



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



# 2nd 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\$30,952,000 and HK\$37,979,000 for the three months and six months ended 30th September, 2000 as compared to approximately HK\$31,455,000 and HK\$40,109,000 for the same periods last year respectively. Turnover has slightly declined due to the longer production cycle of our newly launched products.
- As at 30th September, 2000, the Group had undelivered contracts of approximately HK\$24,600,000. Production of such contracts are scheduled to be completed and the products delivered to customers in the fourth quarter.
- The Group posted a net profit of approximately HK\$13,375,000 and HK\$7,138,000 for the three months and six months ended 30th September, 2000 respectively while the net profit for the same periods last year was HK\$13,661,000 and HK\$10,021,000 respectively. The decrease in net profit is primarily due to the increase in payroll expenses, new office expenses, and expenditures incurred for marketing activities.

## RESULTS

The board of directors (the "Board" and the "Directors", respectively) 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 and six months ended 30th September, 2000 together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

	Notes	Three months ended 30th September,		Six months ended 30th September,	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Power monitoring equipment		<b>23,035</b>	23,941	<b>25,053</b>	27,498
Cable monitoring equipment		<b>5,854</b>	7,395	<b>7,112</b>	11,630
Network access equipment and other equipment		<b>2,063</b>	119	<b>5,814</b>	981
Total turnover		<b>30,952</b>	31,455	<b>37,979</b>	40,109
Cost of sales		<b>(8,501)</b>	(8,488)	<b>(11,896)</b>	(14,029)
Gross profit		<b>22,451</b>	22,967	<b>26,083</b>	26,080
Other revenues		<b>1,309</b>	30	<b>3,105</b>	285
Selling and distribution costs		<b>(579)</b>	(2,310)	<b>(1,796)</b>	(3,383)
Administrative expenses		<b>(10,338)</b>	(6,511)	<b>(20,467)</b>	(12,733)
Operating profit		<b>12,843</b>	14,176	<b>6,925</b>	10,249
Finance costs		<b>(11)</b>	(20)	<b>(18)</b>	(18)
Share of profit / (loss) of associated companies		<b>564</b>	(313)	<b>299</b>	371
Profit before taxation		<b>13,396</b>	13,843	<b>7,206</b>	10,602
Taxation	2	<b>(75)</b>	(182)	<b>(150)</b>	(581)
Profit after taxation		<b>13,321</b>	13,661	<b>7,056</b>	10,021
Minority interests		<b>54</b>	—	<b>82</b>	—
Profit for the periods and attributable to shareholders		<b>13,375</b>	13,661	<b>7,138</b>	10,021
Earnings per share					
— Basic	3	<b>4.9 cents</b>	7.4cents	<b>2.7 cents</b>	5.4 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 September, 2000 and the results for the three months and six months ended 30th September, 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 and six months ended 30th September, 2000. Hong Kong profits tax for the three months and six months ended 30th September, 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 three months and six months ended 30th September, 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.

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30th September,</b>		<b>30th September,</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Company and subsidiaries				
Hong Kong profits tax charge	—	—	—	(132)
PRC income tax charge	—	(173)	—	(348)
	—	(173)	—	(480)
Associated company				
PRC income tax charge	<b>(75)</b>	(9)	<b>(150)</b>	(101)
	<b>(75)</b>	(182)	<b>(150)</b>	(581)

### 3. Earnings per share

The calculation of the Group's basic earnings per share for the three months and six months ended 30th September, 2000 is based on the Group's net profit of approximately HK\$13,375,000 and HK\$7,138,000 (three months and six months ended 30th September, 1999: approximately HK\$13,661,000 and HK\$10,021,000) and the weighted average number of approximately 271,736,000 ordinary shares and 267,868,000 ordinary shares (three months and six months ended 30th September, 1999: approximately 184,800,000 ordinary shares) in issue during the periods. In determining the weighted average number of shares, a total of approximately 3,500,000 shares issued for the establishment of the Company and reorganisation of the Group and a further 181,300,000 shares being the capitalisation issued immediately following the new issue of shares to the public were deemed to have been issued since 1st April, 1998.

There is no diluted earnings per share since the Company has no potential dilution of earnings per share during the periods.

### INTERIM DIVIDEND

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

### BUSINESS REVIEW AND PROSPECTS

#### Financial Performance

For the three months and six months ended 30th September, 2000, turnover of the Group amounted to approximately HK\$30,952,000 and HK\$37,979,000 respectively, as compared to approximately HK\$31,455,000 and HK\$40,109,000 for the corresponding periods last year. Turnover has slightly declined due to the longer production cycle of our newly launched products.

As at 30th September, 2000, the Company has undelivered contracts of approximately HK\$24,600,000. Productions of these contracts are scheduled to be completed and delivered to customers in the fourth quarter.

The Group posted a net profit of approximately HK\$13,375,000 and HK\$7,138,000 for the three months and six months under review, as to HK\$13,661,000 and HK\$10,021,000 for those of the previous year. The decrease in net profit is primarily due to the increase in payroll expenses, new office expenses, and expenditures for marketing activities.

As at 30th September, 2000, the Company had cash of HK\$114,302,000 on hand and common shares of 286,000,000 issued and outstanding.

## Prospects

### The Market Place

#### *PRC*

At the end of our second quarter, restructuring of the PRC telecom regulatory agencies and the split-up of major PRC telephone operators were largely completed. However, reorganisation of telecom bureaus in most provinces and cities are still progressing at varying pace. Accordingly, certain contracts and projects that were originally put on hold due to the restructuring are still pending for further discussion.

The reorganisation of telephone bureaus in the PRC is progressing slower than expected. Accordingly, the Group will delay its plan to establish additional new sales offices in China until the next financial year.

#### *Southeast Asia*

The Group is now sending its power monitoring equipment and network access equipment to regulatory agencies of certain Asian countries for testing.

### New Products

#### *PowerCom for Mobile Base Stations*

The Group made significant progress in the launching of the new series of our power monitoring system specially designed for mobile base stations. The Group is actively in negotiation with branches of the two leading mobile phone generators in more than fifteen major provinces and municipalities for the provision of this product.

#### *Fibersmart*

The Group continues to conduct field trials of our Fibersmart system at Beijing Telecom and Shanghai Telephone Office.

The Fibersmart system is also under field trial at the telephone offices in the municipalities of Qingdao. Sales contracts are expected to be forthcoming upon completion of these new field trials.

The Group continued to develop additional features for the Fibersmart system. By the end of this third quarter, a new feature called Optical Power Monitoring will be added to the Fibersmart system, which will enhance its functionality.

### *Broadband Access Equipment*

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

### *Gas Turbine Generator*

The Group made significant progress in the launching of our new gas turbine generator. The Group signed the first sales contract of approximately HK\$17,361,500 (RMB18,576,800) in July 2000 to provide two units of OD30C 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. In September 2000, the Group signed another sales contract of approximately HK\$5,607,500 (RMB6,000,000) with Shanghai Postal & Telecommunication Equipment Industries Company to provide one unit of mobile gas turbine generator with 1,000 kilowatt output power. The Group expected to sign additional contracts of another two to four units in the fourth quarter.

### **New Joint Venture**

In September, the Company, through its 51.25% owned subsidiary Cyber First Technology Limited, entered into an agreement with Beijing Zhongdian Yiping Science & Technology Development Co., Ltd., ("Beijing Zhongdian Yiping") to form a new joint venture. Under the agreement, Cyber First Technology Limited will contribute RMB8,000,000 (equivalent to approximately HK\$7,477,000 in cash for 80% interest, while Beijing Zhongdian Yiping will contribute its proprietary telecom management network software platform, at an appraised value of RMB2,000,000 for 20% interest in the joint venture.

The joint venture, Beijing Telecom Science-Soft Information Systems Inc., will engage in the development of large-scale telecom software platforms and applications for fixed line and mobile telephone operators in China. Business operations will commence in December, 2000.

**Comparison of the Business Objectives set out in the Prospectus with Actual Business Progress**

<p><b><i>Business Objectives as stated in the Prospectus dated 23rd November, 1999</i></b></p>	<p><b><i>Actual Business Progress</i></b></p>
<p>Increase market share of existing products by setting up additional sales offices, recruiting more sales personnel and forming strategic alliance with local manufacturers</p>	<p>A new sales office was established in the city of Wuhan in March, 2000.</p> <p>A new China headquarters was established in the city of Shenzhen in March, 2000.</p> <p>The Group's headcount increased from 157 in December 1999 to 202 in September, 2000.</p> <p>The Group hired 23 new sales and marketing personnel since December, 1999.</p> <p>A company was appointed to coordinate our marketing activities in Indonesia.</p> <p>An agreement was signed with a French company, a worldwide leader in the design and manufacture of small and medium size gas turbines for industrial and military purposes, to acquire 10 units of their 900 kilowatt to 1,500 kilowatt gas turbine engine core in the next five years.</p>
<p>Vertical Integration for Core Business Lines</p>	<p>Our factory in Shenzhen is assembling all of our CDU and power monitoring systems.</p> <p>Our new joint venture factory in Harbin has commenced the assembling of gas turbine generator sets.</p>



**Business Objectives as stated in the Prospectus dated 23rd November, 1999**
**Actual Business Progress**
**New Products Developments**

**Broadband network access equipment** - The Group continued to work actively with Broadband Access Offices of two mainland telephone bureaus to develop product strategies and standards for the broadband applications and it is now rescheduled to be completed by September, 2001 from March, 2001 due to the rapid changes in related technologies.

**Powercom BSMS** - The development of a new series of power monitoring systems specially designed for mobile phone base stations in the PRC was completed and commercial launch was commenced in April, 2000.

**Fibersmart** - The Group continued to conduct field trials of our Fibersmart system at Beijing Telecom and Shanghai Telephone Office. Additional field trial sites to the telephone offices of Qingdao. By the end of third quarter, a new feature called Optical Power Monitoring will be added to the Fibersmart system to enhance its functionality.

**Formation of Joint Ventures**

**Beijing Kong Da Net Telecommunication Equipment Ltd.** - The formation of this 75% equity interest joint venture was completed in December 1999. It is principally engaged in the manufacturing and distribution of telecommunications equipment and software.

**D & T Engineering Co., Ltd. Harbin** - The new joint venture factory in Harbin has commenced the designing and assembling of gas turbine generator sets since July, 2000.

**Beijing Telecom Science-Soft Information Systems Inc.** - The Company, through its 51.25% owned subsidiary entered into an agreement in September, 2000 with Beijing Zhongdian Yiping Science & Technology Development Co., Ltd., to form a new joint venture. The joint venture will principally engage in the development of large scale telecom software platforms and applications for fixed line and mobile telephone operators in China. It is expected to commence business operations in December, 2000.

## Placing of New Shares

On 29th August, 2000, the Company placed 22,000,000 new ordinary shares with nominal value of HK\$0.1 each through YF Securities Company Limited and Kingsway SW Securities Limited to a group of independent investors for a consideration of HK\$1.0 each, totalling HK\$22,000,000. The Directors consider that it is in the best interest of the Company to raise further capital from the equity market by way of the share placement in order to enhance the capital base of the Company as well as to strengthen the cash flow of the Company.

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

The net proceeds of the share placement are approximately HK\$21,000,000 and will be used for general working capital of the Company.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 30th September, 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	59.00
Mr. Chong Tak Wah (Note 2)	—	—	—	168,960,000	168,960,000	59.00
Mr. Wong Weng (Note 3)	—	—	—	168,960,000	168,960,000	59.00
Mr. Hung, Randy King Kuen	360,000	—	—	—	360,000	0.13

### Notes:

1. These shares are held by T S Telecom Ltd., ("TST"), the ultimate holding company of the Company, in which Mr. Lau holds 7,239,250 shares (representing approximately 32.92% of the issued share capital of TST).
2. These shares are held by TST in which Mr. Chong Tak Wah holds 2,165,250 shares (representing approximately 9.85% of the issued share capital of TST).
3. These shares are held by TST in which Mr. Wong Weng holds 2,885,500 shares (representing approximately 13.12% of the issued share capital of TST).

Save as disclosed above, as at 30th September, 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 September, 2000.

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 September, 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 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 September, 2000 and 10th November, 2000 are summarized below:

	<b>As at 30th September, 2000</b>	As at 10th November, 2000
Dao Heng Securities' employees (excluding directors)	—	—
Dao Heng Securities' directors	<b>200,000</b>	200,000
Dao Heng Securities	<b>1,000,000</b>	1,000,000
Dao Heng Securities' associates	<b>4,902,000</b>	4,902,000
Total	<b><u>6,102,000</u></b>	<u>6,102,000</u>

Pursuant to the agreement dated 1st December, 1999 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 five times for reviewing the Company's operating results, and providing 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.

With effect from 13th November, 2000, Mr. Tang Chi Keung was resigned as an independent non-executive director and as a member of the audit committee of the Company.

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

By order of the Board

**T S Telecom Technologies Limited**

**Lau See Hoi**

*Chairman*

Hong Kong, 13th November, 2000

*This announcement will remain on GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for 7 days from the date of its posting and on the website of T S Telecom Technologies Limited at [www.tstelecom.com](http://www.tstelecom.com).*