



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



3rd 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\$5,479,000 and HK\$43,458,000 for the three months and nine months ended 31st December, 2000 as compared with approximately HK\$30,717,000 and HK\$70,826,000 for the same period last year respectively. The Group's turnover declined due to a major overhaul in organisational structures and change in purchasing policies for maintenance equipment of local telephone bureaus in the Mainland. Adding to this is the major asset reorganisation for certain local telephone bureaus, causing a decrease or suspension of investments in maintenance equipment for those bureaus.
- As of 31st December, 2000, the Group had undelivered contracts of approximately HK\$24,338,000. Production to meet these contracts is scheduled to be completed and delivered in the fourth quarter.
- The Group posted a net loss of approximately HK\$15,259,000 and HK\$8,121,000 for the three months and nine months ended 31st December, 2000 while the net profit for the same period last year was HK\$21,378,000 and HK\$31,400,000 respectively. The loss was mainly attributed to the setback in third quarter turnover and the increase of overhead arising from an increase in payroll expenses, new office expenses, and expenditures from marketing activities.
- As of 31st December, 2000, the Group had cash and cash equivalents of HK\$105,492,000 or HK\$0.37 per share.

RESULTS

The board of directors (the "Board" and the "Directors", respectively) of T S Telecom Technologies Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 31st December, 2000, together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

	<i>Notes</i>	Three months ended		Nine months ended	
		31st December,		31st December,	
		2000	1999	2000	1999
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Power monitoring equipment		410	27,913	25,463	55,411
Cable monitoring equipment		2,141	2,706	9,253	14,336
Power generator equipment		407	—	407	—
Network access equipment and other equipment		2,521	98	8,335	1,079
Total turnover		5,479	30,717	43,458	70,826
Cost of sales		(3,671)	(5,024)	(15,567)	(19,052)
Gross profit		1,808	25,693	27,891	51,774
Other revenue		2,023	4,273	5,128	4,559
Selling and distribution costs		(1,183)	(2,405)	(2,979)	(5,823)
Administrative expenses		(17,807)	(9,245)	(38,274)	(21,924)
Operating (loss) / profit		(15,159)	18,316	(8,234)	28,586
Finance costs		(52)	(51)	(70)	(89)
Share of (loss) / profit of associated companies		(286)	253	13	624
(Loss) / profit before taxation		(15,497)	18,518	(8,291)	29,121
Taxation (charge) / credit	2	—	2,860	(150)	2,279
(Loss) / profit after taxation		(15,497)	21,378	(8,441)	31,400
Minority interests		238	—	320	—
(Loss) / profit for the period and attributable to shareholders		(15,259)	21,378	(8,121)	31,400
(Loss) / earnings per share					
— Basic	3	(5.3) cents	10.1 cents	(3.0) cents	16.2 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 31st December, 2000 and the results for the three months and nine months ended 31st December, 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 (charge) / credit

	Three months ended		Nine months ended	
	31st December,		31st December,	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company and subsidiaries				
Overprovisions in prior years	—	3,182	—	3,050
PRC income tax charge	—	(284)	—	(632)
	—	2,898	—	2,418
Associated company				
PRC income tax charge	—	(38)	(150)	(139)
	—	2,860	(150)	2,279

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the three months and nine months ended 31st December, 2000 and for the corresponding periods in 1999. 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, T S Telecom (Shenzhen) Company Limited and Ying Zhi Xun Telecom Equipment (Shenzhen) Co. Ltd., 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 of 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 31st December, 2000 is 13.5% (1999:13.5%).

Another subsidiary, Beijing Kong Da Net Telecommunication Equipment Ltd. is, under the Income Tax Law of the PRC for Enterprises with Foreign Investment, entitled to an income tax holiday for three years from its fiscal year ended 31st December, 2000 and a 50% reduction of income tax for the following three years.

A subsidiary, Beijing Telecom Science-Soft Information System Co., 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.

3. Loss / earnings per share

The calculation of the Group's basic loss per share for the three months and nine months ended 31st December, 2000 is based on the Group's net loss of approximately HK\$15,259,000 and HK\$8,121,000 (the Group's net profit for the three months and nine months ended 31st December, 1999: approximately HK\$21,378,000 and HK\$31,400,000) and the weighted average number of approximately 285,817,000 ordinary shares and 273,895,000 ordinary shares (three months and nine months ended 31st December, 1999: approximately 211,487,000 ordinary shares and 193,761,000 ordinary shares) were issued during the period. In determining the weighted average number of shares, a total of approximately 3,500,000 shares were issued for the establishment of the Company and reorganisation of the Group. A further 181,300,000 shares being the capitalisation shares issued immediately followed by the new issue of shares to the public which were deemed to have been issued since 1st April, 1998. Moreover, 22,000,000 new ordinary shares were placed in August 2000 and approximately 2,868,000 shares were repurchased in December 2000.

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

4. Reserves

	Share premium	PRC statutory reserves	Merger difference	Negative goodwill	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2000	79,875	5,449	(250)	265	68,668	154,007
Premium on issue of shares	18,325	—	—	—	—	18,325
Repurchase of shares	(1,182)	—	—	—	—	(1,182)
Transfer between reserves	—	244	—	—	(244)	—
Loss for the period	—	—	—	—	(8,121)	(8,121)
At 31st December 2000	<u>97,018</u>	<u>5,693</u>	<u>(250)</u>	<u>265</u>	<u>60,303</u>	<u>163,029</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the quarter ended 31st December, 2000 (1999: Nil).

BUSINESS REVIEW AND PROSPECTS

Financial Performance

For the three months and nine months ended 31st December, 2000, turnover of the Group amounted to approximately HK\$5,479,000 and HK\$43,458,000 respectively, as compared to approximately HK\$30,717,000 and HK\$70,826,000 for the corresponding periods of last year.

The Group's turnover, which sustained major setbacks, is emblematic of the major overhaul in organisational structures and change in purchasing policies for maintenance equipment of local telephone bureaus in the Mainland. As part of their restructuring, new members of senior management were introduced and new procurement approval policies for maintenance equipment were being created, causing budgets and technical specifications for maintenance equipment to be revised. The changes were substantial, and seriously hampered the approval of contracts and projects which were originally pending negotiations.

Adding to this is the major asset reorganisation for certain local telephone bureaus, causing a decrease or suspension of investments in maintenance equipment for those bureaus.

The reductions in turnover can also be attributed in part to the longer production cycle of newly launched products such as the gas turbine generator. While sales contracts were signed in the second quarter, the Group's production schedule dictated a delivery date for the fourth quarter.

Loss attributable to shareholders amounted to HK\$15,259,000 and HK\$8,121,000 for the three months and nine months under review, as compared with profits attributable to shareholders for the same periods last year of HK\$21,378,000 and HK\$31,400,000 respectively. The posted loss was mainly attributed to the setback in third quarter turnover and increase of overheads arising from the increase in payroll expenses, new office expenses, and expenditures from marketing activities.

Despite the slowdown experienced due to restructuring activities in the Mainland, the Group remains optimistic in the future performance of the Company and its growth in the industry, sighting that as of 31st December, 2000, the Group had undelivered contracts of approximately HK\$24,338,000. Production to meet these contracts is scheduled to be completed and delivered in the fourth quarter.

As of 31st December, 2000, the Company had cash and cash equivalents of HK\$105,492,000 or HK\$0.37 per share.

Market Overview

The effect to the Group as a result of restructuring of local telephone bureaus in the Mainland was more severe than expected. To prepare for recovery after restructuring, the Group is taking active measures to establish relationships with new senior management officials of our customers, while at the same time developing business strategies to cope with their new requirements. With an established brand name in the PRC for cable and power monitoring systems, the Group is confident that it will be able to seize the rising opportunities once restructuring is complete.

Product Review

PowerCom for Mobile Base Stations

Following on the progress made since the launch of a new series of power monitoring systems developed specifically for mobile base stations, the Group continues to actively pursue new avenues of cooperation with mobile phone operators in major municipalities and provinces of the PRC.

Fibersmart

The field trials for the Fibersmart system continues to progress within its highly ambitious framework of development. Part of this development programme includes a regiment of systems integration that further enhances the functionality of Fibersmart. While timing of Fibersmart field trials were longer than anticipated, the Group is confident in the systems market appeal, and the added future revenues that will be earned for the Group.

Broadband Network Access Equipment

The Group remains a prominent figure in its role as the key product solutions provider for Beijing Telecom through the use of Integrated Services Digital Network (ISDN) equipment as provided by Universal Digital Loop Carrier System.

Gas Turbine Generator

Since its initial launch in the first quarter, the Group has signed sales contracts for gas turbine generators in the months of July and September 2000, and anticipates additional sales for the fourth quarter.

New Joint Venture for Software Development

The new joint venture, Beijing Telecom Science-Soft Information Systems Inc., received a temporary business licence in mid-December 2000. Management in the joint venture are now setting up office and recruiting personnel to prepare for the official launch of operations in late February 2001.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 31st December, 2000, the interests of the directors and their associates in the share 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 (<i>Note 1</i>)	—	—	168,960,000	—	168,960,000	59.68
Mr. Chong Tak Wah (<i>Note 2</i>)	—	—	—	168,960,000	168,960,000	59.68
Mr. Wong Weng (<i>Note 3</i>)	—	—	—	168,960,000	168,960,000	59.68
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 31st December, 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 31st December, 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 31st December, 2000, the register of substantial shareholders maintained under Section 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 interest 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 31st December, 2000 and 12th February, 2001 are summarized below:

	As at 31st December, 2000	As at 12th February, 2001
Dao Heng Securities's employees (excluding directors)	—	180,000
Dao Heng Securities's directors	130,000	130,000
Dao Heng Securities	1,000,000	1,000,000
Dao Heng Securities's associates	<u>4,902,000</u>	<u>4,902,000</u>
Total	<u><u>6,032,000</u></u>	<u><u>6,212,000</u></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.

AUDIT COMMITTEE

Pursuant to GEM Listing Rules 5.23 and 5.24, an audit committee was established on 18th November, 1999. 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 has met on six occasions to review the Company's operating results, providing advice and recommendations to the Board.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company repurchased 2,868,000 shares at a total cost of HK\$1,312,000 or at an average price of HK\$0.457 per share during the period from 11th December to 29th December, 2000 and 936,000 shares at a total cost of HK\$427,000 or at an average price of HK\$0.456 per share on 2nd January 2001.

Saved as disclosed above, neither the Company nor any of its subsidiaries has redeemed, purchased or sold any of the Company's shares during the nine months ended 31st December, 2000.

By Order of the Board
T S Telecom Technologies Limited
Lau See Hoi
 Chairman

Hong Kong, 13th February, 2001

This announcement will remain on GEM website at 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.