



大誠電訊科技有限公司
T S Telecom Technologies Limited



1st Quarterly Report 2000

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This announcement, for which the directors of T S Telecom Technologies Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to T S Telecom Technologies Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: - (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover was approximately HK\$7,026,000 for the first quarter of financial year 2000/2001 as compared to approximately HK\$8,654,000 for the same period of last year. The decline was primarily due to the seasonally weak first quarter and the delay of sales orders from the mainland's telephone operators as they were finalizing their restructuring.
- The Company posted a net loss of approximately HK\$6,238,000 for the first quarter of financial year 2000/2001 versus a net loss of HK\$3,638,000 for the first quarter of financial year 1999/2000. The net loss position can be attributed to the seasonally weak first quarter sales, increase in marketing expenses to launch new products and overheads from the new Shenzhen factory acquired in the second quarter of last financial year.
- The new power monitoring system for mobile phone based stations was launched at the end of the first quarter. The company then signed the first sales contract for this new product amounted to approximately HK\$5,151,679 in July, 2000.
- The Company also launched its new products - Gas Turbine Generator at the end of the first quarter. The Company then signed the first sales contract for this new product amounted to approximately HK\$17,361,500 in July 2000.

RESULTS

The Board of Directors (the "Board") of T S Telecom Technologies Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30th June, 2000 together with the comparative unaudited figures for the corresponding period in 1999 as follows:

	Notes	Three months ended 30th June,	
		2000 HK\$'000	1999 HK\$'000
Power monitoring equipment		2,018	3,557
Cable monitoring equipment		1,257	4,235
Network access equipment		2,566	—
Other equipment		1,185	862
Total turnover		7,026	8,654
Cost of sales		(3,394)	(5,541)
Gross profit		3,632	3,113
Other revenues		1,796	259
Selling and distribution costs		(1,217)	(1,073)
Administrative expenses		(10,129)	(6,221)
Operating loss		(5,918)	(3,922)
Finance costs		(7)	(2)
Share of (losses)/profits of associated companies		(266)	685
Loss before taxation		(6,191)	(3,239)
Taxation	2	(75)	(399)
Loss after taxation		(6,266)	(3,638)
Minority Interests		28	—
Loss for the period and attributable to shareholders		(6,238)	(3,638)
Loss per share	3		
— Basic		(2.4) cents	(2.0) cents

Notes:

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 24th August, 1999 as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a group reorganisation, which was completed on 18th November, 1999, to rationalise the Group's structure in preparation for a listing of the Company's shares on GEM of the Stock Exchange, the Company became the holding company of the companies comprising the Group. The shares of the Company were listed on GEM on 2nd December, 1999.

The consolidated results of the Group comprise the consolidation of the results of the Company and all its subsidiaries as at 30th June, 2000 and the results for the quarter ended 30th June, 2000 and 1999, which were prepared on a merger basis as if the current group structure had been in existence throughout the periods, or since the respective dates of incorporation/establishment or acquisition of the respective subsidiaries now comprising the Group, whichever is a shorter period.

2. Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the three months ended 30th June, 2000. Hong Kong profits tax for the three months ended 30th June, 1999 has been provided at the rate of 16% on the estimated assessable profits for the periods. PRC income tax has been provided at the applicable rates of taxation on the estimated assessable profits for the periods.

The company's PRC subsidiaries and an associated company, Shanghai Hua Cheng Telecommunications Equipment Co., Ltd. ("Shanghai Hua Cheng") are, under the Income Tax Law of the PRC for Enterprises with Foreign Investment, entitled to an income tax holiday for two years from the first profit making year and a 50% reduction in income tax for the following three years. The first profit making year, for tax purposes, for the PRC subsidiaries and Shanghai Hua Cheng is the year ended 31st December, 1999 and year ended 31st December, 1995 respectively. The preferential tax rate applicable to Shanghai Hua Cheng for the current period ended 30th June, 2000 is 13.5% (1999: 13.5%).

A subsidiary, Beijing Kong Da Net Telecommunication Equipment Ltd. and an associated company, D&T Engineering Co., Ltd., Harbin in the PRC are in the course of applying for certain income tax preferential treatments in the PRC.

	Three months ended 30th June,	
	2000	1999
	HK\$'000	HK\$'000
Company and subsidiaries		
Hong Kong profits tax	—	(132)
PRC income tax	—	(175)
	<u>—</u>	<u>(307)</u>
Associated company		
PRC income tax	<u>(75)</u>	<u>(92)</u>
	<u>(75)</u>	<u>(399)</u>

3. Loss per share

The calculation of the Group's basic loss per share for the quarter ended 30th June, 2000 is based on the Group's net loss of approximately HK\$6,238,000 (1999: approximately HK\$3,638,000) and the weighted average number of approximately 264,000,000 ordinary shares (1999: approximately 184,800,000 ordinary shares) in issue during the period. In determining the weighted average number of shares, a total of approximately 3,500,000 shares issued on the establishment of the Company and reorganisation of the Group and a further 181,300,000 shares being the capitalisation issue immediately following the new issue of shares to the public were deemed to have been issued since 1st April, 1998.

There is no diluted loss per share since the Company has no potential dilution of loss per share during the period.

INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend for the quarter ended 30th June, 2000 (1999: Nil).

BUSINESS REVIEW AND PROSPECTS

Financial Performance

Turnover was approximately HK\$7,026,000 for the first quarter of financial year 2000/2001 as compared to approximately HK\$8,654,000 for the same period of last year. The decline was primarily due to the seasonally weak first quarter and the delay of sales orders from the mainland's telephone operators as they were finalizing their restructuring.

The Company posted a net loss of approximately HK\$6,238,000 for the first quarter of financial year 2000/2001 versus a net loss of HK\$3,638,000 for the first quarter of financial year 1999/2000. The net loss position can be attributed to the seasonally weak first quarter sales, increase in marketing expenses to launch new products and overheads from the new Shenzhen factory acquired in the second quarter of last financial year.

The Group learned that the restructuring of telecommunications authorities in the mainland should end soon and expected to regain momentum in securing sales contracts in the coming quarters.

Prospects

The Market Place

PRC

The restructuring of PRC telecommunications regulators should be almost completed. Contracts and projects originally put on hold due to the restructuring should soon be re-opened.

The Chinese government recently announced its intention to rebuild and develop the infrastructure of the western region of the mainland. This will likely result in an immense demand of telecommunications systems and equipment from that part of the country.

Southeast Asia

The development of Southeast Asia markets is progressing well. The Company had been in meetings and discussion of market opportunities with domestic partners in several Southeast Asia countries.

New Products

PowerCom for Mobile Base Stations

This new product was launched at the end of the first quarter. A sales contract amounted to approximately HK\$ 5,151,679 (RMB5,512,297) was then signed with the Shanghai branch of China United Telecommunications Corporation ("China Unicom") in July, 2000. The sales contract includes a commitment from China Unicom to dedicate the Company as its sole solution provider for monitoring systems of all mobile phone network control centers and base stations in Shanghai in the coming years. The Group believes that this contract has set a milestone in pursuing further business opportunities with China Unicom in terms of provision of products and other co-operative ventures.

The Group is now in negotiation of signing additional contracts to provide PowerCom for Mobile Base Stations for China Mobile Communications Corporation and other branches of China Unicom.

Fibersmart

The Fibersmart system is still under field trial at Beijing Telecom and Shanghai Telephone Office. The telephone offices had requested the Company to develop additional features to cope with the changes in telecommunications infrastructure as a result of the restructuring. The Company expected to complete such developments by the end of October, 2000.

Broadband Access Equipment

The Group is progressing well with the Broadband Access Offices of the Shanghai Telephone Office and Beijing Telecom to develop product strategies and standards for the broadband applications.

The Group is now the key product solution provider of Integrated Services Digital Network (ISDN) equipment of Universal Digital Loop Carrier System for Beijing Telecom.

Gas Turbine Generator

This new product was launched at the end of the first quarter. The Group then signed a sales contract in July 2000 of approximately HK\$17,361,500 (RMB18,576,800), to provide two units of our QD30C gas turbine generators of 2,400 kilowatt output power, to be installed in a new fixed-network telephone station of the Shantou Telephone Bureau of China Telecom. The two generators will be assembled by D&T Engineering Co., Ltd., the Company's 45% equity joint venture factory in Harbin.

To cope with future production, the Company signed an agreement with Turbomeca Asia Pacific Pte. Ltd., a worldwide leader in the design and manufacture of small and medium size gas turbines for industrial and military purposes, to acquire a minimum of 10 units of their 900 kilowatt to 1,500 kilowatt MAKILA-TI turboshaft gas turbine engine core for a total of approximately HK\$28,374,500 (EURO 3,887,450) in the next five years.

The Company is conducting a nationwide roadshow in China to market this newly launched product and has received extremely positive feedback from telephone operators in the mainland. The Company expected to obtain sales contracts of four to six units of gas turbine generators during the initial launch year and then up to ten to fifteen units in the coming year.

Placing of New Shares

The company entered into a Placing Agreement on 7th August, 2000 with YF Securities Company Limited and Kingsway SW Securities Limited to place 22,000,000 of new ordinary shares with nominal value of HK\$0.1 each to a group of independent investors for a consideration of HK\$1.0 each, totaling HK\$22,000,000. The closing price of the Company on 4th August, 2000 was HK\$1.17 per share.

The placing shares represent approximately 8.33% of the existing issued shares capital of the Company and approximately 7.69% of the share capital of the Company as enlarged by the placement.

With the recent launch of our new products and the remaining proceeds from the initial public offering of approximately HK\$95.0 million, which was placed as deposits with banks in Hong Kong as at 30th June, 2000, the Company made further inroads in the PRC market and consolidated its position as a market leader. The Board considers that it is in the best interest of the Company to raise further capital from the equity market by way of the placement in order to enhance the capital base of the Company as well as to strengthen the cashflow of the Company. The net proceeds of the placement are approximately HK\$21.0 million and will be used as general working capital of the Company.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As 30th June, 2000, the interests of the directors and their associates in the shares of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or which are required, pursuant to rules 5.40 to 5.49 of the GEM Listing Rules, to be notified to the Company and GEM of the Stock Exchange were as follows:

Directors	Personal interest	Family interest	Corporate interest	Other interest	Total no. of shares	Approximate percentage holding of shares %
Mr. Lau See Hoi (Note 1)	—	—	168,960,000	—	168,960,000	64.00
Mr. Chong Tak Wah (Note 2)	—	—	—	168,960,000	168,960,000	64.00
Mr. Wong Weng (Note 3)	—	—	—	168,960,000	168,960,000	64.00
Mr. Hung, Randy King Kuen	360,000	—	—	—	360,000	0.14

Notes:

- These shares are held by T S Telecom Ltd., ("TST"), the ultimate holding company of the Company, in which Mr. Lau holds 6,839,250 shares (representing approximately 33% of the issued share capital of TST) together with an option to subscribe for 400,000 common shares in TST.
- These shares are held by TST in which Mr. Chong Tak Wah holds 1,865,250 shares (representing approximately 9% of the issued share capital of TST) together with an option to subscribe for 300,000 common shares in TST.
- These shares are held by TST in which Mr. Wong Weng holds 2,585,500 shares (representing approximately 12% of the issued share capital of TST) together with an option to subscribe for 300,000 common shares in TST.

Save as disclosed above, as at 30th June, 2000, none of the Directors and their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as recorded in the register maintained under Section 29 of the SDI Ordinance or which are required, pursuant to rules 5.40 to 5.49 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

The Company has a share option scheme (the "Scheme") under which the directors may take up options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. The maximum number of shares which can be granted under the Scheme may not exceed 10% of the issued share capital of the Company at the time of granting of the option. No option had been granted under the Scheme during the periods under review or outstanding as at 30th June, 2000.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the periods under review was the Company, subsidiaries or its holding company a party to any arrangements to enable the Directors (including their spouses or children under 18 years of age) or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2000, the register of substantial shareholders maintained under Sections 16(1) of the SDI Ordinance shows that the Company had been notified of the following interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Number of shares
T S Telecom Ltd.	168,960,000

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

The interests of the Company's sponsor, Dao Heng Securities Limited ("Dao Heng Securities"), its directors, employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) in the share capital of the Company as at 30th June, 2000 and 11th August, 2000 are summarized below.

	As at 30th June, 2000	As at 11th August, 2000
Dao Heng Securities' employees (excluding directors)	—	—
Dao Heng Securities' directors	200,000	200,000
Dao Heng Securities	1,000,000	1,000,000
Dao Heng Securities' associates	<u>4,902,000</u>	<u>4,902,000</u>
Total	<u><u>6,102,000</u></u>	<u><u>6,102,000</u></u>

Pursuant to the an agreement dated 1st December, 1999 and entered into between the Company and Dao Heng Securities, Dao Heng Securities has received and will receive a fee for acting as the Company's retained sponsor for the period from 2nd December, 1999 to 31st March, 2002.

YEAR 2000 COMPLIANCE

The Board advises that all accounting and financial applications in the Group are fully Year 2000 compliant. Up to the date of this report, the Year 2000 issue has not created any material adverse impact on the business operations in any functional areas.

AUDIT COMMITTEE

Pursuant to rules 5.23 and 5.24 of the GEM Listing Rules, an audit committee, comprising an executive director, Mr. Lau See Hoi, and the two independent non-executive directors, namely Mr. Tang Chi Keung and Mr. Wong Kai Tat, was established on 18th November, 1999. Mr. Tang Chi Keung was appointed as the Chairman of this committee.

The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls. Since its establishment, the audit committee met four times for reviewing the Company's operating results, and provided advice and recommendations to the Board.

With effect from 24th July, 2000, Mr. Sze Tsai Ping, Michael was appointed as an independent non-executive director and as a member of the audit committee of the Company while Mr. Wong Kai Tat resigned as an independent non-executive director and was appointed as an executive director of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its share during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

By order of the Board

T S Telecom Technologies Limited

Lau See Hoi

Chairman

Hong Kong, 14th August, 2000

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