



TS Telecom Technologies Limited
大 誠 電 訊 科 技 有 限 公 司



2004

First Quarterly Report



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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\$11,994,000 for the first quarter ended 30th June 2004 compared with a turnover of approximately HK\$4,487,000 for the same period of last year.
- The Group posted a net loss of approximately HK\$7,183,000 for the first quarter ended 30th June 2004, which was 20% lower from the net loss incurred for the first quarter of last year.
- As at 30th June 2004, the Group has approximately HK\$14,242,000 or HK\$0.05 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 2004, together with the comparative unaudited figures for the corresponding period in 2003 as follows:

	Notes	Three months ended 30th June	
		2004 HK\$'000	2003 HK\$'000
Turnover	1	11,994	4,487
Cost of sales		(7,850)	(3,025)
Gross profit		4,144	1,462
Other revenues	1	135	117
Selling and distribution costs		(285)	(368)
Administrative expenses		(11,086)	(10,023)
Other operating expenses	2	(176)	–
Operating loss		(7,268)	(8,812)
Finance costs		(74)	(313)
Share of profits less losses of associated companies		131	130
Loss before taxation		(7,211)	(8,995)
Taxation	3	(70)	(53)
Loss after taxation		(7,281)	(9,048)
Minority interests		98	44
Loss for the period and attributable to shareholders	5	(7,183)	(9,004)
Loss per share – Basic	4	(2.5) cents	(3.2) 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 period are as follows:

	Three months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of goods, net of discounts and value-added tax	11,994	4,487
Other revenues		
Interest income	14	95
Others	121	22
	<u>135</u>	<u>117</u>
Total revenues	<u>12,129</u>	<u>4,604</u>

(2) Other operating expenses

	Three months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Loss on disposal of fixed assets	176	–
	<u>176</u>	<u>–</u>

(3) Taxation charge

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

	Three months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Overseas taxation	(42)	–
Share of taxation attributable to an associated company	(28)	(53)
	<u>(70)</u>	<u>(53)</u>

No provision for Hong Kong profits tax has been made in the accounts as the group of companies operating in Hong Kong have no assessable profit for the period (three months ended 30th June 2003: 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.



(4) Loss per share

The calculation of the Group's basic loss per share for the three months ended 30th June 2004 are based on the Group's net loss of approximately HK\$7,183,000 (three months ended 30th June 2003: approximately HK\$9,004,000) and the number of approximately 282,196,000 ordinary shares in issue during the period.

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

(5) Reserves

	Share premium <i>HK\$'000</i>	PRC statutory reserves <i>HK\$'000</i>	Merger difference <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2004	96,616	7,472	(250)	(67,564)	36,274
Loss for the period	—	—	—	(7,183)	(7,183)
At 30th June 2004	<u>96,616</u>	<u>7,472</u>	<u>(250)</u>	<u>(74,747)</u>	<u>29,091</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 2004 (three months ended 30th June 2003: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operations

Turnover was approximately HK\$11,994,000 for the first quarter ended 30th June 2004 compared with a turnover of approximately HK\$4,487,000 for the same period of last year. The increase in the turnover was mainly due to one major contract worth approximately HK\$8,998,000 (equivalent to approximately RMB11,160,000), 60% of which were completed and delivered to customers during this quarter.

Our gross margin was 35% for the current quarter as compared to a gross profit margin of 32% for the corresponding period in 2003. The increase in gross margin was because the majority of turnover recorded in the first quarter is related to the sales of Fibersmart products.

The Group posted a net loss of approximately HK\$7,183,000 for the first quarter ended 30th June 2004, which was 20% lower from the net loss incurred for the first quarter of last year. The reduction of the net loss was mainly attributable to the increase in turnover and gross margin and reduction of selling and distribution cost.



Other revenue mainly consisted of the income from maintenance for the products the warranty period of which has expired.

During the first quarter, the Group continued to control selling and distribution costs and administrative expenses tightly. The selling and distribution costs were successfully declined by 23% but the administrative expenses were slightly increased by 11%, compared with the corresponding quarter of last year.

Other operating expenses for three months period ended consisted of loss of disposal of fixed assets of HK\$176,000 that was not incurred in the first quarter of last year.

Segment Information

Sales from telecommunications products accounts for 97% of the turnover of the Group for the three months period ended 30th June 2004. There was no sale of gas turbine generator during the quarter.

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 clear 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.

Gas Turbine Generators

The Group hopes to promote 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 2004, our cash balance of approximately HK\$14,242,000 included pledged bank deposits of approximately HK\$1,971,000 was declined slightly when comparing with the cash balance of approximately HK\$14,550,000 as of 31st March 2004.

As at 30th June 2004, the Group had net current assets of approximately HK\$28,985,000, including short-term bank loans of HK\$5,600,000 denominated in Renminbi. The loan was primarily used to secure a letter of credit facility to purchase inventory. The loan is secured by the Group's real estate property in Shenzhen. The loan is repayable on 13th August 2004 and bears fixed interest rate of 5.04% per annum.

Save as the short-term bank loans disclosed above, the Group had no bank financing as at 30th June 2004. 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. Other than the cash balance, the net current assets of HK\$28,985,000 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 2004, 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 2004, 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 period under review or outstanding as at 30th June 2004.

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

As at 30th June 2004, 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 the required standard of dealings by Directors as in Rule 5.46 of the GEM Listing Rules, 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 (<i>Note 1</i>)	–	–	168,960,000	–	168,960,000	59.87
Mr. Hung, Randy King Kuen	360,000	–	–	–	360,000	0.13

Note:

1. 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. Lau See Hoi	T S Telecom Ltd.	Personal	7,239,250	32.92
Mr. Wong Weng (<i>Note 1</i>)	T S Telecom Ltd.	Personal	2,885,500	13.12

As at 30th June 2004 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 the required standard of dealings by Directors as in Rule 5.46 of the GEM Listing Rules.

Note:

1. Mr. Wong Weng resigned as executive director of the Company as of 3rd April 2004.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the period under review was any of 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 30th June 2004, the interest of the shareholders 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	Total number of shares of HK\$0.1 each	Approximate percentage holding of shares %
T S Telecom Ltd. ("TST") (<i>Note 1</i>)	Beneficial owner	168,960,000	59.87
Lau See Hoi (<i>Note 1</i>)	Interest of a controlled corporation	168,960,000	59.87



Note:

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 30th June 2004, 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 5% 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) has, at any material time, an interest in a business that competed with or might 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 (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 2004.

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 2004 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 August 2004