



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

Third 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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The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, 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 announcement.

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\$26,448,000 and HK\$43,793,000, respectively for the three months and nine months ended 31st December 2003.
- Total signed sale contracts pending for production and delivery amounted to approximately HK\$28,010,000 as at 12th February 2004.
- Loss attributable to shareholders was approximately HK\$3,476,000 and HK\$22,851,000, respectively, for the three months and nine months ended 31st December 2003 as compared to profit of HK\$1,227,000 and loss of HK\$22,652,000 for the corresponding periods of last year.
- As at 31st December 2003 and 12th February 2004, the Group had approximately HK\$17,982,000 and HK\$15,965,000 or \$0.06 and \$0.06 per share respectively of cash on hand and pledged bank deposits.

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 2003, together with the comparative unaudited figures for the corresponding period in 2002 as follows:

	Note	Three months ended 31st December		Nine months ended 31st December	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	1	26,448	41,962	43,793	61,450
Cost of sales		(15,104)	(22,437)	(24,481)	(33,749)
Gross profit		11,344	19,525	19,312	27,701
Other revenues	1	44	373	241	839
Selling and distribution costs		(3,373)	(3,714)	(7,519)	(7,831)
Administrative expenses		(13,239)	(13,540)	(35,843)	(37,029)
Other operating income/(expenses)	2	2,330	(1,352)	2,049	(6,416)
Operating (loss)/profit		(2,894)	1,292	(21,760)	(22,736)
Finance costs		(374)	(200)	(1,006)	(620)
Share of profits less losses of associated companies		(31)	81	145	523
(Loss)/profit before taxation		(3,299)	1,173	(22,621)	(22,833)
Taxation charge	3	-	-	(53)	(274)
(Loss)/profit after taxation		(3,299)	1,173	(22,674)	(23,107)
Minority interests		(177)	54	(177)	455
(Loss)/profit for the period and attributable to shareholders		(3,476)	1,227	(22,851)	(22,652)
(Loss)/earnings per share					
– Basic	4	(1.2) cents	0.4 cents	(8.1) cents	(8.0) 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover				
Sales of goods, net of discounts and value-added tax	26,448	41,962	43,793	61,450
Other revenues				
Interest income	28	99	196	405
Others	16	274	45	434
	<u>44</u>	<u>373</u>	<u>241</u>	<u>839</u>
Total revenues	<u>26,492</u>	<u>42,335</u>	<u>44,034</u>	<u>62,289</u>

(2) Other operating income/(expenses)

	Three months ended 31st December		Nine months ended 31st December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Impairment loss on investment securities	–	(95)	–	(350)
Provision for inventories	–	(213)	–	(213)
Recovery of/(provision for) doubtful debts	2,330	507	2,049	(4,302)
Provision for other receivables	–	(1,551)	–	(1,551)
	<u>2,330</u>	<u>(1,352)</u>	<u>2,049</u>	<u>(6,416)</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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Overseas taxation	–	–	–	197
Share of taxation attributable to an associated company	–	–	53	77
	<u>–</u>	<u>–</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 (nine months ended 31st December 2002 : 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) (Loss)/earnings per share

The calculation of the Group's basic loss per share for the three months and nine months ended 31st December 2003 are based on the Group's loss attributable to shareholders of approximately HK\$3,476,000 and HK\$22,851,000 (the Group's profit attributable to shareholders for the three months 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) 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 HK\$'000	PRC statutory reserves HK\$'000	Merger difference HK\$'000	Negative goodwill HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
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 the nine months period	–	–	–	–	(22,652)	(22,652)
At 31st December 2002	<u>96,616</u>	<u>6,099</u>	<u>(250)</u>	<u>265</u>	<u>(9,480)</u>	<u>93,250</u>
At 1st April 2003	96,616	7,112	(250)	–	(28,315)	75,163
Loss for the nine months period	–	–	–	–	(22,851)	(22,851)
At 31st December 2003	<u>96,616</u>	<u>7,112</u>	<u>(250)</u>	<u>–</u>	<u>(51,166)</u>	<u>52,312</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 2003 (nine months ended 31st December 2002: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Result of Operations

The Group recorded a total turnover of HK\$26,448,000 for the three months period ended 31st December 2003. The reported turnover is significantly less than those reported in the same fiscal year because there were approximately HK\$16,753,000 worth of contracts signed during the quarter not yet delivered. At 12th February 2004, there was approximately HK\$28,010,000 of backorders pending for production and awaiting for delivery to customers.

The Group reported a gross margin of 43% and 44% respectively for the three and nine month periods under review. The Group expected its cost of good sold will gradually reduce from its effort to manufacture and distribute network components that were previously procured from outside vendors.

Other revenue, comprising mainly interest income, declined significantly due to the decreasing cash and bank balance and low deposit interest rate.

Selling and distribution costs were higher than management's expectation primarily due to the overrun of engineering costs related to several contracts for its power monitoring system. The Group is determined to tightly control engineering costs in the coming quarter.

Administrative expenses increased as compared to the same period of last year. The increase in the amount is primarily attributable to the depreciation charges of the Group's Shenzhen office and gas turbine demo units. To strengthen cost efficiency, management is developing a new cost control strategy to largely reduce administrative costs. The new cost control strategy is scheduled to be implemented before the end of the current fiscal year.

Other operating income for three months period ended consisted of provision for trade receivables of HK\$1,470,000 and collection of trade receivables of HK\$3,800,000 that were previously provided for.

Segment Information

Sales from telecommunications products accounts for 100% of the turnover of the Group for the nine months period ended 31st December 2003.

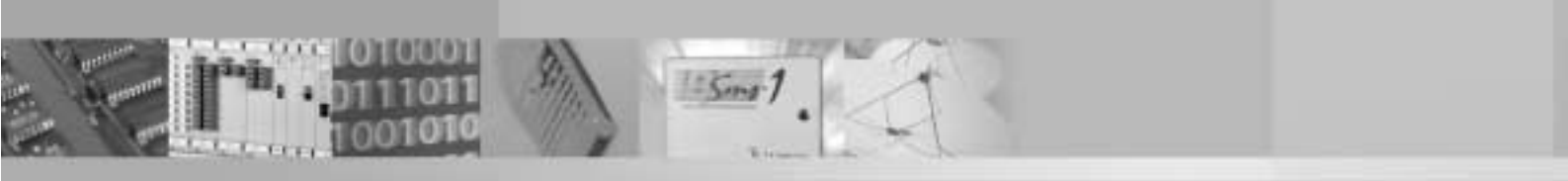
The turnover of telecommunications products of approximately HK\$1,022,000 for the three months period under review was generated from the New Zealand & Australia region. The current year's cumulative sales of our New Zealand operations was approximately HK\$5,006,000, representing an increase of 130% from 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 third quarter, the Group maintained its focus on expansion of international markets, introduction of new products and streamline operations.

For the expansion of international markets, the Group signed an agreement with T S Telecom Ltd. ("TST"), its substantial shareholder in Canada, to supply base station monitoring system ("BSMS"). The agreement will allow the Group to distribute its BSMS products in North America through TST.

For new product introduction, the Group had successfully signed a contract with a telephone operator in China to supply Fibersmart, which is primarily used to monitor fiber optic network. The Group anticipates that there should be strong demand of Fibersmart in the coming years. In addition, the Group is in final preparation of commercial launch of its digital surveillance system, which is capable to provide an integrated solution built around broadband and compression technologies that accepts a single incoming video feed from each camera at a low bandwidth location, multiplies the stream, and rebroadcasts the signal to an unlimited number of users. The digital surveillance system will not only be integrated as part of our telecom monitoring solution, but will also allow the Group to expand into new territory such as transportation and security industries.



The Group is in the process of developing a new cost control plan. The new cost control plan, which primarily gears to cut down administrative expenses of the Group's cost centers, will include streamline in occupancy costs and engineering costs of the telecommunication product business. This cost control plan is scheduled to be implemented before the end of this fiscal year.

Gas Turbine Generators

During the last nine months, the Group continued to negotiate 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 31st December 2003, our cash and bank balance, including pledged bank deposits, was HK\$17,982,000. The cash and bank balance declined from HK\$25,587,000 at the end of the previous quarter primarily due to loss position and repayment of HK\$14,584,000 of bank loan during the current quarter.

As at 31st December 2003, the Group had net current assets of approximately HK\$41,798,000, including two short-term bank loans of HK\$8,076,000 denominated in Renminbi. The two loans consisted of RMB2,642,000 for the purpose of financing short term cash flows for our China operation and RMB6,000,000 as bridge financing for the purchase of our Shenzhen office in China. The loan of RMB2,642,000 is pledged with a trade receivable and is repayable upon collection of such receivable or not later than 10th March 2004. The bridge loan of RMB6,000,000 is wholly repayable on or before 8th March 2004 and is now secured by a fixed deposit of HK\$6,000,000. The loans bear fixed interest at rates of 5.31% p.a. and 6.039% p.a. respectively.

Save as the short-term bank loans disclosed above, the Group had no bank financing other than certain finance leases totaling HK\$174,000 at 31st December 2003.

The Group financed its operations and investing activities primarily by operating revenue and banking facilities. Despite the decline of cash and bank balance, the net current assets of \$41,798,000 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 2003, 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 2003, there had been no change in the capital structure and issued capital of the Group.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

On 19th January 2004, the Company issued an announcement to inform the public that on the same date, T S International, an indirect wholly-owned subsidiary of the Company, has entered into a supply agreement (“the Agreement”) with the Company’s substantial shareholder T S Telecom Ltd. (“TST”). Pursuant to the Agreement, TST will be entitled to purchase BSMS products from T S International for sale of such products to its customers in North America, and T S International will, at the request of TST, supply the BSMS products to TST for an aggregate value of not more than HK\$16,000,000 for the financial year of the Company ending on 31st March 2004 and HK\$30,000,000 for each of the two financial years of the Company ending on 31st March 2006.

TST is the controlling shareholder of the Company holding approximately 59.87% of the total issued share capital of the Company. Accordingly, TST is a connected person of the Company pursuant to the GEM Listing Rules and the transactions contemplated under the Agreement constitute connected transactions for the Company under the GEM Listing Rules and will be subject to the disclosure, shareholders’ approval and annual review requirements as set out in Chapter 20 of the GEM Listing Rules.

A circular containing, among other matters, information on the Non-exempt Continuing Connected Transactions, the recommendation of the Independent Board Committee, a letter of advice from an independent financial adviser and a notice of extraordinary general meeting (“EGM”) to be convened at which ordinary resolution(s) will be proposed to consider, and if thought fit, approve the Agreement and the proposed cap for the Non-exempt Continuing Connected Transactions and all matters contemplated under the Agreement, will be dispatched to the Shareholders pursuant to the GEM Listing Rules. TST and its associates will abstain from voting at the EGM in respect of the ordinary resolution(s) to approve the transactions contemplated under the Agreement.

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 2003.

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

As at 31st December 2003, the interests and short positions of the Directors and chief executive of the Company in the shares, the underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to

section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:–

Long position in shares of the Company

Directors	Number of ordinary shares of HK\$0.1 each				Total number 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. Hung, Randy King Kuen	360,000	–	–	–	360,000	0.13

Notes:

- These shares are held by TST, 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 TST).

Long position in shares of associated corporation

Directors	Associated corporation	Nature of interests	Total number of shares	Approximate percentage holding of shares %
Mr. Wong Weng	T S Telecom Ltd.	Personal	2,885,500	13.12

As at 31st December 2003 and save as disclosed above, none of the Directors and the chief executive of the Company or their associates had any interests or short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors.

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

As at 31st December 2003, the interest of the shareholders (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

Long position in shares of the Company

Name of shareholder	Capacity	Nature of interest	Total number of shares of HK\$0.1 each	Approximate percentage holding of shares %
T S Telecom Ltd.	Beneficial owner	Corporate	168,960,000	59.87
Cheung Yun Wah (Note 1)	–	Other	168,960,000	59.87

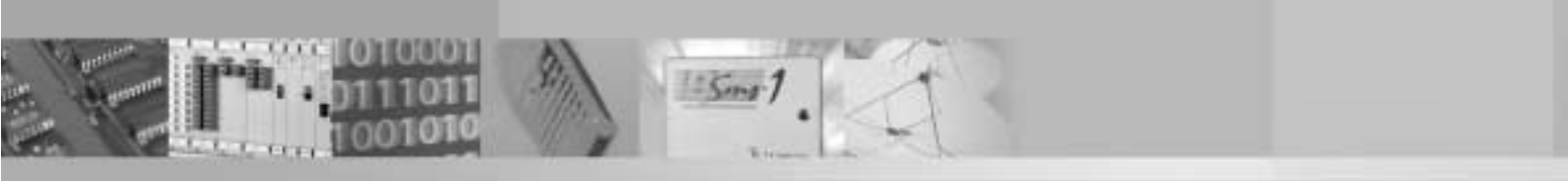
Notes:

1. These shares are held by TST, the ultimate holding company of the Company, in which Mr. Lau See Hoi, a Director of the Company, holds 7,239,250 shares (representing approximately 32.92% of the issued share capital of TST). Ms. Cheung Yun Wah is the spouse of Mr. Lau See Hoi and by virtue of the SFO, Ms. Cheung Yun Wah is deemed to have interest of 168,960,000 shares in the Company.

Save as disclosed above, as at 31st December 2003, the Directors are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or, who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

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 nine months ended 31st December 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 nine months ended 31st December 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, 13th February 2004