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

Second Quarterly Report 2002

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This report, 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 report 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 report misleading; and (3) all opinions expressed in this report 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$12,128,000 and HK$19,488,000, respectively for the three months and six months ended 30th September 2002.
- Total sale contracts signed pending for production and delivery amounted to approximately HK$30,700,000 as at 30th October 2002.
- Loss attributable to shareholders was approximately HK$14,372,000 and HK$23,879,000, respectively for the three months and six months ended 30th September 2002 versus a loss of $21,397,000 and HK$17,315,000 for the corresponding periods of last year.
- As at 30th September 2002 and 12th November 2002, the Group had approximately HK$40,007,000 and HK$34,982,000 or $0.14 and $0.12 per share of cash on hand and at bank, respectively.

The Board of Directors (the "Board") of T S Telecom Technologies Limited (the "Company") presents the consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity of the Company and its subsidiaries (the "Group") for the three months and six months ended 30th September 2002, and the consolidated balance sheet as at 30th September 2002 of the Group, all of which are unaudited and in condensed format, along with selected explanatory notes and the comparative unaudited figures for the corresponding period in 2001 as follows:

Condensed Consolidated Profit and Loss Account

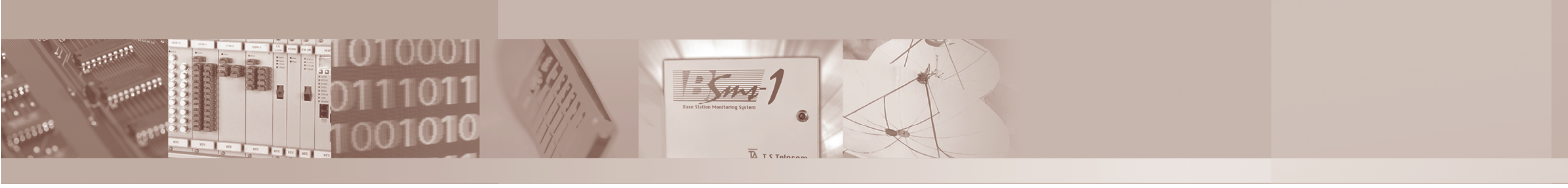
		(Unaudited) Three months ended 30th September		**(Unaudited) Six months ended 30th September**	
		2002	2001	**2002**	2001
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**12,128**	8,663	**19,488**	37,281
Cost of sales		**(7,513)**	(7,490)	**(11,312)**	(15,793)
Gross profit		**4,615**	1,173	**8,176**	21,488
Other revenues	*2*	**173**	644	**466**	1,583
Selling and distribution costs		**(2,484)**	(4,649)	**(4,117)**	(8,721)
Administrative expenses		**(12,002)**	(15,952)	**(23,489)**	(28,825)
Other operating expenses	*3*	**(5,064)**	(3,829)	**(5,064)**	(3,829)
Operating loss	*4*	**(14,762)**	(22,613)	**(24,028)**	(18,304)
Finance costs	*5*	**(217)**	(192)	**(420)**	(253)
Share of profit less loss of associated companies		**344**	247	**442**	375
Loss before taxation		**(14,635)**	(22,558)	**(24,006)**	(18,182)
Taxation (charge)/credit	*6*	**(52)**	472	**(274)**	(17)
Loss after taxation		**(14,687)**	(22,086)	**(24,280)**	(18,199)
Minority interests		**315**	689	**401**	884
Loss for the period and attributable to shareholders		**(14,372)**	(21,397)	**(23,879)**	(17,315)
Loss per share – Basic	7	**(5.1) cents**	(7.6) cents	**(8.5) cents**	(6.1) cents

Condensed Consolidated Balance Sheet

	Note	(Unaudited) 30th September 2002 HK$'000	(Audited) 31st March 2002 HK$'000
Fixed assets	9	**35,228**	34,150
Interests in associated companies		**13,323**	12,957
Investment securities		**323**	578
Current assets			
Inventories		**17,118**	17,361
Trade receivables	10	**44,595**	45,134
Other receivables, prepayments and deposits		**9,555**	8,177
Pledged bank deposits		**15,090**	14,363
Bank balances and cash	11	**24,917**	52,574
		111,275	137,609
Current liabilities			
Trade payables	12	**5,657**	4,169
Trade payables due to an associated company		**11,664**	12,614
Other payables and accrued expenses		**9,631**	9,674
Current portion of obligations under finance leases		**593**	577
Taxation payable		**267**	267
Short-term bank loan, secured		**11,215**	11,215
		39,027	38,516
Net current assets		**72,248**	99,093
Total assets less current liabilities		**121,122**	146,778
Financed by:			
Share capital	13	**28,220**	28,220
Reserves		**92,023**	112,003
Shareholders' funds		**120,243**	140,223
Minority interests		**551**	5,926
Long-term portion of obligations under finance leases		**328**	629
		121,122	146,778

Condensed Consolidated Cash Flow Statement

	(Unaudited) Six months ended 30th September	
	2002	2001
	HK$'000	*HK$'000*
Net cash outflow from operating activities	**(23,007)**	(29,908)
Investing activities		
Purchase of fixed assets	**(3,638)**	(12,766)
Net cash outflow before financing activities	**(26,645)**	(42,674)
Financing activities		
Net changes in bank deposits pledged	**(727)**	235
Capital element of finance lease payments	**(285)**	(232)
Repayment of bank loan	**–**	(1,869)
New bank loan	**–**	13,084
Net cash (outflow)/inflow from financing activities	**(1,012)**	11,218
Decrease in cash and cash equivalents	**(27,657)**	(31,456)
Cash and cash equivalents at 1st April	**52,574**	95,726
Cash and cash equivalents at 30th September	**24,917**	64,270
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**24,917**	64,270



Condensed Consolidated Statement of Changes in Equity

	(Unaudited)						
	Share premium HK$'000	PRC statutory reserves HK$'000 (Note 14)	Merger difference HK$'000 (Note 14)	Investment revaluation HK$'000	Negative goodwill HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st April 2001	96,616	5,639	(250)	(1,822)	–	66,940	167,123
Deficit on revaluation	–	–	–	(3,026)	–	–	(3,026)
Loss for six months period	–	–	–	–	–	(17,315)	(17,315)
At 30th September 2001	96,616	5,639	(250)	(4,848)	–	49,625	146,782
At 1st April 2002	96,616	6,099	(250)	–	–	9,538	112,003
Release of goodwill upon disposal of a subsidiary	–	–	–	–	265	3,634	3,899
Loss for six months period	–	–	–	–	–	(23,879)	(23,879)
At 30th September 2002	**96,616**	**6,099**	**(250)**	**–**	**265**	**(10,707)**	**92,023**

Notes to the Condensed Interim Accounts

(1) Basis of preparation

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These accounts should be read in conjunction with the annual financial accounts for the year ended 31st March 2002 ("2002 Annual Financial Accounts").

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the 2002 Annual Financial Accounts. The Group has adopted the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

SSAP 11 (revised) : Foreign currency translation

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the Translation of the profit and loss of foreign enterprises in prior periods has not been restated as the effect of this change is not material to the current and prior period.

The adoption of the other new and revised SSAPs has no material impact on the Group's unaudited condensed consolidated accounts.

(2) Turnover, Revenue and Segment Information

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

	Three months ended 30th September		Six months ended 30th September	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover				
Sales of goods, net of discounts and value-added tax	**12,128**	8,663	**19,488**	37,281
Other revenues				
Interest income	**129**	614	**306**	1,529
Others	**44**	30	**160**	54
	173	644	**466**	1,583
Total revenues	**12,301**	9,307	**19,954**	38,864

Business segments

The Group is organized into two main business segments:

- Telecommunications products
- Gas turbine generators

There are no sales or other transactions between the business segments.

An analysis of the Group's revenues and results for the period by business segments is as follows:

	Telecommunications Products Six months ended 30th September		Gas turbine generators Six months ended 30th September		Group Six months ended 30th September	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**15,256**	32,489	**4,232**	4,792	**19,488**	37,281
Segment results	**(8,486)**	2,458	**(991)**	(271)	**(9,477)**	2,187
Interest income					**306**	1,529
Unallocated corporate expenses					**(14,857)**	(22,020)
Operating loss					**(24,028)**	(18,304)
Finance costs					**(420)**	(253)
Share of profit less loss of associated companies	**547**	459	**(105)**	(84)	**442**	375
Loss before taxation					**(24,006)**	(18,182)
Taxation charge					**(274)**	(17)
Loss after taxation					**(24,280)**	(18,199)
Minority interests					**401**	884
Loss attributable to shareholders					**(23,879)**	(17,315)

(3) Other operating expenses

	Three months ended 30th September		Six months ended 30th September	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Impairment loss on investment securities	**255**	–	**255**	–
Provision for doubtful debts	**4,809**	–	**4,809**	–
Compensation for loss of office	**–**	3,829	**–**	3,829
	5,064	3,829	**5,064**	3,829

(4) Operating loss

Operating loss is stated after charging the following:

	Three months ended 30th September		Six months ended 30th September	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Staff costs (including directors' remuneration)	**5,623**	11,055	**10,803**	18,000
Research and development costs	**2,015**	2,074	**3,008**	2,648
Operating leases in respect of land and buildings	**926**	854	**2,199**	1,945
Depreciation:				
Owned fixed assets	**1,175**	489	**1,819**	838
Leased fixed assets	**143**	97	**286**	227

(5) Finance costs

	Three months ended 30th September		Six months ended 30th September	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest on short-term bank loan and overdrafts	**194**	169	**376**	201
Interest element of finance leases	**23**	23	**44**	52
	217	192	**420**	253

(6) Taxation (charge)/credit

The amount of taxation (charged)/credited to the consolidated profit and loss account represents:

	Three months ended 30th September		Six months ended 30th September	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Overseas taxation	**–**	472	**(197)**	–
Share of taxation attributable to an associated company	**(52)**	–	**(77)**	(17)
	(52)	472	**(274)**	(17)

(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 period (Six months ended 30th September 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.

(7) Loss per share

The calculation of the Group's basic loss per share for the three months and six months ended 30th September 2002 is based on the Group's loss attributable to shareholders of approximately HK$14,372,000 and HK$23,879,000 (for the three months and six months ended 30th September 2001: approximately HK$21,397,000 and HK$17,315,000) and the number of approximately 282,196,000 ordinary shares in issue during the period.

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

(8) Interim dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th September 2002 (Six months ended 30th September 2001: nil).

(9) Fixed assets

	Six months ended 30th September 2002
	HK$'000
Opening net book amount	**34,150**
Additions	**3,638**
Disposals	**(455)**
Depreciation	**(2,105)**
Closing net book amount	**35,228**

(10) Trade receivables

Provision is made against trade receivable to the extent they are considered to be doubtful. Trade receivable in the balance sheet are stated net of such provision.

Included in the balance are retention monies totalling approximately HK$25,123,000 (31st March 2002: HK24,763,000) which is expected to be settled more than twelve months from the balance sheet date.

Majority of the Group's turnover is on open account terms and in accordance with terms specified in the sales contracts governing the relevant transactions.

The ageing analysis of the trade receivables is as follows:

	30th September 2002	31st March 2002
	HK$'000	*HK$'000*
Less than six months	**16,185**	11,683
Between six months and one year	**6,115**	10,826
Between one year and two years	**15,200**	20,322
More than two years	**7,095**	2,303
	44,595	45,134

(11) Bank balances and cash

Included in the balance is an amount of HK$5,320,000 (31st March 2002: HK$16,867,000) which is denominated in Renminbi. Renminbi is not a freely convertible currency.

(12) Trade payables

The ageing analysis of the trade payables is as follows:

	30th September 2002 *HK$'000*	31st March 2002 *HK$'000*
Less than six months	**4,739**	3,857
Between six months and one year	**689**	187
Between one year and two years	**144**	92
More than two years	**85**	33
	5,657	4,169

(13) Share capital

	Company	
	30th Septmber 2002 *HK$'000*	31st March 2002 *HK$'000*
Authorised:		
800,000,000 ordinary shares of HK$0.1 each	**80,000**	80,000
Issued and fully paid:	**No. of shares (in thousand)**	*HK$'000*
At at 30th September 2002 and 31st March 2002	282,196	28,220

(14) Reserves

The PRC statutory reserves represents transfers made to the general reserve fund and the enterprise development fund set up by certain subsidiaries and associated companies in the PRC, pursuant to the relevant regulations. According to the regulations, the general reserve fund may be used for making up losses, if any, and increasing capital while the enterprise development fund may be used for increasing capital.

The merger difference of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired pursuant to the Group's reorganization which took place during the year ended 31st March 2000 over the nominal value of the share capital of the Company issued in exchange thereof.

(15) Related party transactions

		Three months ended 30th September		**Six months ended 30th September**	
	Note	**2002 *HK$'000***	2001 *HK$'000*	**2002 *HK$'000***	2001 *HK$'000*
Purchase from an associated company, D&T Engineering Co. Ltd., Harbin		**3,595**	4,897	**3,595**	4,897
Research and development expenses charged by the ultimate holding company	*(a)*	**967**	970	**1,237**	970
Administrative service fees paid to T S Holdings	*(b)*	**240**	240	**480**	480
Licence fees paid to T S Holdings	*(b)*	**363**	380	**725**	761
Consultancy fee paid to a former director	*(c)*	**–**	1,100	**–**	1,100

(15) Related party transactions *(continued)*

(a) T S International Co. Ltd. ("TSI") entered into an agreement on 15th November 1999 for a term of three years with T S Telecom Ltd. ("T S Telecom"), the ultimate holding company, under which the latter will provide research and development services to the Group at a monthly charge which is calculated on the basis of the costs to be incurred by T S Telecom for and in connection with the provision of such services, provided that the annual service fee payable shall in total not exceed HK$4,000,000.

(b) T S (Holdings) Company Limited ("T S Holdings"), a related company in which a director, Mr. Lau See Hoi, of the Company has a beneficial interest, entered into an operating lease with a third party in respect of an office premises which is shared by the Group and T S Holdings. Half of the rental expense of the premises is borne and paid by the Group through T S Holdings. In November 1999, TSI entered into a licence agreement, which expired on 30th March 2002, with T S Holdings under which the Group is granted a right to use the above office premises at a monthly licence fee. The licence agreement was not renewed upon expiry because TSI has considered to move to another appropriate location. As at 12th November 2002, TSI continued to use the 50% of the premises on a month to month basis for a monthly licence fee of HK$120,846.50 and no agreement had yet been signed.

(c) A Consultancy Agreement dated 16th July 2001 was entered into between the Company and a former director, Mr. Chong Tak Wah for a period of six months with effect from 16th July 2001. Pursuant to the Consultancy Agreement, Mr. Chong Tak Wah agreed to provide consultancy services to the Company in relation to advising strategies for pending sales contract proposals in Mainland China and consultation upon other matters reasonably requested by the Company relating to its business in Mainland China. A fixed fee of HK$2,200,000 was mutually agreed between the Company and Mr. Chong Tak Wah and which is calculated according to a certain percentage of the worth of the pending sales contracts in Mainland China.

(16) Commitments

(a) Capital commitments for fixed assets

	Group	
	30th September 2002	31st March 2002
	HK$'000	*HK$'000*
Contracted but not provided for	**–**	681

(b) Commitments under operating lease

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30th September 2002	31st March 2002
	HK$'000	HK$'000
Not later than one year	**2,542**	3,274
Later than one year and not later than five years	**2,522**	4,034
	5,064	7,308

MANAGEMENT DISCUSSION AND ANALYSIS

Result of Operations

For the six months ended 30th September 2002, the Group recorded a total turnover of HK$19,488,000 and loss attributable to shareholders of HK$23,879,000 as compared to a turnover of HK$37,281,000 and a loss of HK$17,315,000 for the same period of last year.

The loss position is due to the decline in turnover of HK$17,793,000 and gross profit of HK$13,312,000 as compared to last year.

The decline in turnover is attributable to the continuous change of business environment of the telecom industry in the Mainland. Telephone operators' adherence to conservative procurement and credit policies had caused the delay in closing contracts under negotiation. As at 30th October 2002, the Group had approximately HK$30,700,000 of sales contracts in production and pending for delivery for coming quarters.

Gross profit was 38.1% and 42.0% respectively for the three and six months period under review. The decline in gross profit is because of the relatively lower profit margin for our gas turbine generator shipped during this quarter.

Selling and distribution costs as a percentage of turnover continued to decline as the Group implemented its new operation plan adopted at the end of last fiscal year.

Administrative expenses decreased also because of the adoption of the new operation plan, which by in large from tight control of marketing expenses.

Other operating expenses included an impairment loss on investment securities of HK$255,000 and HK$4,809,000 of general provision for trade receivables pursuant to the Group's policy of making general provision for the receivable with age over 2 years old.

Segment Information

For the six months period ended 30th September 2002 business from telecommunications products accounts for approximately 78.3% of the turnover of the Group and business from gas turbine generators accounts for approximately 21.7% of the total turnover.

The turnover and the operating loss for the most recent six months period of telecommunications products was HK$15,256,000 and HK$8,486,000, respectively, as compared to the respectively turnover and the operating gain of HK$32,489,000 and HK$2,458,000 recognized for the same period of last year. The operating loss of HK$8,486,000 in the first six months of the current year, included an additional provision for trade receivable of HK$4,809,000.

The turnover for the most recent six months period of gas turbine generators was HK$4,232,000 compared to the turnover of HK$4,792,000 for the same period of last year. The operating loss of the current six months period increased to HK$991,000 from HK$271,000 of the period of the last year as the Group sold our first QD16 stationary gas turbine generator at a thinner margin for promotion purposes.

Telecommunications Products

Business from telecommunications products accounts for approximately 78.3% of turnover of the Group. For the six months period under review, approximately 36.3% of the Group's total turnover were derived from fixed line telephone operators and 42.0% were from mobile telephone operators.

The capital spending of fixed line telecom operators continued to stagnate amid of initial public offering pending after their restructuring. The Group anticipated that most of our business would be generated from mobile operators for the remaining of the year. But the mobile telephone operators had been cautious on capital spending and adopted conservative procurement and credit policies on value added equipment due to their decreasing average revenue per user.

The Group also faced challenged from competitors, which continued to offer extremely aggressive pricing and credit term concessions to telephone operators. While the Group maintains as a technology leader of telecommunications monitoring products, increasing pressure from competition and telephone operators' adherence to conservative procurement and credit policies had caused the delay in closing contracts under negotiation. According to reports released by the Ministry of Information Industries of China, capital spending of the telecom industries is expected to increase approximately 20% from last year, but monthly completion of capital spending from April, 2002 to September, 2002 had dropped in the range of 18.5% to 36.5% as compared to the respective months of last year. Such statistic revealed the reasons for the short term delay of closing our sales contracts and yet the prosperity for business should be forth coming.

As at 30th October 2002, the Group had approximately HK$29,500,000 worth of potential orders on hand which is pending for negotiation of commercial contract terms, in addition to HK$30,700,000 of sales contract pending for delivery.

The Group researchers continued to implement the plan for the developments of Fibersmart, optical network equipment and photoelectric components. The Group reckoned that the global business of fiber optic equipment was in a down turn. Nonetheless, the market for fiber optic related equipment would turn around in near future as optical network is the backbone of telecommunication. At this point, the Group is staying focus to commercial launch of our fiber optic equipment.

Gas Turbine Generators

The business of gas turbine generators accounts for 21.7% of the total turnover for six months period of the Group. The Group expected sales of gas turbine generators will increase for the year.

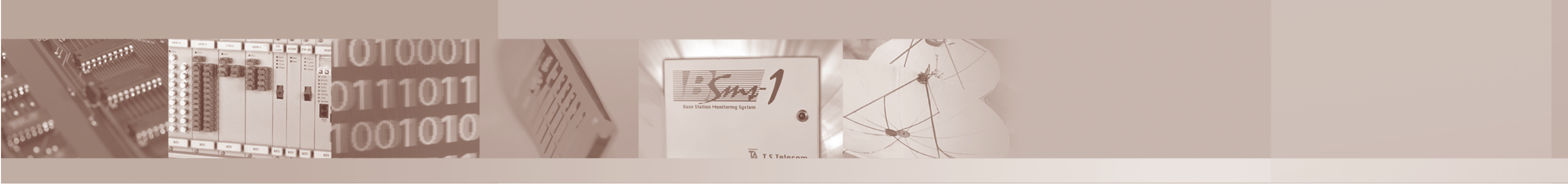
The Group continued to implement aggressive marketing strategies to promote gas turbine generators. In September 2002, the Group hosted a marketing campaign at the 3rd China Wuhan International Machinery and Electronic Products Fair and received positive feedback from the attendants.

The Group reckoned that the profit from sales of gas turbine is relatively lower than our telecommunications products and that the lead-time for closing contracts for gas turbine generator is also comparably longer. Nonetheless, using gas turbine to generate power under 4,000 KW is an uprising concept and main stream of the energy revolution. As seen, there are increasingly more initiatives from the mainland government to endorse the use of gas turbine generators. The preference of using gas turbine generators was now being formed in the telecom, petroleum and military industries and the Group is confidence that it would become a prosperous business.

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

Business Objectives as stated in the Prospectus dated 23rd November 1999	Actual Business Progress
Increase market share of existing products by setting up additional sales offices, recruiting more sales personnel and forming strategic alliance with local manufacturers	A new sales office in Wuhan was established in March, 2000. A sales representative was appointed to coordinate our marketing activities in Indonesia. A distribution agreement was signed with Sparton for the exclusive right to distribute its cable monitoring equipment in Australia, New Zealand and South East Asia (except for Taiwan). A new office in New Zealand was established in November, 2001. A strategic alliance with a NASDAQ listed company was formed to distribute Microturbines in China. The Group's headcount increased from 157 in December, 1999 to 269 in September, 2002.
Vertical Integration for Core Business Lines	Our factory in Shenzhen is engaged in assembling all of our CDU and power monitoring systems. The formation of a 75% equity interest joint venture, Beijing Kong Da Net Telecommunications Equipment Ltd., commenced business operations in January, 2001. Our joint venture factory in Harbin has commenced the assembling of gas turbine generator sets since July, 2000. The Group acquired a real estate in Shenzhen as our new China headquarters.

Business Objectives as stated in the Prospectus dated 23rd November 1999	Actual Business Progress
New Product Development	**Broadband Network Access Equipment** – The Group discontinued its developments of broadband equipment due to the Group's changes in focus to develop photoelectric equipment. **Powercom BSMS** – It was successfully launched at the end of June, 2000. **Fibersmart** – The trail testing continues to progress within its highly ambitious framework of development. **Gas Turbine Generators** – The Stationary Gas Turbine Generator was launched in June, 2000. Our first mobile gas turbine generator was deployed in September, 2001 as emergency backup power for communication systems for Asia Pacific Economic Cooperation Conference ("APEC") held in Shanghai. **Photoelectric Equipment** – The Group has formed a strategic plan to develop photoelectric component and optical network equipment.
Formation of Joint Ventures	**Beijing Kong Da Net Telecommunications Equipment Ltd.** – The formation of this 75% equity interest joint venture was completed in December, 1999. **D & T Engineering Co., Ltd. Harbin** – The joint venture factory in Harbin has commenced the assembling of gas turbine generator sets since July, 2000.



Use of Proceeds from the Initial Public Offering

From the date of listing on 2nd December 1999, the Group invested approximately HK$8.5 million, HK$25.1 million, HK$17.9 million and HK$14.5 million on various projects in the fiscal years 2000, 2001, 2002 and six months ended 30th September 2002, respectively. The proceeds for the six months ended 30th September 2002 were applied as follows:

For the six months ended 30th September 2002

- approximately HK$3.6 million was used to acquire a new PRC's staff quarters in Shenzhen and fixed assets in Shenzhen and Beijing.
- approximately HK$1.0 million for operation of gas turbine generators business segment.
- approximately HK$3.0 million was used to conduct research and development activities.
- approximately HK$6.9 million was used as additional working capital of the Company to support its day-to-day operation.
- approximately HK$40.0 million was placed as deposits in banks as at 30th September 2002.

Liquidity, Financial Resources and Capital Structure

As at 30th September 2002, our cash balance including pledged bank deposits was HK$40,007,000. The cash balance declined from HK$52,345,000 at the end of the previous quarter primarily due to the current quarter loss position.

As at 30th September 2002, the Group had net current assets of approximately HK$72,248,000, including a short-term bank loan of HK$11,215,000 denominated in Renminbi. The amount was primarily used to finance short-term cash flows for our China operations and as a bridge financing for the acquisition of our headquarters in Shenzhen, China. As the loan is wholly repayable on 8th January 2003 and is now secured by a fixed deposit of the Group. It is interest-bearing at a fixed interest rate of 6.435% p.a. The Group is currently working on a proposal with the bank on refinancing of this loan into a long term nature. The loan is secured by fixed deposit of HK$12,000,000, the proposed refinancing should have positive effect on the liquidity of the Group.

Save as the short-term bank loan disclosed above, the Group had no bank financing other than certain finance leases totalling HK$921,000 as at 30th September 2002.

The Group financed its operations and investing activities primarily by operating revenue, internal resources, balance of proceeds from our initial public offering, proceeds from a share placement exercised in August, 2000 and bank facilities. Despite the declining of cash balance, the net current assets of $72,248,000 along with available unutilized banking facilities should provide sufficient working capital for our present operations.

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. The Group adopted a conservative treasury policy with almost all bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 30th September 2002, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

For the six months period ended 30th September 2002, there had been no change in the capital structure and issued capital of the Group.

Charges on Group Assets

As at 30th September 2002, the Group had pledged bank deposits of HK$15,090,000 for general banking facilities totalling HK$11,250,000 and a short-term bank loan of HK$11,215,000.

Future Plans for Material Investments

As at 30th September 2002, the Group neither has any authorized or contracted capital expenditure commitments nor any future plan for material investments or capital assets.

Material Acquisitions and Disposals

During the six months period ended 30th September 2002, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies except the dissolution of Beijing Telecom Science-Soft Information System Co. Ltd., completed in this first quarter.

Gearing Ratio

The Group's gearing ratio as at 30th September 2002, which was derived from the total borrowings to shareholder' funds, increased to 10.1% from 8.9% as at 31st March 2002.

Contingent Liabilities

As at 30th September 2002, the Group did not have any material contingent liabilities.

Subsequent Events

No subsequent events occurred after 30th September 2002, which may have a significant effect, on the assets and liabilities or future operations of the Group.

Significant Investment

In 2000, the Group invested HK$5,300,000 in shares of a Hong Kong listed company. The shares are held as the Group's long-term investments. On 31st March 2002, the Group wrote down the investment to HK$578,000 to reflect the impairment on the value of the shares.

Based on the share price and the net assets value of the investee company as at 30th September 2002, the Group further took a loss of HK$255,000 to the profit and loss account as further impairment loss on the value of the shares.

Foreign Exchange Exposure

Since most of the transactions of the Group are denominated in Renminbi or US dollars, the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the period under review.

Employees and Remuneration Policy

As at 30th September 2002, the Group employed approximately 269 staff in the PRC, Hong Kong, Canada and New Zealand, representing an increase of 44 staff from 31st March 2002 and an increase of 35 staff from 30th September 2001. The increase in staff was mainly for the PRC operations. Remuneration of employees, including directors' emoluments was approximately HK$1,525,000 and HK$3,037,000 respectively for the three and six months periods under review as compared to approximately HK$2,576,000 and HK$4,703,000 for the corresponding periods of the preceding financial year. The decrease was primarily due to the departure of certain senior management personnel during last year.

The Group reviews employee remuneration from time to time and increases are granted normally annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

SHARE OPTION SCHEME

At the annual general meeting of the Group held on 2nd August 2002, shareholders of the Group have passed an ordinary resolutions in relation to the termination of the Group's existing share option scheme and the adoption of a new share option scheme. Summary of the principal terms of the Group's new share option scheme is contained in a circular dated 2nd July 2002 sent to the shareholders of the Group.

The Company has a share option scheme (the "Scheme") under which the directors, employees, customers or any individual business or entity providing goods or services 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 2002.

DIRECTORS' INTERESTS IN SHARES

At 30th September 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:

	Number of ordinary shares of HK0.1 each					
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	59.87
Mr. Wong Weng *(Note 2)*	–	–	–	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 September 2002 maintained under Section 29 of the SDI Ordinance.

Saved as disclosed above, at no time during the year was the Company, its subsidiaries or its holding company a party to any arrangement to enable the directors and 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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 Securities (Disclosure of Interests) Ordinance shows that as at 30th September 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 which competes or may compete with the business of the Group.

BOARD PRACTICES AND PROCEDURES

Throughout the period, the company was in compliance with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30th September 2002 with the directors.

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 November 2002