



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



3rd 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.**

**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.**

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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\$5,733,000 and HK\$13,666,000, respectively for the three months and nine months ended 31st December 2005.
- Loss attributable to equity holders of the company was approximately HK\$5,807,000 and HK\$13,711,000, respectively, for the three months and nine months ended 31st December 2005 versus a loss of HK\$6,157,000 and HK\$16,146,000 for the corresponding periods of last year.
- As at 31st December 2005, the Group had approximately HK\$9,309,000 or HK\$0.03 per share of cash on hand and at bank.

## 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 and nine months ended 31st December 2005, together with the comparative unaudited figures for the corresponding period in 2004 as follows:

	Note	Unaudited Three months ended 31st December		Unaudited Nine months ended 31st December	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	2	<b>5,733</b>	9,677	<b>13,666</b>	47,107
Cost of sales		<b>(4,883)</b>	(4,766)	<b>(9,218)</b>	(31,336)
Gross profit		<b>850</b>	4,911	<b>4,448</b>	15,771
Other revenue	2	<b>8</b>	1,026	<b>25</b>	1,323
Other income	2	<b>2,885</b>	–	<b>4,379</b>	–
Selling and distribution costs		<b>(122)</b>	(115)	<b>(327)</b>	(531)
Administrative expenses		<b>(7,418)</b>	(11,382)	<b>(20,498)</b>	(31,658)
Other operating expenses	3	<b>(1,824)</b>	(441)	<b>(1,824)</b>	(615)
Operating loss		<b>(5,621)</b>	(6,001)	<b>(13,797)</b>	(15,710)
Finance costs		<b>(66)</b>	(3)	<b>(88)</b>	(141)
Share of profits less losses of associates		<b>72</b>	124	<b>470</b>	194
Loss before taxation		<b>(5,615)</b>	(5,880)	<b>(13,415)</b>	(15,657)
Taxation charge	4	<b>(192)</b>	(273)	<b>(296)</b>	(350)
Loss for the period		<b>(5,807)</b>	(6,153)	<b>(13,711)</b>	(16,007)
Attributable to:					
Equity holders of the company		<b>(5,807)</b>	(6,157)	<b>(13,711)</b>	(16,146)
Minority interests		<b>–</b>	4	<b>–</b>	139
Loss per share					
– Basic	5	<b>(2.1) cents</b>	(2.2) cents	<b>(4.9) cents</b>	(5.7) cents
– Diluted		<b>N/A</b>	N/A	<b>N/A</b>	N/A

Notes:

## (1) Basis of preparation

The Group's unaudited consolidated results have been prepared in accordance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure provision of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

In 2004, the HKICPA issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of these new HKFRSs has no material impact on the Group's results of operations and financial position.

## (2) Turnover, revenue and segment information

The Group is principally engaged in the assembly, distribution and integration of telecommunications products, gas turbine generators and biotechnology products. Revenues recognized during the three and nine months periods are as follows:

	Three months ended 31st December		Nine months ended 31st December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover:				
Sales of goods, net of discounts and value-added tax	5,733	9,677	13,666	47,107
Other revenue:				
Interest income	8	8	25	48
Others	-	1,018	-	1,275
	8	1,026	25	1,323
Other income:				
Reversal of provision for slow moving inventories	-	-	9	-
Reversal of impairment loss of fixed assets	-	-	336	-
Reversal of overprovision for engineering services fee	1,586	-	1,902	-
Reversal of provision for doubtful debts	1,290	-	1,747	-
Reversal of provision for other receivables	-	-	362	-
Exchange gain	9	-	23	-
	2,885	-	4,379	-
Total revenues	8,626	10,703	18,070	48,430

### (3) Other operating (expenses)/ income

	Three months ended 31st December		Nine months ended 31st December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Provision for doubtful debts	(23)	(3,246)	(23)	(3,246)
Loss on disposal of fixed assets	-	-	-	(174)
Provision for inventories obsolescence	(1,801)	(97)	(1,801)	(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>(1,824)</u>	<u>(441)</u>	<u>(1,824)</u>	<u>(615)</u>

### (4) Taxation charge

The amount of taxation charged to the unaudited consolidated results represents:

	Three months ended 31st December		Nine months ended 31st December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Overseas taxation	45	-	86	30
Share of taxation attributable to an associate	147	273	210	320
	<u>192</u>	<u>273</u>	<u>296</u>	<u>350</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 2004: nil).
- (ii) Overseas taxation represents the 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.

### (5) Loss per share

The calculation of the Group's basic loss per share for the three months and nine months ended 31st December 2005 are based on the Group's loss attributable to equity holders of approximately HK\$5,807,000 and HK\$13,711,000 (for the three months and nine months ended 31st December 2004: approximately HK\$6,157,000 and HK\$16,146,000) 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.

## (6) Reserves

	Share premium HK\$'000	PRC statutory reserves HK\$'000	Merger difference HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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	96,616	7,472	(250)	(83,710)	20,128
At 1st April 2005	96,616	7,658	(250)	(103,475)	549
Loss for the nine months period	-	-	-	(13,711)	(13,711)
At 31st December 2005	96,616	7,658	(250)	(117,186)	(13,162)

The PRC statutory reserves represent transfers made to the general reserve fund and the enterprise development fund set up by certain subsidiaries and associates 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.

## INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the nine months ended 31st December 2005 (nine months ended 31st December 2004: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Result of operations

For the nine months ended 31st December 2005, the Group recorded a total turnover of approximately HK\$13,666,000 and loss attributable to equity holders of the company of approximately HK\$13,711,000 as compared to a turnover of approximately HK\$47,107,000 and a loss of approximately HK\$16,146,000 for the same period of last year.

Our gross margin was 33% for the nine months period which was the same for the corresponding period in 2004.

The Group posted a loss of approximately HK\$13,711,000 for the nine months period ended 31st December 2005, which was 15% lower from the loss incurred for the same period of last year. The reduction of the loss was mainly attributable to the increase in the other income, together with the reduction of selling and distribution costs and administrative expenses.

Other revenue solely consisted of the bank interest income for the nine months ended 31st December 2005.

Other income mainly consisted of reversal of impairment loss of fixed assets of approximately HK\$336,000, reversal of overprovision for engineering services fee of approximately HK\$1,902,000, reversal of provision for doubtful debts of approximately HK\$1,747,000 and reversal of provision for other receivable of approximately HK\$362,000 and exchange gain of approximately HK\$23,000 for the nine months ended 31st December 2005.

During the nine months period, the Group continued to control selling and distribution costs and administrative expenses tightly. Selling and distribution costs declined by 39% and administrative expenses declined by 35%, as compared with the corresponding period of last year.

The decrease in finance costs is because of the repayment of the short-term bank loan of approximately HK\$5.6 million denominated in Renminbi on 13th August 2004.

### **Segment information**

Sales from the telecommunications products, the gas turbine generators and the biotechnology products and others accounted for 94%, 2%, 2% and 2% respectively of the turnover of the Group for the nine months period ended 31st December 2005. There was one sale of gas turbine generator during the nine months period.

### **Telecommunications products**

During the nine months 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 would continue to implement aggressive marketing strategies to promote the sale of gas turbine generators in the telecom, petroleum and other industries.

### **Biotechnology products**

The Group has generated increased sales in biotechnology products in the PRC and intends to introduce the products to the North American market.

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

As at 31st December 2005, our cash balance of approximately HK\$9,309,000 has increased by 6% when comparing with the cash balance of approximately HK\$8,757,000 as of 31st March 2005.



As at 31st December 2005, the Group had net current assets of approximately HK\$719,000, including an instalment loan for HK\$3.0 million and a short-term bank loan of approximately HK\$4.7 million denominated in Renminbi. The instalment loan is to be repaid in full by 36 monthly installments and charged at Prime rate. The short-term loan is secured by the Group's real estate property in Shenzhen, which is repayable on 9th November 2006 and bears fixed interest rate of 6.138% per annum.

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 2005, 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 2005, there was no change in the capital structure and issued capital of the Group.

## **CONTINUING CONNECTED TRANSACTIONS**

On 29th November 2005, T S Bio-Technology Limited, a wholly-owned subsidiary of the Company, entered into the Services Agreement with a connected company, T S Telecom Ltd. ("TST"), to appoint TST as its Management, Marketing and Research agents to look after the North America market. TST shall assist it to set up a sales office in Canada, manage the operation of the sales office and report to it from time to time and provide it the marketing research information relating to its biotechnology products for a term of three years commencing from 1st December 2005 at an annual service fee not exceeding HK\$1,600,000 payable monthly in arrear and the set up fee not exceeding CAD100,000 (equivalent to HK\$669,100). For the three months and nine months ended 31st December 2005, the Group had paid the partial set up fee to TST of approximately HK\$365,000.

## **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 2005.

## **CORPORATE GOVERNANCE**

### **Code on Corporate Governance Practices**

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 15 of the GEM Listing Rules throughout the nine months ended 31st December 2005, except for the following deviations:

- (i) There is no division of roles of chairman and chief executive officer that both offices are held by Mr. Lau See Hoi; and
- (ii) The Company has not disclosed the terms of reference of the audit committee and the remuneration committee in the Company’s website.

#### Code Provision A.2.1.

The Company considers that the combination of the roles of chairman and chief executive officer can effectively formulate and implement the Company’s strategies. The Company considers that under the supervision of its Board and its Independent Non-executive Directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

#### Code Provisions B.1.4 and C.3.4

Appropriate actions are being taken to update the website for the Company, whereat the written terms of reference of the audit committee and remuneration committee will be disclosed. These terms of reference are also available from the company secretary of the Company on request.

## **REMUNERATION COMMITTEE**

A remuneration committee was established on 11 November 2005 with written terms of reference in accordance with the code provision B.1.1 of the CG Code. The remuneration committee comprises one executive director, namely, Mr. Lau See Hoi (Mr. Wong Kai Tat as his alternate) and the two independent non-executive directors, namely, Mr. Sze Tsai Ping, Michael and Mr. Kwan Kai Cheong (chairman of the remuneration committee).

## **AUDIT COMMITTEE**

The audit committee comprises three independent non-executive directors, namely Mr. Sze Tsai Ping, Michael (chairman of the audit committee), Ms. Hui Sin Man, Alice, and Mr. Kwan Kai Cheong. On 11th November 2005, the Company adopted new terms of reference for the audit committee to include such duties as are stipulated in code provision C.3.3 of the CG Code.

The primary duties of the audit committee are to review and supervise the financial report process and internal control system of the Group and to review the Company’s annual reports and financial statements, and interim and quarterly reports and the connected transactions. The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

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

As at 31st December 2005, 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					Approximate
	Personal interest	Family interest	Corporate interest	Other interest	Total no. of shares	percentage holding of shares %
Mr. Lau See Hoi (Note 1)	-	-	168,960,000	-	168,960,000	59.87

Notes:

- These shares are held by T S Telecom Ltd., ("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 interest	Total no. of shares	Approximate percentage holding of shares %
Mr. Lau See Hoi	T S Telecom Ltd.	Personal	7,239,250	32.92

As at 31st December 2005 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 2005, 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") (Note 1)	Beneficial owner	168,960,000	59.87
Lau See Hoi (Note 1)	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 2005, 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.

## DISCLOSURE OF TRADE RECEIVABLES PURSUANT TO RULES 17.15 AND 17.17 OF GEM LISTING RULES

Pursuant to rules 17.15 and 17.17 of the Rules Governing the Listing of Securities (the "GEM Listing Rules") on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), a disclosure obligation arises where a relevant advance to an entity from T S Telecom Technologies Limited (the "Company") and its subsidiaries (collectively the "Group") exceeds 8% of the Company's total market capitalization.

As at 31st December 2005, there were 282,196,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.043 per share as stated in the Stock Exchange's daily quotation sheets for the trading days from 22nd December 2005 to 30th December 2005 (both days inclusive), being the five business days immediately preceding 31st December 2005, the total market capitalisation of the Company was approximately HK\$12.0 million as at 31st December 2005.

As at 31st December 2005, each of the following trade receivables from customers of the Group (the "Trade Receivables") exceeded 8% of the Company's total market capitalisation as at 31st December 2005:

<b>Name of customers from Telecommunication Bureau</b>	<b>HK\$</b>	<b>% of Total Market Capitalization</b>
Wubei Mobile Communication Company Limited	3,992,725.05	33%
Unicom Horizon Mobile Telecommunications Company Limited Zhejiang Branch	2,327,337.38	19%
China Netcom Beijing Communication Corporation	1,772,490.75	15%
China Unicom Corporation Limited Tianjian Branch	1,406,468.22	12%

All of the above customers are independent of, and not connected with, the Company, management shareholders, the Directors, chief executive or substantial shareholders of the Company and its subsidiaries or their respective associates (as defined in the GEM Listing Rules), as at 31st December 2005.

Each of the Trade Receivables resulted from sales by the Group in its ordinary course of business and on normal commercial terms. They are all unsecured with no collateral and interest free, and have normal terms of settlement which is made up of 30% after arrival of shipment of equipment; 30% after the preliminary inspection of equipment; 30% after the final inspection of equipment and 10% after one year.

## **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.

## **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 31st December 2005.

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

Hong Kong, 14th February 2006