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TRANSTECH OPTELECOM SCIENCE HOLDINGS LIMITED

高科橋光導科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9963)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

The board (the “**Board**”) of directors of Transtech Optelecom Science Holdings Limited is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2023, together with the comparative figures for the corresponding period in 2022 as follows:

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Guoqiang (*Chairman*)
(*resigned with effect on 1 July 2023*)

Mr. He Xingfu
(*Chairman & Chief Executive Officer*)
(*newly appointed to be Chairman*
with effect on 1 July 2023)

Mr. Ren Guodong

Mr. Xu Jinjie

Mr. Yin Zhou

Independent Non-executive Directors

Mr. Leong Chew Kuan

Mr. Lau Siu Hang

Mr. Li Wei

BOARD COMMITTEES

Audit Committee

Mr. Leong Chew Kuan (*Chairman*)

Mr. Lau Siu Hang

Mr. Li Wei

Remuneration Committee

Mr. Lau Siu Hang (*Chairman*)

Mr. He Xingfu

Mr. Yin Zhou

Mr. Leong Chew Kuan

Mr. Li Wei

Nomination Committee

Mr. Hu Guoqiang (*Chairman*)
(*resigned with effect on 1 July 2023*)

Mr. He Xingfu (*Chairman*)
(*newly appointed to be Chairman*
with effect on 1 July 2023)

Mr. Xu Jinjie

Mr. Leong Chew Kuan

Mr. Li Wei

Mr. Lau Siu Hang

AUTHORISED REPRESENTATIVES

Mr. He Xingfu

Mr. Ho Cheuk Wai (*CPA*)

COMPLIANCE OFFICER

Mr. He Xingfu

COMPANY SECRETARY

Mr. Ho Cheuk Wai (*CPA*)

REGISTERED OFFICE

Windward 3, Regatta Office Park

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Grand Cayman KY1-1108

Cayman Islands

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Tai Po Industrial Estate

Tai Po

New Territories

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited

2103B, 21/F, 148 Electric Road

North Point, Hong Kong

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
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Cayman Islands

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
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88 Queensway, Hong Kong

PRINCIPAL BANKER

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3 Garden Road
Central
Hong Kong

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

STOCK CODE

9963

COMPANY'S WEBSITE

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FINANCIAL HIGHLIGHTS

Interim results for the six months ended 30 June 2023 compared with the six months ended 30 June 2022.

- The Group recorded a revenue of approximately HK\$103.0 million for the six months ended 30 June 2023 (six months ended 30 June 2022: approximately HK\$102.9 million).
- Gross profit margin increased by approximately 2.8% from 12.0% for the six months ended 30 June 2022 to approximately 14.8% for the six months ended 30 June 2023.
- Profit attributable to the owners of the Company for the six months ended 30 June 2023 amounted to approximately HK\$5.0 million (six months ended 30 June 2022: loss approximately HK\$3.7 million).
- Net profit margin increased by approximately 8.5% from net loss margin 3.6% for the six months ended 30 June 2022 to net profit margin of approximately 4.9% for the six months ended 30 June 2023.
- Basic profit per share amounted to approximately HK\$1.9 cents for the six months ended 30 June 2023 (six months ended 30 June 2022: loss per share of approximately HK\$1.4 cents).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: 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 (collectively referred to as the “Group”) for the six months ended 30 June 2023 together with the comparative unaudited figures for the corresponding period in 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	3	102,956	102,916
Cost of sales		(87,693)	(90,522)
Gross profit		15,263	12,394
Other income	4	989	3,624
Other gains and losses	4	(8,656)	(8,480)
Loss allowance for trade receivables under expected credit loss model, net of reversal		11,755	3,423
Selling and distribution expenses		(1,890)	(3,253)
Administrative expenses		(10,465)	(10,246)
Finance costs	5	(983)	(1,336)
Profit/(loss) before taxation	6	6,013	(3,874)
Income tax (expense)/credit	7	(1,006)	211
Profit/(loss) for the period		5,007	(3,663)
Other comprehensive expense			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(8,173)	(15,855)
Total comprehensive expense for the period		(3,166)	(19,518)
Earnings/(loss) per share			
Basic (HK cents)	9	1.9	(1.4)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	237,311	134,702
Right-of-use assets	11	–	–
Deposits for acquisition of property, plant and equipment	12	–	105,805
Deposits and prepayments	12	112,887	115,379
Deferred tax assets	19	14,036	13,511
		364,234	369,397
Current assets			
Inventories	13	61,722	59,510
Trade and bills receivables	14	43,176	56,463
Deposits, prepayments and other receivables	12	83,482	65,255
Tax receivables		1,431	1,450
Bank balances and cash		36,216	58,160
		226,027	240,838
Current liabilities			
Trade payables	15	27,928	22,177
Other payables and accrued charges	16	12,895	12,678
Contract liabilities	17	272	4,123
Tax payable		1,610	1,787
Bank and other borrowings	18	36,871	55,800
		79,576	96,565
Net current assets		146,451	144,273
Total assets less current liabilities		510,685	513,670

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Non-current liabilities			
Provision for long service payments		510	753
Net assets			
Capital and reserves			
Issued share capital	20	2,600	2,600
Reserves		507,575	510,317
Total Equity			
		510,175	512,917

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Foreign exchange reserve HK\$'000	Accumulated profits HK\$'000	Equity attributable to the owners of the Company HK\$'000
At 1 January 2022 (Audited)	2,600	95,534	289,031	(10,288)	218,488	595,365
Loss for the period	-	-	-	-	(3,663)	(3,663)
Other comprehensive expense	-	-	-	(15,855)	-	(15,855)
Total comprehensive expense for the period	-	-	-	(15,855)	(3,663)	(19,518)
At 30 June 2022 (Unaudited)	2,600	95,534	289,031	(26,143)	214,825	575,847
At 1 January 2023 (Audited)	2,600	95,534	289,031	(21,916)	147,668	512,917
Profit for the period	-	-	-	-	5,007	5,007
Other comprehensive expense	-	-	-	(7,749)	-	(7,749)
Total comprehensive expense for the period	-	-	-	(7,749)	5,007	(2,742)
At 30 June 2023 (Unaudited)	2,600	95,534	289,031	(29,665)	152,675	510,175

Note: Other reserve represents (i) the contribution made by Futong Group Co., Ltd. ("Futong China", the parent company not forming part of Transtech Optelecom Science Holdings Limited and its subsidiary (collectively referred to as the "Group")), to the Group; (ii) the change in proportionate share of the carrying amount of the net assets of Transtech Optical Communication Company Limited ("Transtech"), a subsidiary of Transtech Optelecom Science Holdings Limited (the "Company") 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"), a subsidiary of the Company.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Net cash generated from operating activities	5,134	17,206
Investing activities		
Deposits paid for acquisition of property, plant and equipment	107,024	–
Purchase of property, plant and equipment	(114,443)	(155)
Interest received	44	7
Proceeds on disposal of property, plant and equipment	–	2,582
Net cash (used in)/generated from investing activities	(7,375)	2,434
Financing activities		
New bank borrowings raised	51,332	57,536
Repayment of bank borrowings	(69,531)	(66,000)
Interest paid	(983)	(1,336)
Payment for lease liabilities	–	(8,274)
Net cash used in financing activities	(19,182)	(18,074)
Net (decrease)/increase in cash and cash equivalents	(21,423)	1,566
Cash and cash equivalents at the beginning of period	58,160	14,000
Effect of foreign exchange rate changes	(521)	(487)
Cash and cash equivalents at the end of period representing by bank balances and cash	36,216	15,079

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. GENERAL AND BASIS OF PREPARATION

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

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

The unaudited consolidated financial results of the Group for the six months ended 30 June 2023 (the "Consolidated Financial Results") are presented in Hong Kong dollars ("HK\$"), unless otherwise stated. The Consolidated Financial Results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Consolidated Financial Results have been prepared under the historical cost convention.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2022, except for the adoption of all the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2023. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years. The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the unaudited consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

The preparation of the Consolidated Financial Results in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The Consolidated Financial Results should be read in conjunction with the Group's audited consolidated financial statements and notes thereto for the year ended 31 December 2022.

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

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2023

Segments	Optical fibre cables, optical cable cores and other related products		Total HK\$'000
	Optical fibres HK\$'000	products HK\$'000	
Types of goods			
Sales of goods— recognised at a point in time			
Optical fibre cables	–	90,678	90,678
Optical fibres	–	12,278	12,278
Total	–	102,956	102,956

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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

	For the six months ended 30 June 2023				
	Optical fibre cables, optical cable cores and other related products HK\$'000	Optical fibres HK\$'000	Total segment revenue HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Sales of optical fibre cables	90,678	–	90,678	–	90,678
Sales of optical fibre	12,278	10,829	23,107	(10,829)	12,278
Segment revenue	102,956	10,829	113,785	(10,829)	102,956

For the six months ended 30 June 2022

Segments	Optical fibres HK\$'000	Optical fibre cables, optical cable cores and other related products HK\$'000	Total HK\$'000
Types of goods			
Sales of goods— recognised at a point in time			
Optical fibre cables	–	80,248	80,248
Optical fibres	16,978	5,575	22,553
Other related products	–	115	115
Total	16,978	85,938	102,916

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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

	For the six months ended 30 June 2022				
	Optical fibre cables, optical cable cores and other related products HK\$'000	Optical fibres HK\$'000	Total segment revenue HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Sales of optical fibre cables	80,248	-	80,248	-	80,248
Sales of optical fibre	5,575	34,057	39,632	(17,079)	22,553
Sales of other related products	115	-	115	-	115
Segment revenue	85,938	34,057	119,995	(17,079)	102,916

(ii) Performance obligations for contracts with customers

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

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

Following the delivery, the customers have full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 0 to 365 days (six months ended 30 June 2022: 0 to 365 days) upon delivery.

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

Segment revenue and results

	Six months ended 30 June 2023				
	Optical fibre cables, optical cable cores and other related products HK\$'000	Optical fibres HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	Total HK\$'000
Revenue					
External sales	102,956	–	102,956	–	102,956
Inter-segment sales	–	10,829	10,829	(10,829)	–
Segment revenue	102,956	10,829	113,785	(10,829)	102,956
Segment profit (loss)	18,401	(9,535)	8,866	91	8,957
Interest income					3
Unallocated corporate expenses					(1,964)
Finance costs					(983)
Profit before taxation					6,013

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

	Six months ended 30 June 2022				
	Optical fibre cables, optical cable cores and other related products HK\$'000	Optical fibres HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	Total HK\$'000
Revenue					
External sales	85,938	16,978	102,916	–	102,916
Inter-segment sales	–	17,079	17,079	(17,079)	–
Segment revenue	85,938	34,057	119,995	(17,079)	102,916
Segment profit (loss)	6,629	(7,278)	(649)	(117)	(766)
Interest income					2
Unallocated corporate expenses					(1,774)
Finance costs					(1,336)
Loss before taxation					(3,874)

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

Inter-segment sales are charged at prevailing market rates.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Other income:		
Income from sales of scrap products	68	67
Bank interest income	44	7
Others	877	3,550
	989	3,624
Other gains and losses:		
Foreign exchange losses, net	(8,656)	(10,711)
Gain on disposal of property, plant and equipment	–	2,231
	(8,656)	(8,480)

5. FINANCE COSTS

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Interest on bank borrowings	983	1,321
Interest on lease liabilities	–	15
	983	1,336

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

6. PROFIT/(LOSS) BEFORE TAXATION

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Profit/(loss) before taxation has been arrived at after charging:		
Auditor's remuneration	908	586
Depreciation of property, plant and equipment	4,824	5,921
Less: amount capitalised in inventories	(4,255)	(5,408)
	569	513
Depreciation of right-of-use assets	–	5,367
Less: amount capitalised in inventories	–	(5,367)
	–	–
Directors' remuneration (note 21(b))	2,063	1,960
Other staff costs		
Salaries and other benefits	10,493	11,998
Retirement benefits scheme contributions	337	332
Total staff costs	12,893	14,290
Less: amount capitalised in inventories	(6,850)	(7,889)
	6,043	6,401
Cost of inventories recognised as an expense	87,694	90,522

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

7. INCOME TAX EXPENSE/(CREDIT)

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

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Hong Kong Profits Tax		
Current Tax	–	–
Thailand Corporate Income Tax		
Current Tax	1,622	439
Thailand withholding tax	54	48
Deferred tax (Note 19)	(670)	(698)
	1,006	(211)

The Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

Futong Thailand has been granted preferential tax treatments by the Board of Investment in Thailand relating to manufacturing of cables by virtue of the provisions of the Industrial Investment Promotion Act B.E.2520 of Thailand. The preferential tax treatments granted include: (i) the full exemption from payment of corporate income tax on net profit of the promoted business of the manufacturing of cables for a period of eight years ended 28 February 2021 (“Exemption Period”). No Corporate Income tax has been provided within the Exemption Period; and (ii) the 50% exemption from payment of corporate income tax during the period from 1 March 2021 to 28 February 2025 (“50% Exemption Period”), 50% Corporate Income Tax has been provided by the direct application of Corporate Income Tax rate to the profit before tax of management account during the “50% Exemption Period”.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

8. DIVIDEND

No dividends were paid, declared and proposed by the Company during the current interim period (six months ended 30 June 2022: nil). The directors have determined that no dividend will be paid in respect of the current interim period.

9. EARNINGS (LOSS) PER SHARE

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Earnings (Loss)		
Profit (loss) attributable to the owners of the Company for the purpose of basic earnings (loss) per share	5,007	(3,663)
	'000	'000
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	260,000	260,000

The calculation of basic earnings (loss) per share for the six months ended 30 June 2023 and 30 June 2022 are based on the profit (loss) for the period attributable to the equity holders of the Company, and the weighted average number of issued ordinary shares are 260,000,000 in both periods.

No diluted earnings (loss) 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 2023, the Group acquired at cost, machinery of approximately HK\$546,000 (six months ended 30 June 2022: HK\$Nil), furniture and fixtures of approximately HK\$476,000 (six months ended 30 June 2022: approximately HK\$41,000); office equipment of HK\$Nil (six months ended 30 June 2022: HK\$4,000); and construction in progress of approximately HK\$59,000 (six months ended 30 June 2022: approximately HK\$110,000).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

11. RIGHT-OF-USE ASSETS

	Leased properties HK\$'000
Carrying amount	
31 December 2022 (Audited)	–
30 June 2023 (Unaudited)	–

Amounts recognised in profits and loss

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Depreciation expense on right-of-use assets	–	5,367
Less: amount capitalised in inventories	–	(5,367)
	–	–
Expense relating to short-term leases	5,688	346

The total cash outflow for leases amount to HK\$3,888,000 for the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$8,635,000).

For both periods, the Group leases a plant and office premises for its operations. Lease contracts are entered into for a term of 1 year (six months ended 30 June 2022: 1 year), with termination option as described below.

The Group regularly entered into short-term leases for staff quarters. As at 31 December 2022 and 30 June 2023, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Termination option

The Group has a termination option in a lease for plant and office premises. This is used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The termination option held are exercisable only by the Group and not by the respective lessor. The Group was reasonable certain not to exercise the termination option, therefore, lease liabilities have been recognised for the remaining term of the lease as at 31 December 2022 and 30 June 2023.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

12. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Electricity deposits	785	785
Other deposits	157	158
Prepayments (note)	191,742	175,129
Other receivable	831	504
Value-added tax receivables	2,854	4,058
Deposits for acquisition of property, plant and equipment	–	105,805
Total	196,369	286,439
Presented as non-current assets	112,887	221,184
Presented as current assets	83,482	65,255
Total	196,369	286,439

Note: As at 31 December 2022 and 30 June 2023, HK\$174,551,000 and HK\$191,454,000 of prepayment for purchase of raw material were included in the balance respectively.

13. INVENTORIES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Raw materials and consumables	21,731	23,410
Work in progress	11,720	7,413
Finished goods	18,243	27,200
Goods-in-transit	10,028	1,487
Total	61,722	59,510

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

14. TRADE AND BILLS RECEIVABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade receivables		
— sales of goods	205,303	221,755
Less: Loss allowance	(162,127)	(167,011)
Bill receivables	43,176	54,744
	–	1,719
Total trade and bill receivables	43,176	56,463

The Group grants credit terms of 0–720 days (2022: 0–365 days) to its customers from the date of invoice. The following is an aged analysis of the trade receivables, net of allowance for credit losses presented based on invoice date at the end of the reporting period.

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
0–180 days	29,460	38,428
181–270 days	379	4,350
271–365 days	1,787	–
Over 365 days	11,550	11,966
	43,176	54,744

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

15. TRADE PAYABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade payables	27,928	22,177

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade payables:		
0–30 days	4,085	4,480
31–60 days	3,257	3,976
61–90 days	9,507	5,079
91–180 days	7,223	5,344
Over 180 days	3,856	3,298
	27,928	22,177

16. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Accrued charges	4,328	6,012
Payable for acquisition of property, plant and equipment	6,414	6,578
Other payables	2,153	88
	12,895	12,678

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

17. CONTRACT LIABILITIES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Sales of optical fibre cables	272	4,123

The following table shows how much of the revenue recognised in the current period relates to carried-forward contract liabilities.

	Sales of Optical fibre cables HK\$'000
For the period ended 30 June 2023 Revenue recognised that was included in the contract liabilities balance at the beginning of the period	4,123
For the period ended 30 June 2022 Revenue recognised that was included in the contract liabilities balance at the beginning of the period	2,604

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives a 20% (2022: 20%–30%) deposit depends on the contract terms.

18. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new short-term bank borrowings with total amount of approximately HK\$51,332,000 (unaudited) (six months ended 30 June 2022: approximately HK\$57,536,000 (unaudited)). The bank borrowings carried variable interest at 6-month Chinese Renminbi Hong Kong Inter-bank Offered Rate (“CNHHIBOR”) plus 2% per annum and Minimum Lending Rate of Thailand minus 2% per annum respectively (six months ended 30 June 2022: 6-month CNHHIBOR plus 2% per annum and Minimum Lending Rate of Thailand minus 2% per annum respectively) and were repayable within one year.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

19. DEFERRED TAXATION

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

	Tax loss	Long service payment	ECL provision	Accelerated tax depreciation	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2022 (Audited)	15,738	298	704	(2,920)	13,820
Credit (Charge) to profit or loss	374	(14)	10	328	698
At 30 June 2022 (Unaudited)	16,112	284	714	(2,592)	14,518
At 1 January 2023 (Audited)	9,900	75	5,805	(2,269)	13,511
Credit (Charge) to profit or loss	329	(24)	(126)	346	525
At 30 June 2023 (Unaudited)	10,229	51	5,679	(1,923)	14,036

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Deferred tax assets	14,036	13,511

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

20. SHARE CAPITAL

	Number of shares	HK\$'000
Authorised		
At 31 December 2022 and 30 June 2023		
— ordinary shares of HK\$0.01 each	1,000,000,000	10,000
Issued and fully paid		
At 31 December 2022 and 30 June 2023	260,000,000	2,600

21. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Related Company[^]		
<u>Futong Group International Limited</u>		
Rental expenses related to short-term lease in respect of plant and office premises [#]	5,400	–
Payment of lease liabilities [#]	–	8,274
Interest expenses	–	15

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

(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 2022 and 30 June 2023 respectively, were as follows:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term benefits	2,044	1,942
Post-employment benefits	19	18
	2,063	1,960

22. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2023 (unaudited) and 31 December 2022 (audited).

23. CAPITAL COMMITMENT

	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	9,429	9,788

24. APPROVAL OF THE FINANCIAL STATEMENTS

The interim financial statements have been approved and authorised for issue by the Company's board of directors on 11 August 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has recorded dissatisfied financial results for the six months ended 30 June 2023. It recorded a total revenue of approximately HK\$103.0 million representing no change as compared with the six months ended 30 June 2022 (the "Last Period"). The Group has realised a gross profit of approximately HK\$15.2 million for the Reporting Period, which represented an increase of approximately 22.6% as compared with the one for the Last Period. Profit for the Reporting Period attributable to the owners of the Company was approximately HK\$5.0 million, which represented an increase of approximately 236.7% as compared with the Last Period. The increase in revenue was mainly attributable to the increase in sale of optical fibre cables by approximately 13.1% to approximately HK\$90.7 million (the Last Period: approximately HK\$80.2 million). The sale of optical fibre decreased by approximately 45.6% to approximately HK\$12.3 million (the Last Period: approximately HK\$22.6 million).

Review

China's mobile network maintained the global leadership in 5G construction. In the first half of 2023, China had built and opened a total of 2.312 million 5G base stations, accounting for more than 60% of the total number of base stations in the world. While continuing to expand the coverage in urban areas at the prefecture level, it is gradually extending to towns and rural areas as needed. The total length of China's optical cables and the network capacity was continuously enhanced. The fixed network gradually made a leap from 100 megabit to gigabit.

As the policies related to digital China are gradually implemented, the government showed its determination and efforts to vigorously accelerate the construction of digital China and drove the development of digital economy from the top planning to institutional settings. As an important component of the domestic digital economy, the construction of basic communications and industrial digital transformation tended to develop with optimized structure and enhanced momentum. Despite of a stream of achievements were made in convergence applications of 5G, gigabit optical fiber network, data center and other areas, the progress to the construction of the communication infrastructure has yet fully resumed after the measures against COVID-19 were lifted off.

MANAGEMENT DISCUSSION AND ANALYSIS

Futong Thailand

In Thailand and other ASEAN countries, the telecommunications industry has recovered from the COVID-19. The demand has increased due to the construction of 5G and gigabit optical fibre networks.

The sales revenue of optical fibre cables in Thailand increased from approximately HK\$47.4 million during the six months ended 30 June 2022 to approximately HK\$59.9 million during the same period in the year 2023 due to the increase of both sales volume and selling price resulting from the kicked off of 5G network construction. The sales in the other countries decreased from approximately HK\$32.9 million during the six months ended 30 June 2022 to approximately HK\$30.7 million during the same period in the year 2023 mainly because the Company implemented an aggressive marketing policy to increase the sales volume by reducing the average unit selling price by approximately 41.3%.

On the other hand, the gross profit margin of Futong Thailand increased from approximately 11.7% for the six months ended 30 June 2022 to approximately 21.9% for the six months ended 30 June 2023. It is mainly attributable to the net effect of (i) the increase of both sales volume and the selling price of optical fibre cables in Thailand local market; (ii) the increased demand in the optical fibre cables market; (iii) the decrease of unit cost in optical fibre cables; and (iv) the general increase of sales volume and decrease of unit selling price of optical fibre cable in the ASEAN countries outside Thailand

Transtech

Transtech has reported its revenue and net loss in amount of approximately HK\$10.9 million and HK\$8.9 million respectively for the six months ended 30 June 2023 (six months ended 30 June 2022: approximately HK\$34.1 million and net loss HK\$6.6 million respectively), representing decrease of approximately 68.0% and increase of approximately 34.8% respectively. It is attributed by the over supply of optical fibres and the demand for optical fibres was still weak. The market of optical fibres was generally not yet improved during the reporting period.

PROSPECTUS

The Central Committee of the Communist Party of China and the State Council issued the “Plan for the Overall Layout of Building a Digital China” (referred hereafter as the “Plan”) in early 2023. The Plan points out that building a digital China is an important engine for promoting Chinese-style modernization in the digital age. The bases of a strongly coordinated integrated system that is horizontally and vertically linked should be formed, and the building of a digital China should see major progress on its level of digital development which will rank among that of the world’s leading nations by 2035.

At present, the global macro economy still faces risks. The development of the optical fibre and optical fibre cables industry is highly correlated with the amount and extent of investment made by telecommunications operators. However, building a digital China and the development of the digital economy are inseparable from the main arteries of infrastructure. As underlying infrastructure, optical fibre and optical fibre cables have entered a new cycle and the optical fibre and optical fibre cables industry see new opportunities for development. Optical fibre and optical fibre cables are an indispensable underlying infrastructure for expediting the synergistic construction of 5G networks and gigabit optical fibre networks.

The market demand will still grow due to the construction plans of 5G and gigabit optical fibre networks in long run, though the compound growth rate may slow down. The global optical communication market will be driven by applications in various industries including 5G, cloud computing, data centres, and Fibre To The Home (FTTH). As a result, the demand for optical fibre and optical fibre cables will grow in many regions. The annual growth rates in emerging markets including Europe, South Asia, ASEAN, and Latin America are expected to reach more than 5% in 2023.

The Group will continue to seek opportunities for development in the communication market and will also enhance our ability to control the price of raw materials, thereby strengthening the Company’s cost control and thus its competitiveness and profitability.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2023, total revenue of the Group was approximately HK\$103 million representing no change as compared with the corresponding period in 2022.

The unchanged status is mainly attributable to the increase in sales volume and selling prices of optical fibre cable. On the other hand, the selling price of optical fibre decreased as compared with the corresponding period in 2021, which partially offset the effect of the increase of sales volume and selling prices of optical fibre cable.

Cost of sales and gross profit

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

For the six months ended 30 June 2023, the cost of sales of the Group decreased by about 3.1% to approximately HK\$87.7 million as compared with the corresponding period in 2022. Such decrease for the six months ended 30 June 2023 was mainly attributable to the increased production volume and decrease of the unit cost of optical fibre cable during the six months ended 30 June 2023.

The gross profit of the Group increased from approximately HK\$12.4 million, for the six months ended 30 June 2022 to approximately HK\$15.3 million for the six months ended 30 June 2023. The gross profit margin increased from approximately 12.0% for the six months ended 30 June 2022 to approximately 14.8% for the six months ended 30 June 2023. This is mainly attributable to the decrease of the gross profit margin of optical fibres for the six months ended 30 June 2023 by approximately 6.4% as compared to the corresponding period in 2022. Nevertheless, the gross profit margin of optical fibre cables increased by approximately 8.1% for the six month ended 30 June 2023, which partially offset the decrease in gross profit margin of optical fibres.

Loss allowance for trade receivables

Loss allowance for trade receivables represented expected credit losses on trade receivables, which increased by approximately HK\$48.4 million, or approximately 42.6% from a loss allowance of approximately HK\$113.7 million for the first half of 2022 to a loss allowance of approximately HK\$162.1 million for the first half of 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income, Gain and Losses

The Group recognised foreign exchange losses of approximately HK\$8.7 million for the six months ended 30 June 2023 as compared with approximately HK\$10.7 million exchange loss for the six months ended 30 June 2022, mainly due to the fluctuation of exchange rates among Renminbi (“RMB”), Hong Kong Dollar (“HK\$”), Thai Baht (“THB”), and United States dollar (“US\$”) during the period.

Selling and distribution expenses

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

The Group’s selling and distribution expenses decreased from approximately HK\$3.3 million for the six months ended 30 June 2022 to approximately HK\$1.9 million for the six months ended 30 June 2023, representing an decrease of approximately 42.4%.

The decrease in the selling and distribution expenses for the six months ended 30 June 2023 was mainly due to the decrease in transportation expenses and export cost as there was decrease in sales of optical fibre and optical fibre cable to overseas countries.

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\$10.2 million for the six months ended 30 June 2022 to approximately HK\$10.5 million for the six months ended 30 June 2023, representing a increase of approximately 2.9%.

The increase in the administrative expenses for the six months ended 30 June 2023 was mainly attributable to the net effect of (i) the decrease in staff cost; and (ii) the increase in audit fee and legal and professional expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

Finance costs represent the interest expense on bank borrowings and lease liabilities. The finance costs of the Group decreased from approximately HK\$1.3 million for the six months ended 30 June 2022 to approximately HK\$1.0 million for the six months ended 30 June 2023 mainly due to the decrease in interest on bank borrowings for the six months ended 30 June 2023.

Taxation

The Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

Futong Thailand has been granted preferential tax treatments by the Board of Investment in Thailand relating to manufacturing of cables by virtue of the provisions of the Industrial Investment Promotion Act B.E.2520 of Thailand. The preferential tax treatments granted include: (i) the full exemption from payment of corporate income tax on net profit of the promoted business of the manufacturing of cables for a period of eight years ended 28 February 2021 (“Exemption Period”). No Corporate Income tax has been provided within the Exemption Period; and (ii) the 50% exemption from payment of corporate income tax during the period from 1 March 2021 to 28 February 2025 (“50% Exemption Period”), 50% Corporate Income Tax has been provided by the direct application of Corporate Income Tax rate to the profit before tax of management account during the “50% Exemption Period”.

Income tax expense increased by approximately 576.8% from a tax credit of approximately HK\$0.2 million for the six months ended 30 June 2022 to a tax expense of approximately HK\$1.0 million for the six months ended 30 June 2023. Such increase was mainly caused by the increase of Futong Thailand net profit recorded during the period.

Profit for the period

Profit attributable to owners of the Company for the six months ended 30 June 2023 amounted to approximately HK\$5.0 million (six months ended 30 June 2022: loss approximately HK\$3.7 million).

The increase in profit attributable to owners of the Company for the six months ended 30 June 2023 was mainly attributable to the net effects of (i) the decrease of foreign exchange losses; (ii) the decrease of selling and distribution expenses; (iii) the decrease of finance costs, and (iv) the increase of reversal of loss allowance for trade receivables under expected credit loss model as compared with the corresponding period in 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's principal sources of funds are used to finance working capital, and the growth and expansion of the Group's operations and sales network. The Group's principal sources of funds are cash generated from operations and bank borrowings. The Group had cash and cash equivalents of approximately HK\$36.2 million as at 30 June 2023 (31 December 2022: approximately HK\$58.2 million). As at 30 June 2023, the Group had total bank and other borrowings of approximately HK\$36.9 million (31 December 2022: approximately HK\$55.8 million). In the details of the bank and other borrowings can be referenced to note 18 of the unaudited condensed consolidated financial statements.

GEARING RATIO

Gearing ratio is calculated as total borrowings (including payables not incurred in the ordinary course of business of the Group) divided by the total equity as at the respective reporting dates. Gearing ratio decreased from approximately 10.9% as at 31 December 2022 to approximately 7.2% as at 30 June 2023. Such decrease was primarily resulted from the repayment of bank borrowings.

CAPITAL STRUCTURE

As at 30 June 2023, the Company's authorized and issued share capital were HK\$10,000,000 and HK\$2,600,000 respectively. The number of its issued ordinary shares was 260,000,000 of HK\$0.01 each.

There has been no change in the capital structure of the Group since the Listing Date and up to the date of this report. The capital of the Company only comprises of ordinary shares.

TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period. To manage liquidity risk, the management closely monitors the Group's liquidity position and maintain sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to settle the payables of the Group.

CONTINGENT LIABILITIES AND LITIGATION

As at 30 June 2023, the Group had no material contingent liabilities and litigation (31 December 2022: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts to the environment from its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to comply with related environmental laws and legislations, and continual improvement on its performance. For details, please refer to the Environmental, Social and Governance Report in the 2022 Annual Report issued by the Company dated 31 March 2023 (the “ESG Report”).

KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group strives to maintain a good relationship with its employees, customers and suppliers. For more details on how it creates a motivated workplace for its employees, produce quality products to satisfy its customers’ expectations and, establish long-term relationships with its suppliers, please refer to the ESG Report.

CHARGE OF ASSETS

As at 30 June 2023, the Group had not pledged its land, buildings and machinery to secure the banking facilities granted to the Group (31 December 2022: nil).

FOREIGN CURRENCY RISK

Our Group’s foreign currency exposures arise mainly from the exchange rate movements of the US\$ and RMB against THB and RMB against HK\$. Any depreciation of THB will reduce the amount of revenue we generate in Thailand in terms of our reporting currency and adversely impact our results of operations. Similarly, Transtech might also suffer exchange loss if RMB depreciates against HK\$ because some of the sales revenue are fixed in the currency of RMB. However, our Group has established a foreign currency risk management policy to monitor and manage foreign currency risks.

INTEREST RATE RISK

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

MANAGEMENT DISCUSSION AND ANALYSIS

CREDIT RISK

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

LIQUIDITY RISK

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

CAPITAL COMMITMENTS

As at 30 June 2023, the Group has capital commitments of approximately HK\$9.4 million. (31 December 2022: approximately HK\$9.8 million).

SIGNIFICANT INVESTMENT HELD

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

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

As the GEM Listing took place on 20 July 2017, part of the net proceeds from the Global Offering has been utilised by the Company up to 30 June 2023. The Company intends to utilise such net proceeds as disclosed in the “Future Plans and Use of Proceeds” section of the Prospectus.

Progress on achievement of business objective and Use of Proceeds

Business Strategies as Stated in the Prospectus	Proposed amount to be used (HK\$million)	Actual amount utilized up to 30 June 2023 (HK\$million)	Unused amount as at 30 June 2023 (HK\$million)	Explanation
Approximately 80% of the net proceeds will be used for implementing the expansion plan of new production facility in Thailand, including the construction of a factory in Thailand.	73.4	73.4	0	Fully utilized for new factory construction and machine installation.
Approximately 5% of the net proceeds will be used for strengthening the research and development capabilities and expanding the range of products.	4.6	0.3	4.3	The main reason for the delay in the use of proceeds for the research and development expenditure is that it depends on the change of market demand. For the period from the Listing Date to the reporting date, there are little change of customers' demand for new type of products. It is expected to utilize this proceeds before the end of FY2024 when new equipment are installed for the new Thailand factory.
Approximately 5% of the net proceeds will be used for enhancing the relationship with existing customers and exploring new customers in Hong Kong and the ASEAN.	4.6	3.5	1.1	In line of the business development in the ASEAN countries, it is estimated that most of the unused amount will be used before the end of FY2024.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Strategies as Stated in the Prospectus	Proposed amount to be used (HK\$million)	Actual amount utilized up to 30 June 2023 (HK\$million)	Unused amount as at 30 June 2023 (HK\$million)	Explanation
Approximately 10% of the net proceeds will be used as the general working capital and for general corporate purposes.	9.2	9.2	0	Fully utilized for factory rent and electricity fee in Hong Kong for the period from the Listing Date to 31 December 2017.
Total	91.8	86.4	5.4	

As at 30 June 2023, HK\$9.2 million of the net proceeds from the Global offering has been utilised for settlement of payable for factory rent and utility fee in Hong Kong, HK\$3.5 million for developing customers relationship, HK\$0.3 million for research and development and HK\$73.4 million for the new factory construction in Thailand.

EMPLOYEE AND EMOLUMENT POLICIES

As at 30 June 2023, the employee headcount (including Directors) of the Group was 175 (31 December 2022: 177) and the total staff costs, including directors' emoluments, amounted to approximately HK\$12.9 million during the six months ended 30 June 2023 (six months ended 30 June 2022: approximately HK\$14.3 million). The Group recruits and promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff and to enable smooth operations within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis. The emoluments of the Directors and senior management are reviewed and approved by the Board of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement.

OTHER INFORMATION

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2023. In addition, the Group had no significant investments held during the six months ended 30 June 2023.

DISCLOSURE OF DIRECTORS’ AND SUBSTANTIAL SHAREHOLDERS’ INTERESTS

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

As the period from the six months ended 30 June 2023 and up to the date of this report, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Security Transactions by Directors of Listed Issuers (the “Model Code”).

OTHER INFORMATION

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

So far as is known to the Directors, as the period from the six months ended 30 June 2023 and up to the date of this report, the following persons, other than a Director or a chief executive of the Company, had interest or short position in the shares and/or the underlying shares which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

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

Notes:

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

OTHER INFORMATION

- (3) Our Company is directly owned as to 75% by Futong HK. Futong HK is owned as to 100% by Futong Optical Communication which is in turn owned as to 100% by Futong China. As Futong China is owned as to 80% by Futong Investments, Futong Investments is deemed to be interested in the same number of shares of the Company held by Futong HK under the SFO.
- (4) Our Company is directly owned as to 75% by Futong HK. Futong HK is owned as to 100% by Futong Optical Communication which is in turn owned as to 100% by Futong China. Therefore, Futong China is deemed to be interested in the same number of shares of the Company held by Futong HK under the SFO.
- (5) Our Company is directly owned as to 75% by Futong HK. By virtue of Futong Optical Communication's 100% shareholding in Futong HK, Futong Optical Communication is deemed to be interested in the same number of shares of the Company held by Futong HK under the SFO.

Save as disclosed above, as the period from the six months ended 30 June 2023 and up to the date of this report, the Directors were not aware of any other persons or companies who had any interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO. None of the substantial shareholders have pledged all or part of their interest in the Company's Shares for the six months ended 30 June 2023.

DIVIDENDS

The Board did not recommend a payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: 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 2023 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.



OTHER INFORMATION

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the six months ended 30 June 2023 and up to the date of this report, at least 25% of the issued shares of the Company are held by public Shareholders and the Company has maintained the prescribed public float required by the Listing Rules.

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

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Appendix 10 to the Listing Rules. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct for the six months ended 30 June 2023 and up to the date of this report.

COMPETING INTERESTS

As at 30 June 2023, save as disclosed in "Relationship with Controlling Shareholders" section of the Prospectus, none of the Directors, and the controlling shareholders of the Company and their respective close associates has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

OTHER INFORMATION

AUDIT COMMITTEE

The Company has established an audit committee with the written terms of reference in compliance with the Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Leong Chew Kuan, who has the appropriate accounting and financial related management expertise and serves as the chairman of the audit committee, Mr. Lau Siu Hang and Mr. Li Wei.

The primary functions of the Audit Committee are to assist the Board in reviewing the financial information, overseeing the financial reporting system, risk management, internal control systems and relationship with external auditor, and arrangements to enable employees of the Company to raise concerns under the protection of confidentiality about possible improprieties in financial reporting, internal control or other matters of the Company.

The Group's unaudited condensed consolidated interim results for the six months ended 30 June 2023 have been reviewed by the Audit Committee pursuant to the relevant provisions contained in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules and was of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosure has been made in respect thereof.

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

The Company has adopted the CG Code as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code during the six months ended 30 June 2023. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code. The Company is committed to maintaining a high standard of corporate governance and believes that a good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the transparency of the Company; (iii) enhance risk management and internal control of the Company; and (iv) safeguard the interests of the shareholders of the Company and the Company as a whole.

OTHER INFORMATION

EVENTS AFTER THE REPORTING PERIOD

References is made to the announcements dated 4 July 2023, Transtech and Futong Group International Limited renewed the premises licence agreement for a term of one year commencing on 1 July 2023, this event constituted continuing connected transaction for the Group.

Save as disclosed above, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 30 June 2023 and up to the approval date of this report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the six months ended 30 June 2023, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

PUBLICATION OF THE INTERIM REPORT

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

By Order of the Board
Transtech Optelecom Science Holdings Limited
He Xingfu
Chairman

Hong Kong, 11 August 2023

As at the date of this report, the executive Directors are Mr. He Xingfu, Mr. Ren Guodong, Mr. Xu Jinjie and Mr. Yin Zhou; and the independent non-executive Directors are Mr. Li Wei, Mr. Leong Chew Kuan and Mr. Lau Siu Hang.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and on the Company's website (<http://www.transtechoptel.com>). The interim report for the six months ended 30 June 2023 will be despatched to the shareholders and also available on the above websites.

By order of the Board
Transtech Optelecom Science Holdings Limited
He Xingfu
Chairman

Hong Kong, 11 August 2023

As at the date of this announcement, the executive Directors of the Company are Mr. He Xingfu, Mr. Ren Guodong, Mr. Xu Jinjie and Mr. Yin Zhou and the independent non-executive Directors of the Company are Mr. Li Wei, Mr. Leong Chew Kuan, and Mr. Lau Siu Hang.