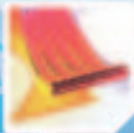




TS Telecom Technologies Limited  
大誠電訊科技有限公司



## **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\$3,008,000 for the first quarter ended 30th June 2006 compared with a turnover of approximately HK\$3,817,000 for the same period of last year.
- The Group posted a net loss of approximately HK\$4,576,000 for the first quarter ended 30th June 2006, which was 6.6% higher than the net loss incurred for the first quarter of last year.
- As at 30th June 2006, the Group has approximately HK\$4,090,000 or HK\$0.01 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 2006, together with the comparative unaudited figures for the corresponding period in 2005 as follows:

	Notes	Three months ended 30th June	
		2006 HK\$'000	2005 HK\$'000
Turnover	2	<b>3,008</b>	3,817
Cost of sales		<b>(2,141)</b>	(2,267)
Gross profit		<b>867</b>	1,550
Other revenue	2	<b>1,261</b>	9
Other income	2	<b>1,377</b>	239
Selling and distribution costs		<b>(282)</b>	(35)
Administrative expenses		<b>(7,739)</b>	(6,146)
Other operating expenses	3	<b>(13)</b>	-
Operating loss		<b>(4,529)</b>	(4,383)
Finance costs		<b>(126)</b>	(13)
Share of profits less losses of an associate		<b>82</b>	110
Loss before taxation		<b>(4,573)</b>	(4,286)
Taxation	4	<b>(3)</b>	(8)
Loss for the period		<b>(4,576)</b>	(4,294)
Attributable to:			
Equity holders of the Company		<b>(4,576)</b>	(4,294)
Minority interests		-	-
		<b>(4,576)</b>	(4,294)
Loss per share – Basic	5	<b>(1.4) cents</b>	(1.5) cents
Loss per share – Diluted	5	<b>N/A</b>	N/A

Notes:

**(1) Basis of preparation**

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March 2006. The accounts are unaudited but have been reviewed by the Company's audit committee.

**(2) Turnover, revenue and segment information**

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

	<b>Three months ended</b>	
	<b>30th June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Turnover		
Sale of goods, net of discounts and value-added tax	<b>3,008</b>	3,817
Other revenue		
Interest income	<b>4</b>	9
Dividend income	<b>1,257</b>	-
	<b>1,261</b>	9
Other income		
Reversal of provision for doubtful debts	-	223
Reversal of provision for slow moving inventories	-	10
Reversal of provision for other receivables	-	2
Exchange gain	-	4
Reversal of overprovision for engineering services fee	<b>1,377</b>	-
	<b>1,377</b>	239
Total revenue	<b>5,646</b>	4,065

### (3) Other operating expenses

	Three months ended 30th June	
	2006 HK\$'000	2005 HK\$'000
Loss on disposal of fixed assets	(13)	—
	<u>(13)</u>	<u>—</u>

### (4) Taxation charge

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

	Three months ended 30th June	
	2006 HK\$'000	2005 HK\$'000
Overseas tax	(3)	(8)
	<u>(3)</u>	<u>(8)</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 2005: nil).

Overseas taxation represents business 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 service income.

### (5) Loss per share

The calculation of the Group's basic loss per share for the three months ended 30th June 2006 are based on the Group's net loss of approximately HK\$4,576,000 (three months ended 30th June 2005: approximately HK\$4,294,000) and the number of 338,596,000 ordinary shares in issue during the period (three months ended 30th June 2005: 282,196,000 ordinary shares).

There is no diluted earnings 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	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st April 2006	96,616	7,808	(250)	715	(117,874)	(12,985)
Share premium resulted from the issuance of new shares over par value and loss for the period	282	-	-	-	(4,576)	(4,294)
At 30th June 2006	96,898	7,808	(250)	715	(122,450)	(17,279)

The People's Republic of China (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 three months ended 30th June 2006 (three months ended 30th June 2005: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results of Operations

Turnover was approximately HK\$3,008,000 for the first quarter ended 30th June 2006 compared with a turnover of approximately HK\$3,817,000 for the same period of last year.

Our gross margin was 29% for the current quarter as compared to a gross profit margin of 41% for the corresponding period in 2005 as the telecommunication business became more competitive.

The increase in other revenue was primarily due to the receipt of dividend from our associate.

Other income mainly consisted of reversal of overprovision for engineering services fee of approximately HK\$1,377,000.

Selling and distribution costs increased by approximately HK\$247,000 due to increase in freight charges, customer training and sample and replacement costs as compared to the same period of last year.

The administrative expenses increased by 26%, compared with the corresponding quarter of last year, primarily due to a service fee of approximately HK\$977,994 paid to our holding company, T S Telecom Ltd. for research and development.

The increase in finance costs was because of the interest charges on an instalment loan bank and a short-term bank loan.

The Group posted a net loss of approximately HK\$4,576,000 for the first quarter ended 30th June 2006, which was 6.6% higher than the net loss incurred for the first quarter of last year.

### **Segment Information**

Business from telecommunications products accounts for 100% of the turnover of the Group for the three months period ended 30th June 2006. There was no sale of gas turbine generator and biotechnology product 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 other 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 would continue to promote the sale of biotechnology products in the PRC and North American market.

### **Liquidity, Financial Resources and Capital Structure**

As at 30th June 2006, our cash balance of approximately HK\$4,090,000 has increased by approximately 20% when comparing with the cash balance of approximately HK\$3,420,000 as of 31st March 2006. As at 30th June 2006, the Group had net current liabilities of approximately HK\$7,399,000. The group has considered disposing its office properties located in PRC and raising additional bank loans to finance its future 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 2006, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

During the three months period ended 30th June 2006, the Company allotted and issued 56,400,000 new Placing Shares on 12th June 2006 to not fewer than six independent investors to raise additional capital and received a net proceeds of approximately HK\$5,300,000.

## **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 was granted under the Scheme during the period under review or outstanding as at 30th June 2006.

## **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 three months ended 30th June 2006, 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 Provision 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 11th 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 EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30th June 2006, 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 (Note 1)	-	-	168,960,000	-	168,960,000	49.90

Note:

- 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 interests	Total number of shares	Approximate percentage holding of shares %
Mr. Lau See Hoi	T S Telecom Ltd.	Personal	7,239,250	32.92

As at 30th June 2006 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 30th June 2006, 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	49.90
Lau See Hoi (Note 1)	Interest of a controlled corporation	168,960,000	49.90
CNI Capital Limited (Note 2)	Beneficial owner	20,000,000	5.91
Sino Katalytics Investment Corporation (Note 2)	Interest of a controlled corporation	20,000,000	5.91

#### 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.
2. These shares are held by CNI Capital Limited, which is a subsidiary of Sino Katalytics Investment Corporation.

Save as disclosed above, as at 30th June 2006, 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.

## **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, except for 56,400,000 new Placing Shares which were allotted and issued on 12th June 2006 and disclosed under Notes to the Financial Statements 2(a) of our Annual Report 2006.

## **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the code 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 confirmed 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 three months ended 30th June 2006.

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

Hong Kong, 14th August 2006