



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



Third Quarterly Report
2002

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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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\$41,962,000 and HK\$61,450,000, respectively for the three months and nine months ended 31st December 2002.
- Total signed sale contracts pending for production and delivery amounted to approximately HK\$9,519,000 as at 4th February 2003.
- Profit attributable to shareholders for the three months ended 31st December 2002 was approximately HK\$1,227,000 and the loss for the nine months ended 31st December 2002 was approximately HK\$22,652,000.
- As at 31st December 2002 the Group had approximately HK\$35,460,000 or \$0.13 per share of cash on hand and at bank.

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 and nine months ended 31st December 2002, together with the comparative unaudited figures for the corresponding period in 2001 as follows:

	Note	Three months ended 31st December		Nine months ended 31st December	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	1	41,962	21,755	61,450	59,036
Cost of sales		(22,437)	(11,037)	(33,749)	(26,830)
Gross profit		19,525	10,718	27,701	32,206
Other revenues	1	373	343	839	1,926
Selling and distribution costs		(3,714)	(4,226)	(7,831)	(12,947)
Administrative expenses		(13,540)	(13,307)	(37,029)	(42,132)
Other operating expenses	2	(1,352)	(2,864)	(6,416)	(6,693)
Operating profit/(loss)		1,292	(9,336)	(22,736)	(27,640)
Finance costs		(200)	(154)	(620)	(407)
Share of profit less loss of associated companies		81	(174)	523	201
Profit/(loss) before taxation		1,173	(9,664)	(22,833)	(27,846)
Taxation charge	3	–	(199)	(274)	(216)
Profit/(loss) after taxation		1,173	(9,863)	(23,107)	(28,062)
Minority interests		54	(995)	455	(111)
Profit/(loss) for the period and attributable to shareholders		1,227	(10,858)	(22,652)	(28,173)
Earnings/(loss) per share					
– Basic	4	0.4 cents	(3.8) cents	(8.0) cents	(10.0) 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 three and nine months periods are as follows:

	Three months ended 31st December		Nine months ended 31st December	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover				
Sales of goods, net of discounts and value-added tax	41,962	21,755	61,450	59,036
Other revenues				
Interest income	99	323	405	1,852
Others	274	20	434	74
	<u>373</u>	<u>343</u>	<u>839</u>	<u>1,926</u>
Total revenues	<u>42,335</u>	<u>22,098</u>	<u>62,289</u>	<u>60,962</u>

(2) Other operating expenses

	Three months ended 31st December		Nine months ended 31st December	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Impairment loss on investment securities	95	–	350	–
Provision for inventory	213	–	213	–
(Recovery of)/provision for doubtful debts	(507)	2,864	4,302	2,864
Provision for other receivables	1,551	–	1,551	–
Compensation for loss of office	–	–	–	3,829
	<u>1,352</u>	<u>2,864</u>	<u>6,416</u>	<u>6,693</u>

(3) Taxation charge

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

	Three months ended 31st December		Nine months ended 31st December	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Overseas taxation	–	159	197	159
Share of taxation attributable to an associated company	–	40	77	57
	<u>–</u>	<u>199</u>	<u>274</u>	<u>216</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 period (nine months ended 31st December 2001: nil).
- (ii) Overseas taxation represents tax on a subsidiary of the Group in the People's Republic of China (the "PRC") provided at the relevant tax rates applicable to them with reference to its net profit.

(4) Earnings/(loss) per share

The calculation of the Group's basic earnings/(loss) per share for the three months and nine months ended 31st December 2002 are based on the Group's profit attributable to shareholders for the three months ended 31st December 2002 of approximately HK\$1,227,000 and the Group's loss attributable to shareholders for the nine months ended 31st December 2002 of approximately HK\$22,652,000 (the Group's loss attributable to shareholders for the three months and nine months ended 31st December 2001: approximately HK\$10,858,000 and HK\$28,173,000) and the number of approximately 282,196,000 ordinary shares in issue during the periods.

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

(5) Reserves

	(Unaudited)						
	Share premium	PRC statutory reserves	Merger difference	Investment revaluation	Negative goodwill	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2001	96,616	5,639	(250)	(1,822)	–	66,940	167,123
Deficit on revaluation	–	–	–	(2,856)	–	–	(2,856)
Loss for nine month period	–	–	–	–	–	(28,173)	(28,173)
At 31st December 2001	<u>96,616</u>	<u>5,639</u>	<u>(250)</u>	<u>(4,678)</u>	<u>–</u>	<u>38,767</u>	<u>136,094</u>
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 nine month period	–	–	–	–	–	(22,652)	(22,652)
At 31st December 2002	<u>96,616</u>	<u>6,099</u>	<u>(250)</u>	<u>–</u>	<u>265</u>	<u>(9,480)</u>	<u>93,250</u>

The PRC statutory reserves represent 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 relevant local 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.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the nine months ended 31st December 2002 (nine months ended 31st December 2001: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Result of Operations

The Group had successfully secured significant contracts under negotiations as stated in our previous quarterly report and recorded a turnover of HK\$41,962,000 for the three months period ended 31st December 2002, representing a 93% increase from the corresponding period of last fiscal year. For the nine months ended 31st December 2002, the Group recorded a total turnover of HK\$61,450,000, an increase of 4% from the corresponding nine month period from last year.



As a result of the increase in turnover and continuous effort to control costs, the Group posted a net profit attributable to shareholders for the three months period ended 31st December 2002 of HK\$1,227,000 as compared to a loss of HK\$10,858,000 for the same period of last year. Despite the profitable quarter, the Group posted a net loss of HK\$22,652,000 for the nine month period ended 31st December 2002, a decline from HK\$28,173,000 of net loss posted for the same nine month period of last year.

The change in business environment of the telecom industry in China and telecom operators' adherence to conservative procurement and credit policies are still the main factors delaying in closing contracts under negotiation. As at 4th February 2003, the Group had approximately HK\$9,519,000 of sales contracts in progress and pending for delivery for coming quarters.

Gross profit was 47% and 45% respectively for the three and nine months period under review. The gross profit for the quarter is higher as compared to the first six months since all sales recorded during this quarter were related to telecommunications products which had relatively higher profit margin than our gas turbine generators shipped during the last quarter. Gross profit was lower as compared to the same periods in the previous year because of the product mix in the current year include more new components which bore relatively higher component costs.

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

Administrative expenses for the quarter was slightly higher despite the effort to tightly control marketing expenses because of increases in occupancy and personnel expenses.

Other operating expenses of the quarter included an impairment loss on investment securities of HK\$95,000, provision for inventory and other receivables of HK\$213,000 and HK\$1,551,000, respectively, and HK\$507,000 for doubtful debts previously provided for pursuant to the Group's policy of making general provisions for trade receivables with age over 2 years old.

Segment Information

Sales from telecommunications products account for approximately 100% and 93%, respectively of the turnover of the Group for the three months and nine months period ended 31st December 2002. There was no sale of gas turbine generators during the quarter.

The turnover of telecommunications products for the three months and nine months period under review were HK\$ 41,962,000 and HK\$57,218,000, as compared to the turnover of HK\$21,755,000 and HK\$54,243,000 recognized for the same periods of last year. The operating loss of HK\$22,652,000 for the nine months of the current year, included a provision for trade receivable of HK\$4,302,000.

Telecommunications Products

The Group had a rewarding third quarter and recorded an increase of 93% of turnover from sales of telecommunication products as compared to the third quarter of the last fiscal year. The turnover was mainly generated from sales of power monitoring systems to telephone operators in China. The Group was able to capitalize market opportunity, as the Group remained a leader in the technology of monitoring the power and environment of fixed line telephone bureaus and mobile base stations. The Group also fulfilled its commitment of offering superb customer service by the establishment of a 24 hours after-sales service hotline and presence of dedicated customer service personnel at key customer locations.

The Group is proud to report that our New Zealand branch has become a key supplier of pressure monitoring equipment of telecom operators in that region after one year of its establishment. In light of the success of the New Zealand branch, the Group is now formulating a plan to seek opportunities in the international market. While the Group's ultimate holding company has a solid business foundation in North America, the Group is negotiating a joint marketing plan with the Group's ultimate holding company for the telecom equipment market in North America.

The Group continued its effort to complete the development of fiber monitoring systems. To expedite the development so that the products would be ready for sales within the next six months, the Group is in discussion with a fiber-optic technology company to join forces into the completion of our fiber monitoring systems. Our goal is to make available our fiber monitoring systems for the market within the next six months.

Gas Turbine Generators

The Group expected sales of gas turbine generators to increase in the coming months despite minimal revenue growth from the previous quarter. The Group continued to implement aggressive marketing strategies to promote gas turbine generators in the telecom, petroleum and military industries and is confident that it would become a profitable segment.

Liquidity, Financial Resources and Capital Structure

As at 31st December 2002, our cash balance including pledged bank deposits was HK\$35,460,000. The cash balance declined from HK\$40,007,000 at the end of the previous quarter primarily due to the increase in accounts receivable.

As at 31st December 2002, the Group had net current assets of approximately HK\$73,615,000, including short-term bank loans of HK\$20,191,000 denominated in Renminbi. The loan amount consisted of RMB9,604,350 primarily used to finance short-term cash flows for our China operations and RMB12,000,000 as a bridge financing for the acquisition of our headquarters in Shenzhen, PRC. The loan of RMB9,604,350 is pledged with RMB9,604,350 of our trade receivable and is repayable upon collection of such receivable or not later than 10th December 2003. The bridge loan of RMB12,000,000 is wholly repayable on 8th July 2003 and is now secured by a fixed deposit of HK\$12,000,000. The two loans bear fixed interest at rates of 5.31% p.a. and 6.435% p.a., respectively. The Group is currently working on a proposal with a bank to refinance of the bridge loan into a long-term nature.



Save as the short-term bank loans disclosed above, the Group had no bank financing other than certain finance leases totalling HK\$676,000 as at 31st December 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 loans. Despite the declining of cash balance, the net current assets of \$73,615,000 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 31st December 2002, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

For the nine months period ended 31st December 2002, there was no change in the capital structure and issued capital of the Group.

ONGOING CONNECTED TRANSACTIONS

At an extraordinary general meeting of the Company held on 23rd December 2002, shareholders of the Company passed an ordinary resolutions in relation to a licence agreement entered into with a connected company, T.S. (Holdings) Company Limited, ("TSH"), to continue to use 50% of an office premises situated at Room 4002-4004, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong ("the Premises") for a monthly licence fee of HK\$120,846.5, subject to a rent-free period of 15 days between 1st December 2002 and 15th December 2002, for the period between 16th December 2002 and 31st March 2005. The Premises were originally leased to TSH under a lease agreement dated 11th March 1999 entered into between TSH and an independent third party for a period of three years between 1st April 1999 and 31st March 2002. Such lease agreement was renewed between the same contracting parties on 20th March 2002 for a period of further three years between 1st April 2002 and 31st March 2005 at a total monthly rental of HK\$203,405 and a monthly management fee of HK\$38,288. For the three months and nine months ended 31st December 2002, the Group had paid total licence fee to TSH of approximately HK\$302,116 and HK\$1,027,195.

Moreover, at the extraordinary general meeting, the shareholders of the Company also approved a research and development service agreement entered into with another connected company, T S Telecom Ltd. ("TST"), to provide research and development services including enhancement and upgrading of the hardware design and software of fiber optic monitoring and related equipment, research on the application of fiber optic monitoring and related equipment to industries other than the telecommunication industry to the Group for the period between 27th November 2002 and 31st March 2005 provided that the annual research and development fee payable shall not exceed HK\$4,000,000. For the three months and nine months ended 31st December 2002, the Group had paid total research and development fee to TST of approximately HK\$898,000 and HK\$2,135,000.

SHARE OPTION SCHEME

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 was granted under the Scheme during the periods under review or outstanding as at 31st December 2002.

DIRECTORS' INTERESTS IN SHARES

At 31st December 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					Approximate percentage holding of shares %
	Personal interest	Family interest	Corporate interest	Other interest	Total interest	
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 31st December 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 31st December 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 consolidated financial results for the nine months ended 31st December 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, 14th February 2003