thailand) as compared with the corresponding period in 2018, resulting in decrease in sales volume and selling prices of the above products (except for optical fibre cable sales in Thailand). While the general demand for optical fibre cables in ASEAN markets (other than Thailand) was lower during the reporting period as compared to that of 2018, we received orders for optical fibre cables of different specification which has a higher selling price from customers in ASEAN markets (other than Thailand), therefore, the drop in demand and the resulting revenue was partially offset by the effect of such orders.

### Cost of sales and gross profit

The key components of the Group's cost of sales comprised principally the (i) raw materials used for production of optical fibres, optical fibre cables and optical cable cores, (ii) direct and indirect labour costs, (iii) manufacturing overheads such as depreciation for plant and equipment, rent, consumables, utilities, and other expenses related to the manufacturing our products and (iv) change in inventories of finished goods and work in progress.

For the three months ended 31 March 2019, the cost of sales of the Group decreased by about 24.7% to approximately HK\$78.3 million as compared with the corresponding period in 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

Such decrease for the three months ended 31 March 2019 was mainly attributable to the decrease of sales volume of optical fibres, optical cable cores and optical fibre cables in ASEAN other than Thailand markets during the said periods. However, as the Group received orders for optical fibre cables of a different specification which has a higher selling price from customers in ASEAN markets (other than Thailand), the relevant cost of sales was higher for those orders as compared to the other orders, and that offset the decrease in cost of sales caused by the lower sales during the reporting period.

The gross profit of the Group decreased from approximately HK\$38.9 million, for the three months ended 31 March 2018 to approximately HK\$22.0 million for the three months ended 31 March 2019. The gross profit margin decreased from approximately 27.2% for the three months ended 31 March 2018 to approximately 22.0% for the three months ended 31 March 2019. This is mainly because the gross profit margin of optical fibres and optical fibre cables for the three months ended 31 March 2019 decreased by approximately 15.4% and 7.0% respectively, as compared with the corresponding period in 2018. Nevertheless, the gross profit margin of optical cable cores increased by approximately 13.8%, which partially offset the overall decrease in gross profit margin for the reporting period as mentioned above.

## Other Gain and Losses

The Group's foreign exchange gain decreased from approximately HK\$10.7 million for the three months ended 31 March 2018 to approximately HK\$3.5 million for the three months ended 31 March 2019 mainly due to the amount of appreciation of Renminbi ("RMB") against Hong Kong Dollar ("HK\$") during the period is less than that of the corresponding period in 2018.

## 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\$1.9 million for the three months ended 31 March 2018 to approximately HK\$1.4 million for the three months ended 31 March 2019, representing a decrease of approximately 26.3%.

The decrease in the selling and distribution expenses for the three months ended 31 March 2019 was mainly due to decrease in staff cost as a result of decrease in the headcount of sales and marketing department in Futong Thailand.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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\$7.5 million for the three months ended 31 March 2018 to approximately HK\$6.8 million for the three months ended 31 March 2019, representing a decrease of approximately 9.3%.

The decrease in the administrative expenses for the three months ended 31 March 2019 was mainly attributable to the partial leasehold improvement relating to Futung Thailand which had already been fully depreciated in November 2018, resulting in decrease in depreciation charges during the said period.

## Finance costs

Finance costs represent the interest expense on bank borrowings and lease liabilities. The increase for the three months ended 31 March 2019 was mainly due to (i) the increase in the bank borrowings outstanding during the said periods as compared with the corresponding periods in 2018 and (ii) lease liabilities were recognised since the Group has applied new and amendments of HKFRSs issued by HKICPA. Interest expenses were recognised starting from 2019.

## Profit for the period

Profit attributable to owners of the Company for the three months ended 31 March 2019 amounted to approximately HK\$15.5 million (three months ended 31 March 2018: approximately HK\$36.3 million).

The decrease in profit attributable to owners of the Company for the three months ended 31 March 2019 was mainly attributable to (i) the decrease in gross profit; (ii) the decrease in foreign exchange gain; and (iii) the increase of interests in bank borrowing and lease liabilities, as compared with the corresponding period in 2018.



# MANAGEMENT DISCUSSION AND ANALYSIS

## CONTINGENT LIABILITIES

As at 31 March 2019, the Group had no material contingent liabilities (31 December 2018: nil).

## CHARGE OF ASSETS

As at 31 March 2019, the Group had pledged its land, buildings and machinery of approximately HK\$79.6 million (31 December 2018: approximately HK\$79.0 million) to secure the banking facilities granted to the Group. As at 31 March 2019, a charge was registered in the British Virgin Islands in relation to a bank facility with maximum limit of HK\$50 million.

## FOREIGN CURRENCY RISK

Our Group's foreign currency exposures arise mainly from the exchange rate movements of the US\$ and Renminbi ("RMB") against Thai Baht ("THB") and RMB against HK\$. Any depreciation of THB will reduce the amount of revenue we generate in Thailand in terms of our reporting currency and adversely impact our results of operations. Similarly, any depreciation of RMB will also reduce the amount of our revenue in Hong Kong. Anyway, our Group has established a foreign currency risk management policy to monitor and manage foreign currency risks.

## CAPITAL COMMITMENTS

As at 31 March 2019, the Group has capital commitments of approximately HK\$55.6 million (31 December 2018: HK\$56.1 million).

## SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 31 March 2019, the Group did not hold any significant investment in equity interest in any other company.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

So far as is known to the Directors, throughout the reporting period and up to the date of this report, the following persons, other than a Director or a chief executive of the Company, had interest or short position in the shares and/or the underlying shares which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Number of shares held <sup>(1)</sup>	Approximate shareholding percentage
Mr. Wang Jianyi ("Mr. Wang") <sup>(2)</sup>	Interest in a controlled corporation	195,000,000 (L)	75%
Futong Investments <sup>(3)</sup>	Interest in a controlled corporation	195,000,000 (L)	75%
Futong China <sup>(4)</sup>	Interest in a controlled corporation	195,000,000 (L)	75%
Hangzhou Futong Optical Communication Investments Co., Ltd. ("Futong Optical Communication") <sup>(5)</sup>	Interest in a controlled corporation	195,000,000 (L)	75%
Futong HK	Beneficial interest	195,000,000 (L)	75%

# MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

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

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

## DIVIDENDS

The Board did not recommend a payment of dividend for the three months ended 31 March 2019 (three months ended 31 March 2018: 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 three months ended 31 March 2019 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the three months ended 31 March 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

## **COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Group has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. All Directors have confirmed that they have complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules regarding directors' securities transactions during the three months ended 31 March 2019.

## **COMPETING INTERESTS**

As at 31 March 2019, save as disclosed in "Relationship with Controlling Shareholders" section of the Prospectus, none of the Directors, and the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

## **INTERESTS OF THE COMPLIANCE ADVISER**

As notified by the Company's compliance adviser, Innovax Capital Limited ("Innovax Capital"), as at 31 March 2019, except for the compliance adviser agreement entered into between the Company and Innovax Capital, neither Innovax Capital, nor any of its directors, employees or close associates (as defined in the GEM Listing Rules) had any interests in relation to the Company which are required to be notified to the Company pursuant to Rule 6A.32 of GEM Listing Rules.

# MANAGEMENT DISCUSSION AND ANALYSIS

## AUDIT COMMITTEE

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

## CORPORATE GOVERNANCE

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 15 of the GEM Listing Rules and the Board is satisfied that the Company had complied with the CG Code during the three months ended 31 March 2019.

By Order of the Board

**Transtech Optelecom Science Holdings Limited**

**Hu Guoqiang**

*Chairman*

Hong Kong, 6 May 2019

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