



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

Second 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.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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\$12,858,000 and HK\$17,345,000, respectively for the three months and six months ended 30th September 2003.
- Total sale contracts signed pending for production and delivery amounted to approximately HK\$19,704,000 as at 30th October 2003.
- Loss attributable to shareholders was approximately HK\$10,371,000 and HK\$19,375,000, respectively, for the three months and six months ended 30th September 2003 versus a loss of HK\$14,372,000 and HK\$23,879,000 for the corresponding periods of last year.
- As at 30th September 2003 and 13th November 2003, the Group had approximately HK\$25,587,000 and HK\$31,662,000 or \$0.09 and \$0.11 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 2003, and the consolidated balance sheet as at 30th September 2003 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 2002 as follows:

### Condensed Consolidated Profit and Loss Account

	Note	(Unaudited) Three months ended 30th September		(Unaudited) Six months ended 30th September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	12,858	12,128	17,345	19,488
Cost of sales		(6,740)	(7,513)	(9,377)	(11,312)
Gross profit		6,118	4,615	7,968	8,176
Other revenues	2	80	173	197	466
Selling and distribution costs		(3,390)	(2,484)	(4,146)	(4,117)
Administrative expenses		(12,581)	(12,002)	(22,604)	(23,489)
Other operating expenses	3	(281)	(5,064)	(281)	(5,064)
Operating loss	4	(10,054)	(14,762)	(18,866)	(24,028)
Finance costs	5	(319)	(217)	(632)	(420)
Share of profits less losses of associated companies		46	344	176	442
Loss before taxation		(10,327)	(14,635)	(19,322)	(24,006)
Taxation charge	6	–	(52)	(53)	(274)
Loss after taxation		(10,327)	(14,687)	(19,375)	(24,280)
Minority interests		(44)	315	–	401
Loss for the period and attributable to shareholders		<u>(10,371)</u>	<u>(14,372)</u>	<u>(19,375)</u>	<u>(23,879)</u>
Loss per share					
– Basic	7	<u>(3.7) cents</u>	<u>(5.1) cents</u>	<u>(6.9) cents</u>	<u>(8.5) cents</u>

## Condensed Consolidated Balance Sheet

		(Unaudited) 30th September 2003 HK\$'000	(Audited) 31st March 2003 HK\$'000
	<i>Note</i>		
Non current assets			
Fixed assets	9	26,980	30,758
Interests in associated companies		13,792	13,670
		<u>40,772</u>	<u>44,428</u>
Current assets			
Inventories		15,233	15,978
Trade receivables	10	55,490	60,182
Other receivables, prepayments and deposits		6,585	5,772
Pledged bank deposits		12,000	12,000
Bank balances and cash	11	13,587	30,407
		<u>102,895</u>	<u>124,339</u>
Current liabilities			
Trade payables	12	10,880	14,896
Trade payables due to an associated company		9,814	9,814
Other payables and accrued expenses		15,483	19,410
Current portion of obligations under finance leases		303	510
Short-term bank loan, secured		22,660	20,191
		<u>59,140</u>	<u>64,821</u>
Net current assets		<u>43,755</u>	<u>59,518</u>
Total assets less current liabilities		<u>84,527</u>	<u>103,946</u>
Financed by:			
Share capital	13	28,220	28,220
Reserves		55,788	75,163
Shareholders' funds		84,008	103,383
Minority interests		519	519
Long-term portion of obligations under finance leases		–	44
		<u>84,527</u>	<u>103,946</u>

## Condensed Consolidated Cash Flow Statement

	(Unaudited)	
	Six months ended	
	30th September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow from operating activities	<b>(18,867)</b>	(23,007)
Investing activities		
Purchase of fixed assets	<b>(171)</b>	(3,638)
Net cash outflow before financing activities	<b>(19,038)</b>	(26,645)
Financing activities		
New bank loan	<b>2,469</b>	–
Capital element of finance lease payments	<b>(251)</b>	(285)
Net changes in bank deposits pledged	–	(727)
Net cash inflow/(outflow) from financing activities	<b>2,218</b>	(1,012)
Decrease in cash and cash equivalents	<b>(16,820)</b>	(27,657)
Cash and cash equivalents at 1st April	<b>30,407</b>	52,574
Cash and cash equivalents at 30th September	<b>13,587</b>	24,917
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<b>13,587</b>	24,917

## Condensed Consolidated Statement of Changes in Equity

	(Unaudited)				Total HK\$'000
	Share premium HK\$'000	statutory reserves HK\$'000 (Note 14)	PRC Merger difference HK\$'000 (Note 14)	Retained earnings/ (Accumulated losses) HK\$'000	
At 1st April 2002	96,616	6,099	(250)	9,538	112,003
Reversal of goodwill previously charged to reserves, upon the changes in interests in a subsidiary	–	–	–	3,899	3,899
Loss for six months period	–	–	–	(23,879)	(23,879)
At 30th September 2002	<u>96,616</u>	<u>6,099</u>	<u>(250)</u>	<u>(10,442)</u>	<u>92,023</u>
At 1st April 2003	96,616	7,112	(250)	(28,315)	75,163
Loss for six months period	–	–	–	(19,375)	(19,375)
At 30th September 2003	<u>96,616</u>	<u>7,112</u>	<u>(250)</u>	<u>(47,690)</u>	<u>55,788</u>

### Notes to the condensed interim accounts

#### (1) Basis of preparation

These unaudited condensed consolidated accounts are prepared in accordance with 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 2003 ("2003 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 annual accounts for the year ended 31st March 2003 except that the Group has adopted SSAP 12 "Income Taxes" (revised) issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January 2003. The effect of the adoption of this new policy is as follows:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 (revised) has no significant effect on the Group's results and financial positions for the current or prior accounting periods.

**(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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover				
Sales of goods, net of discounts and value-added tax	12,858	12,128	17,345	19,488
Other revenues				
Interest income	73	129	168	306
Others	7	44	29	160
	<u>80</u>	<u>173</u>	<u>197</u>	<u>466</u>
Total revenues	<u>12,938</u>	<u>12,301</u>	<u>17,542</u>	<u>19,954</u>

**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 segment is as follows:

	Telecommunications Products		Gas turbine generators		Group	
	Six months ended 30th September		Six months ended 30th September		Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	<u>17,345</u>	<u>15,256</u>	<u>–</u>	<u>4,232</u>	<u>17,345</u>	<u>19,488</u>
Segment results	<u>(6,728)</u>	<u>(8,486)</u>	<u>(2,467)</u>	<u>(991)</u>	<u>(9,195)</u>	<u>(9,477)</u>
Interest income					168	306
Unallocated corporate expenses					<u>(9,839)</u>	<u>(14,857)</u>
Operating loss					<u>(18,866)</u>	<u>(24,028)</u>
Finance costs					<u>(632)</u>	<u>(420)</u>
Share of profits less losses of associated companies	255	547	(79)	(105)	<u>176</u>	<u>442</u>
Loss before taxation					<u>(19,322)</u>	<u>(24,006)</u>
Taxation charge					<u>(53)</u>	<u>(274)</u>
Loss after taxation					<u>(19,375)</u>	<u>(24,280)</u>
Minority interests					<u>–</u>	<u>401</u>
Loss attributable to shareholders					<u>(19,375)</u>	<u>(23,879)</u>

(3) Other operating expenses

	Three months ended 30th September		Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Impairment loss on investment securities	–	255	–	255
Provision for doubtful debts	281	4,809	281	4,809
	<u>281</u>	<u>5,064</u>	<u>281</u>	<u>5,064</u>

(4) Operating loss

Operating loss is stated after charging the following:

	Three months ended 30th September		Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Staff costs (including directors' remuneration)	4,294	5,623	9,029	10,803
Research and development costs	1,347	2,015	2,270	3,008
Operating leases in respect of land and buildings	1,143	926	2,160	2,199
Depreciation:				
Owned fixed assets	1,754	1,175	3,515	1,819
Leased fixed assets	131	143	261	286

(5) Finance costs

	Three months ended 30th September		Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interest on short-term bank loan and overdrafts	313	194	618	376
Interest element of finance leases	6	23	14	44
	<u>319</u>	<u>217</u>	<u>632</u>	<u>420</u>

(6) Taxation charge

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

	Three months ended 30th September		Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Overseas taxation	–	–	–	197
Share of taxation attributable to an associated company	–	52	53	77
	<u>–</u>	<u>52</u>	<u>53</u>	<u>274</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 (Six months ended 30th September 2002: 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 2003 is based on the Group's loss attributable to shareholders of approximately HK\$10,371,000 and HK\$19,375,000 (for the three months and six months ended 30th September 2002: approximately HK\$14,372,000 and HK\$23,879,000) 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 2003 (Six months ended 30th September 2002: nil).

**(9) Fixed assets**

	<b>Six months ended 30th September 2003 HK\$'000</b>
Opening net book amount	30,758
Additions	171
Disposals	(173)
Depreciation	(3,776)
	<hr/>
Closing net book amount	<b>26,980</b>

**(10) Trade receivables**

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

Included in the balance are retention monies totalling approximately HK\$13,738,000 (31st March 2003: HK\$19,842,000) which are 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:

	<b>30th September 2003 HK\$'000</b>	31st March 2003 HK\$'000
Less than six months	9,479	40,886
Between six months and one year	33,487	7,757
Between one year and two years	9,281	5,821
More than two years	3,243	5,718
	<hr/>	<hr/>
	<b>55,490</b>	<b>60,182</b>

**(11) Bank balances and cash**

Included in the balance is an amount of HK\$7,105,000 (31st March 2003: HK\$18,640,000) 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:

	<b>30th September</b>	31st March
	<b>2003</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within 30 days	373	2,593
31-60 days	253	226
61-90 days	190	1,802
91-180 days	1,140	7,821
Over 180 days	8,924	2,454
	<u>10,880</u>	<u>14,896</u>

## (13) Share capital

	<b>30th September</b>	31st March
	<b>2003</b>	2003
	<b>HK\$'000</b>	HK\$'000
<i>Authorised:</i>		
800,000,000 ordinary shares of HK\$0.1 each	<u>80,000</u>	<u>80,000</u>
<i>Issued and fully paid:</i>		
	<b>No. of shares</b>	<b>HK\$'000</b>
	<b>(in thousand)</b>	
As at 30th September 2003 and 31st March 2003	<u>282,196</u>	<u>28,220</u>

## (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

Notes	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30th September</b>		<b>30th September</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Purchase from an associated company, D&T Engineering Co. Ltd., Harbin	–	3,595	–	3,595
Research and development expenses charged by the ultimate holding company (a)	1,057	967	1,740	1,237
Administrative service fees paid to T S Holdings (b)	240	240	480	480
Licence fees paid to T S Holdings (b)	363	363	725	725

- (a) T S International entered into an agreement on 27th November, 2002 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 fees payable shall in total not exceed HK\$4,000,000.

**(15) Related party transactions** *(Continued)*

- (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, 2002, T S International entered into a licence agreement, which will be expired on 31st March 2005, with T S Holdings under which the Group is granted a right to use the above office premises at a monthly licence fee of approximately HK\$121,000.

**(16) Commitments**

**(a) Commitments under operating leases**

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

	<b>30th September 2003 HK\$'000</b>	31st March 2003 HK\$'000
Not later than one year	<b>2,136</b>	2,223
Later than one year and not later than five years	<b>477</b>	1,454
	<b><u>2,613</u></b>	<b><u>3,677</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Result of Operations

For the six months ended 30th September 2003, the Group recorded a total turnover of HK\$17,345,000 and loss attributable to shareholders of HK\$19,375,000 as compared to a turnover of HK\$19,488,000 and a loss of \$23,879,000 for the same period of last year. Despite the decrease in turnover and interim period loss, our overall financial performance had improved slightly as compared to the same interim period of last year. Our gross margin had increased and our total expenses continued to decrease.

The decline in turnover is attributable to the delay in closing contracts under negotiation. The Company had been facing enormous pressure from potential customers for concession in pricing and payment terms. Extra effort and time were spent in commercial negotiation. As at 30th October 2003, the Group had sales contracts of approximately HK\$19,704,000 in production and pending for delivery in the coming quarters.

Gross margin was 48% and 46% respectively for the three and six months period under review. The improvements in gross margin is primarily from the results of our initiative to manufacture and distribute system components that were previously purchased from outside vendors.

Selling and distribution costs for the six months was approximately the same as the previous six months period but the amount for the current period had increased. The increase is incidental to engineering costs incurred as a result of restructuring of our engineering plan.

During the interim period, the Group continued to streamline its administrative expenses. Although the reporting figures for the current period do not appear to have significant changes from the last corresponding period, administrative expenses before depreciation for the six months period under review had decreased by HK\$2,556,000 or 12% from the same six months period of last year. In particular, personnel expenses had reduced by HK\$1,774,000 or 16% and travelling and entertainment had decreased by HK\$1,265,000 or 38%.



Other operating expenses for six months period ended of 2003 and 2002 mainly consisted of general provision for trade receivables of HK\$281,000 and HK\$4,809,000 respectively. The decrease was primarily due to the tightening of credit terms extended to customers to minimize potential delay in collection.

### **Segment Information**

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

The turnover of telecommunications products of approximately HK\$1,041,000 for the three months period under review were generated from the New Zealand & Australia region. The sales for the six months under review of our New Zealand operations of HK\$3,984,000 had increased by 4.3 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**

Business from telecommunications products accounts for approximately 100% of turnover of the Group. For the six months period under review, approximately 58% of the Group's total turnover were derived from fixed line telephone operators and 42% were from mobile telephone operators.

The turnover for the Group during the six months period was disappointing but not beyond management expectation. The Group was implementing strategies to respond to the challenges from competitors, which offer extremely aggressive pricing and credit term concessions to telephone operators. As reported previously, the Group has been addressing this challenge by broadening our product base and exploring opportunities in the international market. As a result of our marketing effort in the international market, our New Zealand operations had generated sales amount, which approximated 23% of total sales of the Group. At the same time, the Group commenced manufacturing and distributing network components, which was previously procured from outside vendor, to broaden the product depth of our power monitoring system. In addition, the Group is introducing new products such as broadband transmission equipment and developing new product such as digital surveillance system.

The new initiatives, including broadening our product base and exploring opportunities in the international market are the keys for the Group to turnaround from the adverse business condition. As at 30th October 2003, the Group had approximately HK\$20,000,000 worth of potential orders on hand which is pending for negotiation of commercial contract terms, in addition to sales contract of approximately HK\$19,704,000 pending for delivery. The Group anticipated that the results from the new initiatives will strengthen the turnover and profitability of the Group.

### **Gas Turbine Generators**

During the last six months, the Group is under the progress of negotiating the sales contract and 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 September 2003, our cash balance including pledged bank deposits was HK\$25,587,000. The cash balance declined from HK\$36,607,000 at the end of the previous quarter primarily due to loss position in the current quarter.

As at 30th September 2003, the Group had net current assets of approximately HK\$43,755,000, including a short-term bank loan of HK\$22,660,000 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. The loan is wholly repayable on 8th January 2004 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 a fixed deposit of HK\$12,000,000.

Save as the short-term bank loan disclosed above, the Group had no bank financing other than certain finance leases totalling HK\$303,000 as at 30th September 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 facilities. Despite the decline of cash balance, the net current assets of \$43,755,000 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 2003, 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 2003, there had been no change in the capital structure and issued capital of the Group.

### **Charges on Group Assets**

As at 30th September 2003, the Group pledged a bank deposit of approximately HK\$12,000,000 and trade receivables of approximately RMB9,600,000 for short-term bank loans of approximately RMB12,000,000 and RMB9,600,000 respectively.

### **Future Plans for Material Investments**

As at 30th September 2003, the Group neither had 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 2003, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

### **Gearing Ratio**

The Group's gearing ratio as at 30th September 2003, which was derived from the total borrowings to shareholder's funds, increased to 27% from 20% as at 31st March 2003.



### **Contingent Liabilities**

As at 30th September 2003, the Group did not have any material contingent liabilities.

### **Subsequent Events**

No subsequent events occurred after 30th September 2003, which may have a significant effect, on the assets and liabilities or future operations of the Group.

### **Foreign Exchange Exposure**

Since most of the transaction 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 2003, the Group employed approximately 257 staff in the PRC, Hong Kong, Canada and New Zealand, representing a decrease of 27 staff from 31st March 2003 and a decrease of 12 staff from 30th September 2002. The decrease in staff was mainly from the PRC operations. Remuneration of employees, including directors' emoluments was approximately HK\$1,618,000 and HK\$3,147,000 respectively for the three and six months periods under review as compared to approximately HK\$1,525,000 and HK\$3,037,000 for the corresponding periods of the preceding financial year. The decrease was primarily due to the tight cost control program implemented by the Group.

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**

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 2003.

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

As at 30th September 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which (a) were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (b) were otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in rule 5.40 of the GEM Listing Rules, were as follows:

Directors	Number of ordinary shares of HK\$0.1 each					Total no. of shares	Approximate percentage holding of shares %
	Personal interest	Family interest	Corporate interest	Other 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.

Save as disclosed above, at no time during the period was the company, its subsidiaries, its associated companies, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the company or its associated corporation.

## 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.



## INTEREST DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 30th September 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.

## BOARD PRACTICES AND PROCEDURES

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 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 six months ended 30th September 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 condensed accounts for the six months ended 30th September 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 November 2003