



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



First Quarterly Report
2002

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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\$7.4 million for the first quarter ended 30th June 2002, a decrease from approximately HK\$28.6 million for the same period of last year. In the first quarter, the Group signed a total of approximately HK\$23.5 million of sales contracts, of which approximately HK\$7.4 million worth of goods were delivered. The remaining of approximately HK\$16.1 million of sales contracts are in production pending for delivery and expected to be delivered in the coming quarters.
- Net loss attributable to shareholders was approximately HK\$9.5 million for the first quarter ended 30th June 2002 as compared to a net profit of approximately HK\$4.1 million for the first quarter of last year.
- As at 30th June 2002, the Group had approximately HK\$52.3 million or \$0.19 per share of cash on hand.

RESULTS

The Board of Directors (the "Board") of T S Telecom Technologies Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30th June 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

		Three months ended 30th June	
		2002	2001
		HK\$'000	HK\$'000
	<i>Notes</i>		
Turnover	1	7,360	28,618
Cost of sales		(3,799)	(8,303)
Gross profit		3,561	20,315
Other revenues	1	293	939
Selling and distribution costs		(1,633)	(4,072)
Administrative expenses		(11,487)	(12,873)
Operating (loss) / profit		(9,266)	4,309
Finance costs		(203)	(61)
Share of profits less losses of associated companies		98	128
(Loss) / profit before taxation		(9,371)	4,376
Taxation	2	(222)	(489)
(Loss) / profit after taxation		(9,593)	3,887
Minority interests		86	195
(Loss) / profit for the period and attributable to shareholders	4	(9,507)	4,082
(Loss) / earnings per share – Basic	3	(3.4 cents)	1.4 cents

Notes:

1. Turnover and revenues

The Group is principally engaged in the assembly, distribution and integration of telecommunications products and gas turbine generators. Revenues recognized during the year are as follows:

	Three months ended 30th June	
	2002 HK\$'000	2001 HK\$'000
Turnover:		
Sale of goods, net of discounts and value-added tax	7,360	28,618
Other revenues		
Interest income	177	915
Others	116	24
	<u>293</u>	<u>939</u>
Total revenues	<u>7,653</u>	<u>29,557</u>

2. Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	Three months ended 30th June	
	2002 HK\$'000	2001 HK\$'000
Overseas taxation	(197)	(472)
Share of taxation attributable to an associated company	<u>(25)</u>	<u>(17)</u>
	<u>(222)</u>	<u>(489)</u>

- (i) No provision for Hong Kong profits tax has been made in the accounts as the group companies operating in Hong Kong have no assessable profit for the year (2001: Nil).
- (ii) Overseas taxation represents the tax on the representative offices of the Group in the People's Republic of China (the "PRC") provided at the relevant tax rates applicable to them with reference to the total expenditure of these offices.
- (iii) The Group's PRC subsidiaries, T S Telecom (Shenzhen) Company Limited and Ying Zhi Xun Telecom Equipment (Shenzhen) Co. Ltd. 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 is the year ended 31st December 1999.

Another subsidiary, Beijing Kong Da Net Telecommunications 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 the year ended 31st December 2000 and a 50% reduction of income tax rate for the following three years.

An associated company, D&T Engineering Co., Ltd., Harbin, in the PRC is 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 quarter ended 30th June 2002 is based on the Group's net loss of approximately HK\$9.5 million (2001: a earnings of approximately HK\$4.1 million) and 282,196,000 ordinary shares (2001: 282,196,000 ordinary shares) in issue during the period.

There is no diluted earnings per share since the Company has no dilutive potential ordinary shares during the period.

4. Reserves

	Share premium <i>HK\$'000</i>	PRC statutory reserves <i>HK\$'000</i>	Merger difference <i>HK\$'000</i>	Investment revaluation <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2002	96,616	6,099	(250)	–	9,538	112,003
Deficit on revaluation	–	–	–	(17)	–	(17)
Loss for the period	–	–	–	–	(9,507)	(9,507)
At 30th June 2002	<u>96,616</u>	<u>6,099</u>	<u>(250)</u>	<u>(17)</u>	<u>31</u>	<u>102,479</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the quarter ended 30th June 2002 (2001: Nil).

BUSINESS REVIEW AND PROSPECTS

Financial Performance

Turnover was approximately HK\$7.4 million for the first quarter ended 30th June 2002 compared with a turnover of approximately HK\$28.6 million for the same period of last year.

Gross margin of 48% was lower than the corresponding quarter of previous year but increased from the 36% of the last fiscal year ended 31st March 2002. The improvement of gross margin as the group continued to control its production costs and engineering expenditures.

The Group posted a net loss of approximately HK\$9.5 million for the first quarter ended 30th June 2002 as compared to the net profit of approximately HK\$4.1 million for the first quarter of last year. The net loss was attributable to the decrease in turnover of this first quarter.

During the first quarter, the Group has successfully reduced selling and distribution costs as well as administrative expenses by 60% and 11%, respectively. The Group will continue to implement its new operation plan adopted at the end of last fiscal year to bring down selling expenses and overheads.

As at 30th June 2002, the Group has approximately \$52.3 million or \$0.19 per share of cash on hand.

Prospect

The Market Place

Although the Group incurred a net loss for the first quarter and turnover was lower than previous year, the overall business of the Group had improved. In the first quarter, the Group signed a total of approximately HK\$23.5 million of sales contracts, of which approximately HK\$7.4 million worth of goods were delivered. The remaining of approximately HK\$16.1 million of sales contracts are in production pending for delivery and expected to be delivered in the coming quarters.



The market for telecom monitoring equipment should be on the upward trend this year as the two mobile companies in the mainland were increasingly concerned on the quality of services of their networks. While the Group encountered increased competition from domestic telecom equipment suppliers, the Group had successfully upgraded its telecom monitoring systems to preserve our product superiority, resulting an additional approximately HK\$20.0 million of sales orders pending to be signed in the second quarter.

As the number of telephone subscribers continues to increase and competition among telephone operators in China intensified, their needs for quality services would lead to the growth of telecom monitoring equipment.

Power Monitoring Equipment

Sales of power monitoring equipment accounted for approximately 67% of the Group turnover this quarter and it would continue to be the Group's major product line. To strengthen our competitive edge, our product development department had successfully upgraded our power monitoring equipment for mobile base stations with more functionalities and lower costs. In the mean-time, our researchers are developing our next generation of PowerCom BSMS for the monitoring of the 3G mobile base stations.

In line with new business model, the Group had started soliciting recurring income from customers on maintenance service fee and sales of extended warranty. Accordingly, a special team of engineers responsible for after sales customer services were formed. We are now able to stay more closely to customers and response to their needs more quickly.

Gas Turbine Generators

The business of gas turbine generator is encouraging. During the first quarter, the Group signed approximately HK\$13.3 million of sales contract on gas turbine generators. At the moment, the Group is working on additional approximately HK\$16.0 million of tender for specially made gas turbine generators used in the petroleum industry. We have targeted to close the tender by the end of the coming quarter.

In light of the success of the conference held in Beijing Diaoyutai Guesthouse, the Group continues to implement aggressive strategies to promote gas turbine generators. Our marketing team would exhibit our full range of gas turbine generator product line at a national gas turbine exhibition in Wuhan, China in this September. The Group's gas turbine generators are world class products and that the generators are marketed with international prespective. In the first quarter, representatives of the Group travelled to two South East Asia countries to promote our gas turbine series of products and received positive feedback. The Group is now developing a business plan for the international market of our gas turbine generator.

Fiber-Optic Equipment

The Group continued to develop and enhance its fiber optic related products. Our fiber monitoring equipment was still being developed. With an objective to distinguish our products from competitors, our researchers had mapped out a different blue print to make the fiber monitoring functions in an embedded system, rather than a software driven system. This would not only make the fiber monitoring activities more stable and reliable but the production

costs could be reduced so the Group could offer a more value for money products to the potential customers. We reckoned that the development of fiber monitoring equipment are taking longer than expected. Yet, it is far more important to offer a products that could be differentiate from competitors and add value to customers needs.

During the first quarter, the Group formed a plan to develop optical network equipment and photoelectric components. A team of special researchers are now working on the subjects and commercial launch of some of these new products was scheduled to be due by the end of our third quarter this year.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

At 30th June 2002, the interests of the directors, chief executives and their associates in the shares and options 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	Number of ordinary shares of HK\$0.1 each				Total	Approximate percentage holding of shares %
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Lau See Hoi (<i>Note 1</i>)	–	–	168,960,000	–	168,960,000	59.87
Mr. Wong Weng (<i>Note 2</i>)	–	–	–	168,960,000	168,960,000	59.87
Mr. Hung, Randy King Kuen	360,000	–	–	–	360,000	0.13

Notes:

1. These shares are held by T S Telecom Ltd., ("T S Telecom"), 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 T S Telecom).
2. These shares are held by T S Telecom in which Mr. Wong holds 2,885,500 shares (representing approximately 13.12% of the issued shares capital of T S Telecom).

Save as disclosed above, at no time during the year, the directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI ordinance) as recorded in the register as at 30th June 2002 maintained under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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 2002.



Save as disclosed above, at no time during the periods under review was the Company, its subsidiaries or holding company a party to any arrangements to enable the directors or chief executives (including their spouses or children under 18 years of age) 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

The register of substantial shareholders maintained under Sections 16(1) of the SDI Ordinance shows that as at 30th June 2002, the Company had been notified of the following substantial shareholders' 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) had an interest in a business that competed with or might compete with the business of the Group.

AUDIT COMMITTEE

Pursuant to Rules 5.23 and 5.24 of the GEM Listing Rules, 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. The audit committee met one time during this financial year to review the Company's operating results, provide advice and recommendations to the Board.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares 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, 13th August 2002

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.