



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



# 2004

Third Quarterly Report

## 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\$9,677,000 and HK\$47,107,000, respectively for the three months and nine months ended 31st December 2004.
- Loss attributable to shareholders was approximately HK\$6,157,000 and HK\$16,146,000, respectively, for the three months and nine months ended 31st December 2004 versus a loss of HK\$3,476,000 and HK\$22,851,000 for the corresponding periods of last year.
- As at 31st December 2004, the Group had approximately HK\$2,148,000 or HK\$0.008 per share of cash on hand and at bank.

The Board of Directors (the "Board") of T S Telecom Technologies Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 31st December 2004, together with the comparative unaudited figures for the corresponding period in 2003 as follows:

		(Unaudited) Three months ended 31st December		(Unaudited) Nine months ended 31st December	
	Note	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	1	9,677	26,448	47,107	43,793
Cost of sales		<b>(4,766)</b>	(17,663)	<b>(31,336)</b>	(30,731)
Gross profit		<b>4,911</b>	8,785	<b>15,771</b>	13,062
Other revenues	1	<b>1,026</b>	44	<b>1,323</b>	241
Selling and distribution costs		<b>(115)</b>	(814)	<b>(531)</b>	(1,269)
Administrative expenses		<b>(11,382)</b>	(13,239)	<b>(31,658)</b>	(35,843)
Other operating (expenses)/ income	2	<b>(441)</b>	2,330	<b>(615)</b>	2,049
Operating loss		<b>(6,001)</b>	(2,894)	<b>(15,710)</b>	(21,760)
Finance costs		<b>(3)</b>	(374)	<b>(141)</b>	(1,006)
Share of profits/(losses) of associated companies		<b>124</b>	(31)	<b>194</b>	145
Loss before taxation		<b>(5,880)</b>	(3,299)	<b>(15,657)</b>	(22,621)
Taxation charge	3	<b>(273)</b>	–	<b>(350)</b>	(53)
Loss after taxation		<b>(6,153)</b>	(3,299)	<b>(16,007)</b>	(22,674)
Minority interests		<b>(4)</b>	(177)	<b>(139)</b>	(177)
Loss for the period and attributable to shareholders		<b><u>(6,157)</u></b>	<b><u>(3,476)</u></b>	<b><u>(16,146)</u></b>	<b><u>(22,851)</u></b>
Loss per share					
– Basic	4	<b><u>(2.2) cents</u></b>	<b><u>(1.2) cents</u></b>	<b><u>(5.7) cents</u></b>	<b><u>(8.1) cents</u></b>

**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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover				
Sales of goods, net of discounts and value-added tax	9,677	26,448	47,107	43,793
Other revenues				
Interest income	8	28	48	196
Others	1,018	16	1,275	45
	<u>1,026</u>	<u>44</u>	<u>1,323</u>	<u>241</u>
Total revenues	<u><u>10,703</u></u>	<u><u>26,492</u></u>	<u><u>48,430</u></u>	<u><u>44,034</u></u>

**(2) Other operating (expenses)/income**

	Three months ended 31st December		Nine months ended 31st December	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
(Provision for)/recovery of doubtful debts	(3,246)	2,330	(3,246)	2,049
Loss on disposal of fixed assets	–	–	(174)	–
Provision for inventories obsolescence	(97)	–	(97)	–
Bad debts written off	(76)	–	(76)	–
Recovery of other receivable	421	–	421	–
Reversal of an impairment loss	2,560	–	2,560	–
Loss on deregistration of subsidiaries	(3)	–	(3)	–
	<u>(441)</u>	<u>2,330</u>	<u>(615)</u>	<u>2,049</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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Overseas taxation	–	–	30	–
Share of taxation attributable to an associated company	273	–	320	53
	<u>273</u>	<u>–</u>	<u>350</u>	<u>53</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 2003: 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 per share

The calculation of the Group's basic loss per share for the three months and nine months ended 31st December 2004 is based on the Group's loss attributable to shareholders of approximately HK\$6,157,000 and HK\$16,146,000 (for the three months and nine months ended 31st December 2003: approximately HK\$3,476,000 and HK\$22,851,000) and the number of approximately 282,196,000 ordinary shares in issue during the periods.

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

### (5) 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 nine months period	–	–	–	(22,851)	(22,851)
At 31st December 2003	<u>96,616</u>	<u>7,112</u>	<u>(250)</u>	<u>(51,166)</u>	<u>52,312</u>
At 1st April 2004	96,616	7,472	(250)	(67,564)	36,274
Loss for the nine months period	–	–	–	(16,146)	(16,146)
At 31st December 2004	<u>96,616</u>	<u>7,472</u>	<u>(250)</u>	<u>(83,710)</u>	<u>20,128</u>

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 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 2004 (nine months ended 31st December 2003: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Result of operations

For the nine months ended 31st December 2004, the Group recorded a total turnover of HK\$47,107,000 as compared to a turnover of HK\$43,793,000 for the same period of last year. The increase in turnover was mainly due to one major contract of Fibersmart products worth approximately HK\$17,383,000 (equivalent to approximately RMB18,600,000), 100% of which were delivered to customers.

Our gross margin was 33% for the nine months period as compared to a gross profit margin of 30% for the corresponding period in 2003. The increase in gross margin was because the majority of turnover recorded in the interim period is related to the sales of Fibersmart products.

The Group posted a net loss of approximately HK\$16,146,000 for the nine months period ended 31st December 2004, which was 29% lower from the net loss incurred for the same period of last year. The reduction of the net loss was mainly attributable to the increase in turnover and gross margin, together with the reduction of selling and distribution costs and administrative expenses.

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

During the interim period, the Group continued to control selling and distribution costs and administrative expenses tightly. Selling and distribution costs declined by 58% and administrative expenses declined by 12%, as compared with the corresponding period of last year.

Other operating (expenses)/income for the nine months period ended consisted of provision for doubtful debts of HK\$3,246,000, loss of disposal of fixed assets of HK\$174,000, provision for inventories obsolescence of HK\$97,000, bad debts written off of HK\$76,000, loss on deregistration of subsidiaries of HK\$3,000 together with the recovery of other receivable of HK\$421,000 and reversal of an impairment loss of HK\$2,560,000.

### Segment information

Sales from telecommunications products accounts for 97% of the turnover of the Group for the nine months period ended 31st December 2004. There were four sales contracts of gas turbine generators completed, all of which were shipped to our customers during the nine months period.

### **Telecommunications products**

During this period, 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 sales of gas turbine generators will increase in the coming months despite minimal revenue growth in the current period. The Group continues to implement aggressive marketing strategies to promote gas turbine generators in the telecom, petroleum and other industries.

### **Liquidity, financial resources and capital structure**

As at 31st December 2004, our cash balance of approximately HK\$2,148,000 has declined when comparing with the cash balance of approximately HK\$14,550,000 as of 31st March 2004 due to operating loss incurred during the nine months period.

As at 31st December 2004, the Group had net current assets of approximately HK\$20,482,000. The short-term bank loans of HK\$5,600,000 denominated in Renminbi which was primarily used to secure a letter of credit facility to purchase inventory and which was secured by the Group's real estate property in Shenzhen was repaid on 13th August 2004.

After the repayment of the short-term bank loans disclosed above, the Group had no bank loan as at 31st December 2004. The Group financed its operations and investing activities primarily by operating revenue, internal resources, balance of proceeds from our initial public offering and proceeds from a share placement exercised in August, 2000. The net current assets of HK\$20,482,000 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 2004, 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 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 had been granted under the Scheme during the periods under review or outstanding as at 31st December 2004.

## 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 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 no. 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 ( <i>Note 2</i> )	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. To the best knowledge of the Company up to 30th June, 2004, these shares were held by Mr. Hung, Randy King Kuen on 30th June, 2004. Mr. Hung resigned as director of the Company on 2nd July, 2004.



### Long position in shares of associated corporation

Directors	Associated corporation	Nature of interest	Total no. 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

*Note:*

1. To the best knowledge of the Company up to 30th June, 2004, these shares were held by Mr. Wong Weng on 30th June, 2004. Mr. Wong resigned as director of the Company on 3rd April, 2004.

As at 31st December 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.

### 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 31st December 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 31st December 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 nine months ended 31st December 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 condensed accounts for the nine months ended 31st December 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.

## CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by Directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct regarding securities transactions by Directors. The Company confirms that, having made specific enquiry from all Directors, the Directors have complied with the required standard of dealings and its code of conduct regarding securities transactions by Directors for the nine months ended 31 December 2004.

By Order of the Board  
**T S Telecom Technologies Limited**  
**Lau See Hoi**  
*Chairman*

Hong Kong, 14th February 2005