



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

First Quarterly Report

2003



## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

**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\$4,487,000 for the first quarter ended 30th June 2003 compared with a turnover of approximately HK\$7,360,000 for the same period of last year. As of 14th August 2003 the Group had approximately HK\$30,887,000 of signed contracts pending for delivery in the coming quarters.
- The Group posted a net loss of approximately HK\$9,004,000 for the first quarter ended 30th June 2003, which was 5% narrower from the net loss incurred for the first quarter of last year.
- As at 30th June 2003, the Group has approximately \$36,607,000 or \$0.13 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 2003, together with the comparative unaudited figures for the corresponding period in 2002 as follows:

	Notes	Three months ended 30th June	
		2003 HK\$'000	2002 HK\$'000
Turnover	1	4,487	7,360
Cost of sales		(2,637)	(3,799)
Gross profit		1,850	3,561
Other revenues	1	117	293
Selling and distribution costs		(756)	(1,633)
Administrative expenses		(10,023)	(11,487)
Operating loss		(8,812)	(9,266)
Finance costs		(313)	(203)
Share of profits less losses of associated companies		130	98
Loss before taxation		(8,995)	(9,371)
Taxation	2	(53)	(222)
Loss after taxation		(9,048)	(9,593)
Minority interests		44	86
Loss for the period and attributable to shareholders	4	(9,004)	(9,507)
Loss per share – Basic	3	(3.2 cents)	(3.4 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 three months periods are as follows:

	<b>Three months ended 30th June</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Sale of goods, net of discounts and value-added tax	<b>4,487</b>	7,360
Other revenues		
Interest income	<b>95</b>	177
Others	<b>22</b>	116
	<u><b>117</b></u>	<u>293</u>
Total revenues	<u><b>4,604</b></u>	<u>7,653</u>

**(2) Taxation charge**

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

	<b>Three months ended 30th June</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Overseas taxation	–	(197)
Share of taxation attributable to an associated company	<b>(53)</b>	(25)
	<u><b>(53)</b></u>	<u>(222)</u>

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 (three months ended 30th June 2002 : nil).

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.

**(3) Loss per share**

The calculation of the Group's basic loss per share for the three months ended 30th June 2003 are based on the Group's net loss of approximately HK\$9,004,000 (three months ended 30th June 2002: approximately HK\$9,507,000) 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.

#### (4) Reserves

	Share premium HK\$'000	PRC statutory reserves HK\$'000	Merger difference HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st April 2003	96,616	7,112	(250)	(28,315)	75,163
Loss for the period	–	–	–	(9,004)	(9,004)
At 30th June 2003	<u>96,616</u>	<u>7,112</u>	<u>(250)</u>	<u>(37,319)</u>	<u>66,159</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 three months ended 30th June 2003 (three months ended 30th June 2002: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results of Operations

Turnover was approximately HK\$4,487,000 for the first quarter ended 30th June 2003 compared with a turnover of approximately HK\$7,360,000 for the same period of last year. The decline in turnover was mainly due to prolonged negotiation on contract terms of approximately HK\$8,000,000 worth of confirmed orders, which were eventually signed after the first quarter ended. As of 14th August 2003, the Group had signed sale contracts of approximately HK\$30,887,000 pending for production and delivery.

Gross margin of 41% was lower than the corresponding quarter of previous year but increased from the 37% of the last fiscal year ended 31st March 2003. The decline in gross margin was because majority of turnover recorded in the first quarter was from sales of cable monitoring equipment, which had a comparably lower margin than our power monitoring systems. The Group continued to streamline its production costs and engineering expenditures to level off pricing pressure asserted by customers and competitors.

The Group posted a net loss of approximately HK\$9,004,000 for the first quarter ended 30th June 2003, which was 5% narrower from the net loss incurred for the first quarter of last year. The current quarter net loss was attributable to the decrease in turnover and gross margin.

During the first quarter, the Group continued to tightly control selling and distribution costs and administrative expenses. Both were declined by 54% and 10%, respectively from the corresponding quarter of last year.

## **Segment Information**

Sales from telecommunications products accounts for 100% of the turnover of the Group for the three months period ended 30th June 2003. There was no sale of gas turbine generators during the quarter.

Approximately HK\$2,943,000 of the turnover of telecommunications products for the three months period under review were generated from the New Zealand & Australia region. The first quarter sales of our New Zealand operations had increased by 6.8 times of the same period of last year. The Group expects that the New Zealand operations will continue its growth in the coming quarters.

## **Telecommunications Products**

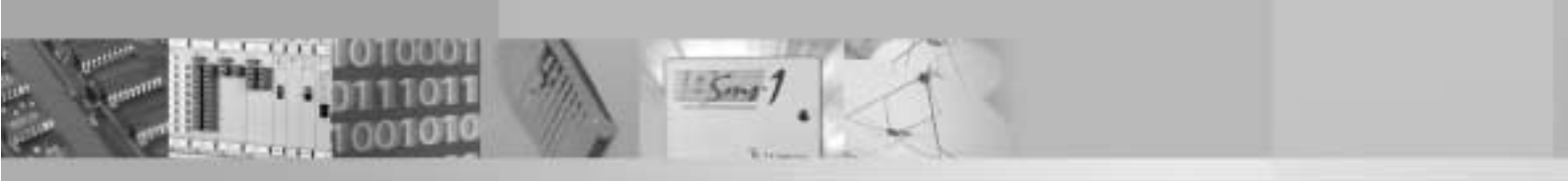
During this quarter, the Group continued to encounter pressure from customers demanding for concession of contract terms including lower pricing and longer payment period, causing the Group to take a longer time required to close and sign contracts. It is quite clearly that the business environment of the telecom monitoring equipment industry of China has become more unfavorable and competitive. The Group has been addressing this challenge by broadening our product base and exploring opportunities in the international market. In addition to adding new network components and developing a digital surveillance system to broaden the product depth of our power monitoring system, the Group formed a new strategic partnership with a NASDAQ listed company to distribute their broadband transmission equipment. In July, our subsidiary Beijing Kong Da Net Telecommunications Equipment Ltd. successfully secured a sales contract for such broadband transmission equipment. As a result of our marketing effort in the international market, our New Zealand operations had generated first quarter sales amount which approximated 70% of its total sales of last year. As stated in our most recent annual report, the Group expects our New Zealand operations to contribute approximately 10% of the Group's total turnover.

## **Gas Turbine Generators**

The Group expects sales of gas turbine generators to increase in the coming months despite minimal revenue growth in the current quarter. The Group continues to implement aggressive marketing strategies to promote gas turbine generators in the telecom, petroleum and military industries.

## **Liquidity, Financial Resources and Capital Structure**

As at 30th June 2003, our cash balance of approximately HK\$36,607,000 included pledged bank deposits of approximately HK\$12,000,000. The cash balance declined from approximately HK\$42,407,000 as of 31st March 2003 primarily due to the current quarter loss position.



As at 30th June 2003, the Group had net current assets of approximately HK\$52,297,000, including short-term bank loans of HK\$22,660,000 denominated in Renminbi. The loan amount consisted of RMB12,246,000 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 RMB12,246,000 is pledged with our trade receivables of which RMB9,604,000 is repayable upon collection of such receivable or not later than 10th December 2003 and the remaining RMB2,642,000 is repayable upon collection of such receivable or not later than 10th March 2004. The bridge loan of RMB12,000,000 is wholly repayable on or before 8th January 2004 and is now secured by a fixed deposit of HK\$12,000,000. The loans bear fixed interest at rates of 5.31% p.a., and 6.435% p.a., respectively.

Save as the short-term bank loans disclosed above, the Group had no bank financing other than certain finance leases totalling HK\$429,000 as at 30th June 2003. 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 \$52,297,000 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 June 2003, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

For the three months period ended 30th June 2003, there was no change in the capital structure and issued capital of the Group.

## 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 30th June 2003.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30th June 2003, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the company under Section 352 of the SFO or as notified to the company and the Stock Exchange pursuant to Rule 5.4 of the GEM Listing Rules were as follows:

Directors	Number of ordinary shares of HK0.1 each					Approximate percentage holding of shares %
	Personal interest	Family interest	Corporate interest	Other interest	Total interest	
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 See Hoi 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 Weng holds 2,885,500 shares (representing approximately 13.12% of the issued shares capital of T S Telecom).

Save as disclosed above, none of the directors (including their spouse and children under 18 years of age) have been granted, or have exercised, any rights to subscribe for shares of the company.

Other than those interests and short positions disclosed above, the directors and chief executives also hold shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiary has more than one member.

## DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed above, during the period under review, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other corporate, and neither the directors and chief executive of the Company, nor any of their spouse or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.





## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 30th June 2003, the company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

<b>Name of shareholder</b>	<b>Number of shares</b>
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.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in (Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited/rules 5.28 to 5.39 of the Listing Rules of the Growth Enterprise Market to the Stock Exchange of Hong Kong) at any time during the three months ended 30th June 2003.

## 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 three months ended 30th June 2003 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 August 2003