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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 2022**

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 2022, together with the comparative figures for the corresponding period in 2021 as follows:

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Hu Guoqiang (*Chairman*)  
Mr. He Xingfu (*Chief Executive Officer*)  
Mr. Pan Jinhua  
Miss Sun Jing  
Mr. Ren Guodong

### 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  
Miss Sun Jing  
Mr. Leong Chew Kuan  
Mr. Li Wei

### Nomination Committee

Mr. Hu Guoqiang (*Chairman*)  
Mr. Pan Jinhua  
Mr. Leong Chew Kuan  
Mr. Li Wei  
Mr. Lau Siu Hang

## AUTHORISED REPRESENTATIVES

Mr. He Xingfu  
Mr. Ho Cheuk Wai (*CPA*)

## COMPLIANCE OFFICER

Mr. He Xingfu

## COMPANY SECRETARY

Mr. Ho Cheuk Wai (*CPA*)

## REGISTERED OFFICE

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

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

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

# CORPORATE INFORMATION

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

## AUDITOR

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

## PRINCIPAL BANKER

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

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

## STOCK CODE

9963

## COMPANY'S WEBSITE

[www.transtechoptel.com](http://www.transtechoptel.com)

# FINANCIAL HIGHLIGHTS

Interim results for the six months ended 30 June 2022 compared with the six months ended 30 June 2021.

- The Group recorded a revenue of approximately HK\$102.9 million for the six months ended 30 June 2022 (six months ended 30 June 2021: approximately HK\$84.1 million).
- Gross profit margin decreased by approximately 1.5% from 13.5% for the six months ended 30 June 2021 to approximately 12.0% for the six months ended 30 June 2022.
- Loss attributable to the owners of the Company for the six months ended 30 June 2022 amounted to approximately HK\$3.7 million (six months ended 30 June 2021: profit approximately HK\$2.6 million).
- Net profit margin decreased by approximately 6.7% from 3.1% for the six months ended 30 June 2021 to net loss margin of approximately 3.6% for the six months ended 30 June 2022.
- Basic loss per share amounted to approximately HK\$1.4 cents for the six months ended 30 June 2022 (six months ended 30 June 2021: earnings per share of approximately HK\$1.0 cents).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: 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 2022 together with the comparative unaudited figures for the corresponding period in 2021 as follows:

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

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
<b>Revenue</b>	3	<b>102,916</b>	84,057
Cost of sales		<b>(90,522)</b>	(72,687)
<b>Gross profit</b>		<b>12,394</b>	11,370
Other income	4	<b>3,624</b>	883
Other gains and losses	4	<b>(8,480)</b>	4,296
Loss allowance for trade receivables under expected credit loss model, net of reversal		<b>3,423</b>	(865)
Selling and distribution expenses		<b>(3,253)</b>	(1,241)
Administrative expenses		<b>(10,246)</b>	(10,389)
Finance costs	5	<b>(1,336)</b>	(617)
(Loss)/profit before taxation	6	<b>(3,874)</b>	3,437
Income tax credit/(expense)	7	<b>211</b>	(843)
(Loss)/profit for the period		<b>(3,663)</b>	2,594
<b>Other comprehensive expense</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<b>(15,855)</b>	(23,669)
Total comprehensive expense for the period		<b>(19,518)</b>	(21,075)
<b>(Loss)/earnings per share</b>			
Basic (HK cents)	9	<b>(1.4)</b>	1.0

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	137,905	149,905
Right-of-use assets	11	–	5,367
Deposits for acquisition of property, plant and equipment	12	104,351	109,744
Deposits and prepayments	12	94,525	101,806
Deferred tax assets	20	14,518	13,820
		<b>351,299</b>	380,642
<b>Current assets</b>			
Inventories	13	52,115	70,178
Trade receivables	14	168,861	182,598
Tax receivables		921	486
Deposits, prepayments and other receivables	12	73,490	70,933
Bank balances and cash		15,079	14,000
		<b>310,466</b>	338,195
Assets classified as held for sale		–	355
		<b>310,466</b>	338,550
<b>Current liabilities</b>			
Trade payables	15	21,948	37,472
Other payables and accrued charges	16	11,910	13,933
Contract liabilities	17	1,474	2,604
Lease liabilities	18	900	9,174
Bank and other borrowings	19	48,199	59,246
		<b>84,431</b>	122,429
<b>Net current assets</b>		<b>226,035</b>	216,121
<b>Total assets less current liabilities</b>		<b>577,334</b>	596,763

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
<b>Non-current liabilities</b>			
Provision for long service payments		1,487	1,398
		1,487	1,398
<b>Net assets</b>			
		575,847	595,365
<b>Capital and reserves</b>			
Issued share capital	21	2,600	2,600
Reserves		573,247	592,765
<b>Total Equity</b>			
		575,847	595,365

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	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 2021 (Audited)	2,600	95,534	289,031	23,971	305,809	716,945
Profit for the period	-	-	-	-	2,594	2,594
Other comprehensive expense	-	-	-	(23,669)	-	(23,669)
Total comprehensive expense for the period	-	-	-	(23,669)	2,594	(21,075)
At 30 June 2021 (Unaudited)	2,600	95,534	289,031	302	308,403	695,870
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

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 2022

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Net cash from/(used in) operating activities	17,206	(52,543)
Investing activities		
Deposits paid for acquisition of property, plant and equipment	–	(276)
Purchase of property, plant and equipment	(155)	(314)
Interest received	7	9
Proceeds on disposal of property, plant and equipment	2,582	–
Net cash from/(used in) investing activities	2,434	(581)
Financing activities		
New bank borrowings raised	57,536	71,567
Repayment of bank borrowings	(66,000)	(31,551)
Interest paid	(1,336)	(617)
Payment for lease liabilities	(8,274)	(6,479)
Net cash (used in)/from financing activities	(18,074)	32,920
Net increase in cash and cash equivalents	1,566	(20,204)
Cash and cash equivalents at the beginning of period	14,000	28,620
Effect of foreign exchange rate changes	(487)	(360)
Cash and cash equivalents at the end of period representing by bank balances and cash	15,079	8,056

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## 1. GENERAL AND BASIS OF PREPARATION

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

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

The unaudited consolidated financial results of the Group for the six months ended 30 June 2022 (the "Consolidated Financial Results") are presented in Hong Kong dollars ("HK\$"), unless otherwise stated. The Consolidated Financial Results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Listing Rules. The Consolidated Financial Results have been prepared under the historical cost convention.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2021, 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 2022. 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 2022

The preparation of the Consolidated Financial Results in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The Consolidated Financial Results should be read in conjunction with the Group's audited consolidated financial statements and notes thereto for the year ended 31 December 2021.

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 2022

Segments	Optical fibres HK\$'000	Optical fibre cables, optical cable cores and other related products HK\$'000	Total HK\$'000
<b>Types of goods</b>			
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
<b>Total</b>	<b>16,978</b>	<b>85,938</b>	<b>102,916</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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
<b>Segment revenue</b>	<b>85,938</b>	<b>34,057</b>	<b>119,995</b>	<b>(17,079)</b>	<b>102,916</b>

## For the six months ended 30 June 2021

Segments	Optical fibres HK\$'000	Optical fibre cables, optical cable cores and other related products HK\$'000	Total HK\$'000
<b>Types of goods</b>			
Sales of goods— recognised at a point in time			
Optical fibre cables	–	33,200	33,200
Optical fibres	35,284	–	35,284
Optical cable cores	–	15,573	15,573
<b>Total</b>	<b>35,284</b>	<b>48,773</b>	<b>84,057</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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

	For the six months ended 30 June 2021				
	Optical fibre cables, 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	33,200	–	33,200	–	33,200
Sales of optical fibre	–	37,190	37,190	(1,906)	35,284
Sales of optical cable cores	15,573	–	15,573	–	15,573
<b>Segment revenue</b>	<b>48,773</b>	<b>37,190</b>	<b>85,963</b>	<b>(1,906)</b>	<b>84,057</b>

## (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 2021: 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 and optical cable cores, which is located in Thailand; and (ii) Optical fibres, which is located in Hong Kong.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## Segment revenue and results

	Six months ended 30 June 2022				Total HK\$'000
	Optical fibre cables, optical cable cores and other related products HK\$'000	Optical fibres HK\$'000	Sub-total HK\$'000	Elimination HK\$'000	
<b>Revenue</b>					
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 (loss) profit	6,629	(7,278)	(649)	(117)	(766)
Interest income					2
Unallocated corporate expenses					(1,774)
Finance costs					(1,336)
Loss before taxation					(3,874)

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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

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 2022

## 4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
<b>Other income:</b>		
Income from sales of scrap products	67	77
Bank interest income	7	9
Others	3,550	797
	<b>3,624</b>	883
<b>Other gains and losses:</b>		
Foreign exchange gain (losses)	(10,711)	4,296
Gain on disposal of property, plant and equipment	2,231	–
	<b>(8,480)</b>	4,296

## 5. FINANCE COSTS

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Interest on bank borrowings	1,321	562
Interest on lease liabilities	15	55
	<b>1,336</b>	617

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## 6. (LOSS)/PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
(Loss)/profit before taxation has been arrived at after charging:		
Auditor's remuneration	586	724
Depreciation of property, plant and equipment	5,921	6,912
Less: amount capitalised in inventories	<b>(5,408)</b>	(6,260)
	<b>513</b>	652
Depreciation of right-of-use assets	5,367	4,383
Less: amount capitalised in inventories	<b>(5,367)</b>	(4,383)
	–	–
Directors' remuneration	<b>1,960</b>	1,837
Other staff costs		
Salaries and other benefits	<b>11,998</b>	12,095
Retirement benefits scheme contributions	<b>332</b>	277
Total staff costs	<b>14,290</b>	14,209
Less: amount capitalised in inventories	<b>(7,889)</b>	(7,569)
	<b>6,401</b>	6,640
Cost of inventories recognised as an expense	<b>90,522</b>	72,687

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## 7. INCOME TAX (CREDIT)/EXPENSE

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

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Hong Kong Profits Tax		
Current Tax	–	966
Thailand Corporate Income Tax		
Current Tax	439	107
Thailand withholding tax	48	142
Deferred tax (Note 20)	(698)	(372)
	<b>(211)</b>	843

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 2022

## 8. DIVIDEND

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

## 9. (LOSS) EARNINGS PER SHARE

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
<b>(Loss) Earnings</b>		
(Loss) profit attributable to the owners of the Company for the purpose of basic (loss) earnings per share	(3,663)	2,594
	'000	'000
<b>Number of ordinary shares</b>		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	260,000	260,000

The calculation of basic (loss) earnings per share for the six months ended 30 June 2022 and 30 June 2021 are based on the (loss) profit for the period attributable to the equity holders of the Company, and the weighted average number of issued ordinary shares are 260,000,000 in both periods.

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

## 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired at cost, furniture and fixtures of approximately HK\$41,000 (six months ended 30 June 2021: approximately HK\$87,000); office equipment of approximately HK\$4,000 (six months ended 30 June 2021: HK\$Nil); and construction in progress of approximately HK\$110,000 (six months ended 30 June 2021: approximately HK\$227,000).

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## 11. RIGHT-OF-USE ASSETS

	Leased properties HK\$'000
Carrying amount	
31 December 2021 (Audited)	5,367
30 June 2022 (Unaudited)	–

### Amounts recognised in profits and loss

	<b>Six months ended 30 June</b>	
	<b>2022 HK\$'000 (Unaudited)</b>	2021 HK\$'000 (Unaudited)
Depreciation expense on right-of-use assets	5,367	4,383
Less: amount capitalised in inventories	(5,367)	(4,383)
	–	–
Expense relating to short-term leases	346	363

The total cash outflow for leases amount to HK\$8,635,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$6,897,000).

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 2021: 5 years), with termination option as described below.

The Group regularly entered into short-term leases for staff quarters. As at 31 December 2021 and 30 June 2022, 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 2021 and 30 June 2022.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## 12. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	<b>30 June 2022 HK\$'000 (Unaudited)</b>	31 December 2021 HK\$'000 (Audited)
Electricity deposits	785	785
Other deposits	158	159
Prepayments	150,983	159,059
Other receivable	2,489	733
Consideration receivable for the disposal of property, plant and equipment	9,612	7,849
Value-added tax receivables	3,988	4,154
Deposits for acquisition of property, plant and equipment	104,351	109,744
<b>Total</b>	<b>272,366</b>	282,483
Presented as non-current assets	198,876	211,550
Presented as current assets	73,490	70,933
<b>Total</b>	<b>272,366</b>	282,483

## 13. INVENTORIES

	<b>30 June 2022 HK\$'000 (Unaudited)</b>	31 December 2021 HK\$'000 (Audited)
Raw materials and consumables	20,873	32,034
Work in progress	7,493	12,227
Finished goods	20,472	23,084
Goods-in-transit	3,277	2,833
<b>Total</b>	<b>52,115</b>	70,178

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## 14. TRADE RECEIVABLES

	<b>30 June 2022 HK\$'000 (Unaudited)</b>	31 December 2021 HK\$'000 (Audited)
Trade receivables		
— sales of goods	<b>282,549</b>	300,270
Less: Loss allowance	<b>(113,688)</b>	(117,672)
Total trade receivables	<b>168,861</b>	182,598

The Group grants credit terms of 0–365 days (2021: 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.

	<b>30 June 2022 HK\$'000 (Unaudited)</b>	31 December 2021 HK\$'000 (Audited)
0–180 days	<b>41,294</b>	38,538
181–270 days	<b>17,473</b>	36,239
271–365 days	<b>25,196</b>	14,765
Over 365 days	<b>84,898</b>	93,056
	<b>168,861</b>	182,598

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## 15. TRADE PAYABLES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Trade payables	21,948	37,472
	21,948	37,472

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 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Trade payables:		
0–30 days	7,715	11,422
31–60 days	4,098	14,878
61–90 days	2,378	3,261
91–180 days	3,539	4,138
Over 180 days	4,218	3,773
	21,948	37,472

## 16. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Accrued charges	5,284	7,049
Payable for acquisition of property, plant and equipment	6,451	6,785
Other payables	175	99
	11,910	13,933

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## 17. CONTRACT LIABILITIES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Sales of optical fibre cables	1,474	2,604

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 2022 Revenue recognised that was included in the contract liabilities balance at the beginning of the period	2,604
For the period ended 30 June 2021 Revenue recognised that was included in the contract liabilities balance at the beginning of the period	11

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 10%–50% (2021: 15%–50%) deposit depends on the contract terms.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## 18. LEASE LIABILITIES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Lease liabilities payable:		
Within one year	900	9,174
	900	9,174
Less: Amount due for settlement within 12 months shown under current liabilities	(900)	(9,174)
Amount due for settlement after 12 months shown under non-current liabilities	–	–

All the lease obligations are denominated in HK\$ as at 30 June 2022 and 31 December 2021. Details of lease agreement made after 30 June 2022 can be referred to the header “Events after the reporting period” in section “Other Information” of this report.

## 19. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new short-term bank borrowings with total amount of approximately HK\$57,536,000 (unaudited) (six months ended 30 June 2021: approximately HK\$71,567,000 (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 2021: 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 2022

## 20. DEFERRED TAXATION

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

	Tax loss HK\$'000	Long service payment HK\$'000	ECL provision HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1 January 2021 (Audited)	–	–	106	(3,517)	(3,411)
Credit (Charge) to profit or loss	–	–	48	324	372
At 30 June 2021 (Unaudited)	–	–	154	(3,193)	(3,039)
At 1 January 2022 (Audited)	15,738	298	704	(2,920)	13,820
Credit (Charge) to profit or loss	374	(14)	10	328	698
<b>At 30 June 2022 (Unaudited)</b>	<b>16,112</b>	<b>284</b>	<b>714</b>	<b>(2,592)</b>	<b>14,518</b>

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

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Deferred tax assets	14,518	13,820
	14,518	13,820

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## 21. SHARE CAPITAL

	Number of shares	HK\$'000
<b>Authorised</b>		
At 31 December 2021 and 30 June 2022		
— ordinary shares of HK\$0.01 each	1,000,000,000	10,000
<b>Issued and fully paid</b>		
<b>At 31 December 2021 and 30 June 2022</b>	<b>260,000,000</b>	<b>2,600</b>

## 22. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
<b>Fellow subsidiaries</b>		
<u>Hangzhou Futong Communication Technology Co., Limited</u>		
Sales <sup>#</sup>	—	17,836
<b>Related Company<sup>^</sup></b>		
<u>Futong Group International Limited</u>		
Payment of lease liabilities <sup>#</sup>	8,274	6,534
Interest expenses	15	55

<sup>^</sup> Controlled by a shareholder of Hangzhou Futong Investments Co., Ltd., ultimate holding company of the Company.

<sup>#</sup> The related party transactions are also defined as continuing connected transactions under the Listing Rules.

The sales and payment of lease liabilities are all at the terms agreed between the relevant parties.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

## (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 2021 and 30 June 2022 respectively, were as follows:

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Short-term benefits	1,942	1,837
Post-employment benefits	18	9
	<b>1,960</b>	1,846

## 23. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2022 (unaudited) and 31 December 2021 (audited).

## 24. CAPITAL COMMITMENT

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	10,734	11,090

## 25. APPROVAL OF THE FINANCIAL STATEMENTS

The interim financial statements have been approved and authorised for issue by the Company's board of directors on 12 August 2022.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group has recorded dissatisfied financial results for the six months ended 30 June 2022. It recorded a total revenue of approximately HK\$102.9 million though it represented an increase of approximately 22.4% as compared with the six months ended 30 June 2021 (the "Last Period"). The Group has realised a gross profit of approximately HK\$12.4 million for the Reporting Period, which represented an increase of approximately 9.0% as compared with the one for the Last Period. Loss for the Reporting Period attributable to the owners of the Company was approximately HK\$3.7 million, which represented a decline of approximately 242.3% as compared with the Last Period. The increase in revenue was mainly attributable to the increase in sale of optical fibre cables by approximately 141.7% to approximately HK\$80.2 million (the Last Period: approximately HK\$33.2 million). The sale of optical fibre decreased by approximately 36.0% to approximately HK\$22.6 million (the Last Period: approximately HK\$35.3 million).

Large scale of vaccination against the COVID-19 has been achieved over the world and governments of various nations have actively taken control and prevention measures in the first half of 2022.

In China, the main telecommunication operators' schedule of optical fibre cable consumption have basically not been affected due to its normalised comprehensive anti-pandemic control and prevention. The "14th Five-Year Plan" has been implemented along with the scheduled plan, the 5G industry in China has become prosperous driven by the favorable factors from peripheral economy recovery. China strived to promote new infrastructure projects based on 5G technology in order to form an independent 5G network implementation which is the largest in scale and the most advanced in technology across the world. It also encouraged companies to carry out digital transformation and upgrade so as to facilitate a wide application of 5G technology. Over the past half-year, benefitting from the rapid growth of telecommunications industry related to network construction in China and favourable national policies, related product sales of the Group were driven by the popularity of procurement of 5G base stations construction.

As for 5G network, it takes the edge of high speed and outdoor coverage, thereby facilitating the development of the market which will require more 5G base stations. The communications industry in which the Group is participating is also driven by it. As 5G outdoor system coverage became more complete, operators were focusing on more refined sub-scene coverage and construction. By building 5G small base stations, they could complement the network coverage capability of 5G technology indoors, thus satisfying the demand for indoor scenes for 5G services and improving the coverage of 5G networks. Our production line of components is also ready for future business development.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Futong Thailand

In Thailand and other ASEAN countries, the telecommunications industry has slightly recovered due to the relief of COVID-19. The demand has increased as the 5G network construction was kicked off.

The sales revenue of optical fibre cables in Thailand increased from approximately HK\$29.1 million during the six months ended 30 June 2021 to approximately HK\$47.4 million during the same period in the year 2022 due to the increase of selling price resulting from the kicked off of 5G network construction. The sales in the other countries increased from approximately HK\$4.1 million during the six months ended 30 June 2021 to approximately HK\$32.9 million during the same period in the year 2022 mainly because the Company stepped into European market.

Nevertheless the customers' need of optical cable cores have been changed in the first half of 2022, no sales of optical cable cores during the six months ended 30 June 2022 (the Last Period: approximately HK\$15.6 million).

On the other hand, the gross profit margin of Futong Thailand increased from approximately 9.5% for the six months ended 30 June 2021 to approximately 11.7% for the six months ended 30 June 2022. It is mainly attributable to the net effect of (i) the increase of the selling price of optical fibre cables; (ii) the increased demand in the optical fibre cables market; (iii) no sales of optical cable cores due to customers' need have changed; and (iv) the increase of unit cost in optical fibre cables.

## Transtech

Transtech has reported its revenue and net loss in amount of approximately HK\$34.1 million and HK\$6.6 million respectively for the six months ended 30 June 2022 (six months ended 30 June 2021: approximately HK\$37.2 million and net profit HK\$3.8 million respectively), representing decrease of approximately 8.4% and 273.7% respectively. It is attributed by the recovery of 5G network construction process and the relief of COVID-19, thus the demand for optical fibres was slightly increased and the export of optical fibres for Transtech was improved during the reporting period. Although the demand for optical fibres was increased, the fifth wave of COVID-19 gave a serious impact continually for a long time in the first half of this year in Hong Kong. Furthermore, the traffic between PRC and Hong Kong was strongly hindered and the preventive measure against the pandemic was tightened up in Mainland China. As a result, the supply of raw material was in shortage and in turn the production volume and sale revenue were correspondingly reduced.

## PROSPECTS

The optical fibre and optical fibre cables market in the second half of 2022 saw rising demand against a backdrop of the large-scale deployment of 5G and gigabit optical fibre networks.

In terms of prices, due to the improved supply and demand structure and the rise in raw material prices, the industry average price expected to increase slightly after bottoming out. Although the price is forecast to rebound, the rise in the prices of raw materials for optical fibre will also create some challenges.

Some national policies such as the “Dual-gigabit’ Network Synergetic Development Action Plan (2021–2023)” and the “5G Application ‘Sailing’ Action Plan (2021–2023)”, with the goal of building a “dual-gigabit” network infrastructure that will fully cover urban areas and qualified townships within three years, thus ensuring that both wired and wireless networks generally enjoy the “gigabit-to-home” capability.

5G networks will basically achieve coverage of areas above township level and key administrative villages; more industry virtual private network benchmarking projects will be launched. Meanwhile, under the construction plans of 5G and gigabit optical fibre networks, China’s demand for optical fibre cables is expected to maintain a compound annual growth rate of 2.9% from 2021 to 2026. The Group will seek further opportunities for the sales of optical fibre and optical fibre cables, explore new ways and improve existing models, and enhance its control on the prices of raw materials, thus strengthening the Company’s cost control and improving its competitiveness and profitability.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

For the six months ended 30 June 2022, total revenue of the Group increased by about 22.4% to approximately HK\$102.9 million as compared with the corresponding period in 2021.

The increase in total revenue for the six months ended 30 June 2022 was mainly due to the recovery of the market and the relief of COVID-19 which generated in more demand from the Group's customers, as compared with the corresponding period in 2021, resulting in increase in sales volume and selling prices of optical fibre cable. 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 2022, the cost of sales of the Group increased by about 24.5% to approximately HK\$90.5 million as compared with the corresponding period in 2021.

Such increase for the six months ended 30 June 2022 was mainly attributable to the increased sales volume of the Group's products and increase of the unit price of raw materials during the six months ended 30 June 2022.

The gross profit of the Group increased from approximately HK\$11.4 million, for the six months ended 30 June 2021 to approximately HK\$12.4 million for the six months ended 30 June 2022. The gross profit margin decreased from approximately 13.5% for the six months ended 30 June 2021 to approximately 12.0% for the six months ended 30 June 2022. This is mainly attributable to the decrease of the gross profit margin of optical fibres for the six months ended 30 June 2022 by approximately 10.9% as compared to the corresponding period in 2021. Nevertheless, the gross profit margin of optical fibre cables increased by approximately 16.1% for the six month ended 30 June 2022, 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 decreased by approximately HK\$4.3 million, or approximately 477.8% from a loss allowance of approximately HK\$0.9 million for the first half of 2021 to a reversal of loss allowance of approximately HK\$3.4 million for the first half of 2022.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Other Income, Gain and Losses

The Group recognised foreign exchange losses of approximately HK\$10.7 million for the six months ended 30 June 2022 as compared with approximately HK\$4.3 million exchange gains for the six months ended 30 June 2021, 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 increased from approximately HK\$1.2 million for the six months ended 30 June 2021 to approximately HK\$3.3 million for the six months ended 30 June 2022, representing an increase of approximately 175.0%.

The increase in the selling and distribution expenses for the six months ended 30 June 2022 was mainly due to the increase in transportation expenses and export cost as there was increase 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 decreased from approximately HK\$10.4 million for the six months ended 30 June 2021 to approximately HK\$10.2 million for the six months ended 30 June 2022, representing a decrease of approximately 1.9%.

The decrease in the administrative expenses for the six months ended 30 June 2022 was mainly attributable to (i) the decrease in staff cost; and (ii) the decrease of depreciation of property, plant and equipment.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Finance costs

Finance costs represent the interest expense on bank borrowings and lease liabilities. The finance costs of the Group increased from approximately HK\$617,000 for the six months ended 30 June 2021 to approximately HK\$1,336,000 for the six months ended 30 June 2022 mainly due to the increase in interest on bank borrowings for the six months ended 30 June 2022.

## Taxation

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

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

Income tax expense decreased by approximately 125.0% from approximately HK\$843,000 for the six months ended 30 June 2021 to a tax credit of approximately HK\$211,000 for the six months ended 30 June 2022. Such decrease was mainly caused by the deferred tax asset of tax losses recognised as a result of large amount of foreign exchange losses recorded during the period.

## Loss for the period

Loss attributable to owners of the Company for the six months ended 30 June 2022 amounted to approximately HK\$3.7 million (six months ended 30 June 2021: profit approximately HK\$2.6 million).

The decrease in profit attributable to owners of the Company for the six months ended 30 June 2022 was mainly attributable to the net effects of (i) the change from foreign exchange gains to foreign exchange losses; (ii) the increase of selling and distribution expenses; and (iii) the increase of finance costs, as compared with the corresponding period in 2021.

# 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\$15.1 million as at 30 June 2022 (31 December 2021: approximately HK\$14.0 million). As at 30 June 2022, the Group had total bank and other borrowings of approximately HK\$48.2 million (31 December 2021: approximately HK\$59.2 million). In the details of the bank and other borrowings can be referenced to note 19 of the unaudited condensed consolidated financial statements.

## GEARING RATIO

Gearing ratio is calculated as total borrowings (including payables not incurred in the ordinary course of business of the Group) divided by the total equity as at the respective reporting dates. Gearing ratio decreased from approximately 10.0% as at 31 December 2021 to approximately 8.4% as at 30 June 2022. Such decrease was primarily resulted from the repayment of bank borrowings.

## CAPITAL STRUCTURE

As at 30 June 2022, 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 2022, the Group had no material contingent liabilities and litigation (31 December 2021: 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 2021 Annual Report issued by the Company dated 29 April 2022 (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 2022, the Group had not pledged its land, buildings and machinery to secure the banking facilities granted to the Group (31 December 2021: 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 2022, the Group has capital commitments of approximately HK\$10.7 million. (31 December 2021: approximately HK\$11.1 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 2022. 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

<b>Business Strategies as Stated in the Prospectus</b>	<b>Proposed amount to be used (HK\$million)</b>	<b>Actual amount utilized up to 30 June 2022 (HK\$million)</b>	<b>Unused amount as at 30 June 2022 (HK\$million)</b>	<b>Explanation</b>
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	69.1	4.3	The expansion plan for Futong Thailand's factory commenced in the second-half of 2018, however, it remained in the contract negotiation stage during most of the time in FY2018. The contract negotiation process was completed in January 2019 and the construction of the factory was commenced in first half of 2019. Based on the latest construction and implementation plan and barring unforeseeable circumstances, the construction of the Group's Thailand factory is scheduled to extend its production at the factory in June FY2023 due to the outbreak of COVID-19 globally.

# 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 2022 (HK\$million)	Unused amount as at 30 June 2022 (HK\$million)	Explanation
Approximately 5% of the net proceeds will be used for strengthening the research and development capabilities and expanding the range of products.	4.6	0.3	4.3	The main reason for the delay in the use of proceeds for the research and development expenditure is that it depends on the change of market demand. For the period from the Listing Date to 31 December 2021, there are little change of customers' demand for new type of products. It is expected to utilize this proceeds by the end of FY2022.
Approximately 5% of the net proceeds will be used for enhancing the relationship with existing customers and exploring new customers in Hong Kong and the ASEAN.	4.6	2.9	1.7	In line of the business development in the ASEAN countries, it is estimated that most of the unused amount will be used in FY2022.
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.
<b>Total</b>	<b>91.8</b>	<b>81.5</b>	<b>10.3</b>	

As at 30 June 2022, HK\$9.2 million of the net proceeds from the Global offering has been utilised for settlement of payable for factory rent and utility fee in Hong Kong, HK\$2.9 million for developing customers relationship, HK\$0.3 million for research and development and HK\$69.1 million for the new factory construction in Thailand.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEE AND EMOLUMENT POLICIES

As at 30 June 2022, the employee headcount (including Directors) of the Group was 183 (31 December 2021: 177) and the total staff costs, including directors' emoluments, amounted to approximately HK\$14.3 million during the six months ended 30 June 2022 (six months ended 30 June 2021: approximately HK\$14.2 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 2022. In addition, the Group had no significant investments held during the six months ended 30 June 2022.

### 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 2022 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 2022 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%

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 2022 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 2022.

## DIVIDENDS

The Board did not recommend a payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: 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 2022 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 2022 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 2022, 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 2022 and up to the date of this report.

### COMPETING INTERESTS

As at 30 June 2022, 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 2022 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 2022. 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 are made to the announcements dated 4 July 2022 and 28 July 2022, Transtech and Futong Group International Limited renewed the premises licence agreement for a term of one year commencing on 1 July 2022 and Transtech and Hangzhou Futong Communication Technology Co. Ltd. entered into an agreement for the sale of optical fibers in the year ending 31 December 2022 respectively, both of the two events constituted continuing connected transactions for the Group.

Save as disclosed above, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 30 June 2022 and up to the approval date of this report.

### COMPLIANCE WITH LAWS AND REGULATIONS

During the six months ended 30 June 2022, 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](http://www.hkexnews.com.hk)) and the Company ([www.transtechoptel.com](http://www.transtechoptel.com)).

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

Hong Kong, 12 August 2022

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

## **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 2022 will be despatched to the shareholders and also available on the above websites.

By order of the Board  
**Transtech Optelecom Science Holdings Limited**  
**Mr. Hu Guoqiang**  
*Chairman*

Hong Kong, 12 August 2022

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