



T S 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”)**

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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\$4,786,000 and HK\$7,794,000, respectively for the three months and six months ended 30th September 2006.
- Loss attributable to equity holders of the Company was approximately HK\$2,492,000 and HK\$7,068,000, respectively, for the three months and six months ended 30th September 2006 versus a loss of HK\$3,610,000 and HK\$7,904,000 for the corresponding periods of last year.
- As at 30th September 2006, the Group had approximately HK\$1,631,000 or HK\$0.005 per share of cash on hand and at bank.

## RESULTS

The Board of Directors (the "Board") of T S Telecom Technologies Limited (the "Company") presents the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Company and its subsidiaries (the "Group") for the three months and six months ended 30th September 2006, and the consolidated balance sheet as at 30th September 2006 of the Group, all of which are unaudited and in condensed format, along with selected explanatory notes and the comparative unaudited figures for the corresponding period in 2005 as follows:

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 September 2006

	Note	Unaudited Three months ended 30th September		Unaudited Six months ended 30th September	
		2006 HK\$'000	2005 HK\$'000 (As restated)	2006 HK\$'000	2005 HK\$'000 (As restated)
Turnover	2	<b>4,786</b>	4,116	<b>7,794</b>	7,933
Cost of sales		<b>(3,596)</b>	(2,068)	<b>(5,737)</b>	(4,335)
Gross profit		<b>1,190</b>	2,048	<b>2,057</b>	3,598
Other revenue	2	<b>5</b>	8	<b>1,266</b>	17
Other income	2	<b>2,294</b>	1,255	<b>3,671</b>	1,494
Selling and distribution costs		<b>32</b>	(170)	<b>(250)</b>	(205)
Administrative expenses		<b>(5,970)</b>	(6,934)	<b>(13,709)</b>	(13,080)
Other operating expenses	3	<b>13</b>	—	<b>—</b>	—
Operating loss	4	<b>(2,436)</b>	(3,793)	<b>(6,965)</b>	(8,176)
Finance costs	5	<b>(138)</b>	(9)	<b>(264)</b>	(22)
Share of profits less losses of associates		<b>90</b>	228	<b>172</b>	335
Loss before income tax		<b>(2,484)</b>	(3,574)	<b>(7,057)</b>	(7,863)
Income tax charge	6	<b>(8)</b>	(36)	<b>(11)</b>	(41)
Loss for the period		<b>(2,492)</b>	(3,610)	<b>(7,068)</b>	(7,904)
Attributable to:					
Equity holders of the Company		<b>(2,492)</b>	(3,610)	<b>(7,068)</b>	(7,904)
Minority interests		<b>—</b>	—	<b>—</b>	—
Loss per share, in cents					
— Basic	7	<b>(0.7) cents</b>	(1.3) cents	<b>(2.1) cents</b>	(2.8) cents
— Diluted		<b>N/A</b>	N/A	<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

The unaudited consolidated balance sheet as at 30th September 2006, together with the audited balance sheet as at 31st March 2006 are as follows:

	Note	(Unaudited) 30th September 2006 HK\$'000	(Audited) 31st March 2006 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Leasehold interests in land	9	2,539	4,008
Property, plant and equipment	10	5,618	7,912
Interests in associates		13,607	13,436
		<b>21,764</b>	25,356
<b>CURRENT ASSETS</b>			
Inventories		4,416	3,126
Trade receivables	11	6,121	5,757
Other receivables, prepayments and deposits		708	745
Amount due from a related company		94	94
Bank balances and cash		1,631	3,420
		<b>12,970</b>	13,142
<b>LESS: CURRENT LIABILITIES</b>			
Trade payables	12	3,346	3,006
Other payables and accrued expenses		8,570	7,959
Sales received in advance		6,114	3,984
Provision for taxation		65	65
Amounts due to directors		871	895
Amount due to a related company		500	—
Short-term borrowings		468	5,764
		<b>19,934</b>	21,673
<b>NET CURRENT LIABILITIES</b>		<b>(6,964)</b>	(8,531)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>14,800</b>	16,825
<b>CAPITAL AND RESERVES</b>			
Share capital	13	33,860	28,220
Reserves		(19,771)	(12,985)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>14,089</b>	15,235
<b>MINORITY INTERESTS</b>		—	—
<b>TOTAL EQUITY</b>		<b>14,089</b>	15,235
<b>NON-CURRENT LIABILITY</b>			
Long-term borrowings		711	1,590
		<b>14,800</b>	16,825

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	Six months ended	
	30th September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow from operating activities	(7,164)	(5,125)
Net cash inflow/(outflow) from investing activities	4,858	(144)
Net cash inflow from financing activities	517	3,037
	<hr/>	<hr/>
Decrease in cash and cash equivalents	(1,789)	(2,232)
Cash and cash equivalents at 1st April	3,420	8,757
	<hr/>	<hr/>
Cash and cash equivalents at 30th September	1,631	6,525
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	1,631	6,525
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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

	Share premium <i>HK\$'000</i>	PRC statutory reserves <i>HK\$'000</i> <i>(Note 14)</i>	Merger difference <i>HK\$'000</i> <i>(Note 14)</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2005	96,616	7,658	(250)	—	(103,475)	549
Loss for six months period	—	—	—	—	(7,904)	(7,904)
At 30th September 2005	<u>96,616</u>	<u>7,658</u>	<u>(250)</u>	<u>—</u>	<u>(111,379)</u>	<u>(7,355)</u>
<b>At 1st April 2006</b>	<b>96,616</b>	<b>7,808</b>	<b>(250)</b>	<b>715</b>	<b>(117,874)</b>	<b>(12,985)</b>
<b>Share premium resulted from the issuance of new share over par value and loss for the period</b>	<b>282</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(7,068)</b>	<b>(6,786)</b>
<b>At 30th September 2006</b>	<b><u>96,898</u></b>	<b><u>7,808</u></b>	<b><u>(250)</u></b>	<b><u>715</u></b>	<b><u>(124,942)</u></b>	<b><u>(19,771)</u></b>

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

### (1) Basis of preparation

The unaudited condensed consolidated financial statements 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 31 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 and six months periods are as follows:

	Three months ended 30th September		Six months ended 30th September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover:				
Sales of goods, net of discounts and value-added tax	4,786	4,116	7,794	7,933
Other revenue:				
Interest income	5	8	9	17
Dividend income	—	—	1,257	—
	<u>5</u>	<u>8</u>	<u>1,266</u>	<u>17</u>
Other income:				
Reversal of provision for slow moving inventories	—	—	—	9
Reversal of impairment loss of fixed assets	—	336	—	336
Reversal of overprovision for engineering services fee	(108)	316	1,269	316
Gain on disposal of property, plant and equipment and leasehold interests in land	1,852	—	1,852	—
Reversal of provision for doubtful debts	550	233	550	457
Reversal of provision for other receivables	—	360	—	362
Exchange gain	—	10	—	14
	<u>2,294</u>	<u>1,255</u>	<u>3,671</u>	<u>1,494</u>
Total revenues	<u>7,085</u>	<u>5,379</u>	<u>12,731</u>	<u>9,444</u>

#### Business segments

The Group is organized into three main business segments:

- Telecommunications products
- Gas turbine generators
- Biotechnology products

There are no sales or other transactions between the business segments.



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

An analysis of the Group's revenues and results for the period by business segment is as follows:

**For the six months ended 30th September 2006**

	Telecommunications products 2006 HK\$'000	Gas turbine generators 2006 HK\$'000	Biotechnology products 2006 HK\$'000	Unallocated 2006 HK\$'000	Group 2006 HK\$'000
Turnover	7,551	—	—	243	7,794
Segment results	(4,925)	(40)	(1,967)	159	(6,773)
Interest income				9	9
Unallocated corporate expenses				(201)	(201)
Operating loss					(6,965)
Finance costs					(264)
Share of profits less losses of associates	172				172
Loss before income tax					(7,057)
Income tax charge					(11)
Loss for the period					(7,068)
Attributable to:					
Equity holders of the Company					(7,068)
Minority interests					—
					(7,068)

**For the six months ended 30th September 2005**

	Telecommunications products 2005 HK\$'000 (As restated)	Gas turbine generators 2005 HK\$'000	Biotechnology products 2005 HK\$'000	Unallocated 2005 HK\$'000	Group 2005 HK\$'000 (As restated)
Turnover	7,175	280	—	478	7,933
Segment results	(8,155)	73	—	(107)	(8,189)
Interest income				17	17
Unallocated corporate expenses				(4)	(4)
Operating loss					(8,176)
Finance costs					(22)
Share of profits less losses of associates	335				335
Loss before income tax					(7,863)
Income tax charge					(41)
Loss for the period					(7,904)
Attributable to:					
Equity holders of the Company					(7,904)
Minority interests					—
					(7,904)

(3) **Other operating expenses**

	Three months ended 30th September		Six months ended 30th September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Gain on disposal of property, plant and equipment	13	—	—	—
	<u>13</u>	<u>—</u>	<u>—</u>	<u>—</u>

(4) **Operating loss**

Operating loss is stated after charging the following:

	Three months ended 30th September		Six months ended 30th September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Staff costs (including directors' remuneration)	2,965	3,205	6,114	6,503
Research and development costs	192	87	349	129
Operating leases in respect of land and buildings	337	451	675	777
Depreciation and amortisation	(52)	391	755	881

(5) **Finance costs**

	Three months ended 30th September		Six months ended 30th September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Interest on secured bank loans wholly repayable within five years	78	—	204	—
Interest on short-term borrowings	60	9	60	22
	<u>138</u>	<u>9</u>	<u>264</u>	<u>22</u>

(6) **Income tax charge**

The amount of taxation charged to the consolidated income statement represents:

	Three months ended 30th September		Six months ended 30th September	
	2006 HK\$'000	2005 HK\$'000 (As restated)	2006 HK\$'000	2005 HK\$'000 (As restated)
Hong Kong profits tax	—	—	—	—
Overseas tax	8	36	11	41
	<u>8</u>	<u>36</u>	<u>11</u>	<u>41</u>

**(6) Taxation charge** *(Continued)*

- (i) No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profits arising in Hong Kong for the period ended 30th September 2006 (Six months ended 30th September 2005: nil).
- (ii) Overseas tax has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

**(7) Loss per share**

The calculation of the Group's basic loss per share for the three months and six months ended 30th September 2006 are based on the Group's net loss of approximately HK\$2,492,000 and HK\$7,068,000 (for the three months and six months ended 30th September 2005: approximately HK\$3,610,000 and HK\$7,904,000) and the number of 338,596,000 ordinary shares in issue during the period (six months ended 30th September 2005: 282,196,000 ordinary shares).

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

**(8) Interim dividend**

The directors do not recommend the payment of an interim dividend for the six months ended 30th September 2006 (Six months ended 30th September 2005: nil).

**(9) Leasehold interests in land**

	<i>HK\$'000</i>
Cost:	
At 1st April 2006	4,785
Disposals	(1,672)
	<u>3,113</u>
Accumulated depreciation:	
At 1st April 2006	777
Amortisation for the period	60
Eliminated on disposals	(263)
	<u>574</u>
Net book value:	
<b>At 30th September 2006</b>	<b><u>2,539</u></b>
At 31st March 2006	<u>4,008</u>

**(10) Property, plant and equipment**

	<i>HK\$'000</i>
Cost:	
At 1st April 2006	38,759
Additions	98
Disposals	(1,958)
	<u>36,899</u>
Accumulated depreciation:	
At 1st April 2006	30,847
Charge for the period	695
Written back on disposal	(261)
	<u>31,281</u>
Net book value:	
<b>At 30th September 2006</b>	<b><u>5,618</u></b>
At 31st March 2006	<u>7,912</u>

(11) **Trade receivables**

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

The ageing analysis of the trade receivables was as follows:

	<b>30th September 2006 HK\$'000</b>	31st March 2006 HK\$'000
Within 6 months	2,773	2,423
6 months — 1 year	746	125
1 — 2 years	301	3,589
Over 2 years	14,191	12,060
Total trade receivables	<b>18,011</b>	18,197
Less: Provision for doubtful receivables	<b>(11,890)</b>	(12,440)
Total trade receivables, net of provision	<b>6,121</b>	5,757

(12) **Trade payables**

The ageing analysis of the trade payables was as follows:

	<b>30th September 2006 HK\$'000</b>	31st March 2006 HK\$'000
Within 30 days	635	302
31-60 days	360	497
61-90 days	164	264
91-180 days	22	15
Over 180 days	2,165	1,928
	<b>3,346</b>	3,006

(13) **Share capital**

	<b>Company 30th September 2006 HK\$'000</b>	31st March 2006 HK\$'000
Authorised: 800,000,000 ordinary shares of HK\$0.1 each	<b>80,000</b>	80,000
Issued and fully paid: As at 30th September 2006 (338,596,000 ordinary shares of HK\$0.1 each) and 31st March 2006 (282,196,000 ordinary shares of HK\$0.1 each)	<b>33,860</b>	28,220

(14) **Reserves**

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.

(15) **Related party transactions**

	Notes	Three months ended 30th September		Six months ended 30th September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Licence fees paid to T S Holdings	(a)	210	70	420	210
Service fees charged by the ultimate holding company	(b)	418	—	1,396	—

- (a) A new licence agreement dated 12th July 2005 was entered into between T S Holdings, a related company in which a director, Mr. Lau See Hoi, of the Company has a beneficial interest, and the Company. Under the licence agreement, the Company will be licensed to use the premises at Suite 2802, Two Exchange Square, 8 Connaught Place, Central, Hong Kong at a monthly licence fee of approximately HK\$70,000 for the term of two years and nine months from 1st June 2005 to 29th February 2008.
- (b) T S Bio-Technology Limited, a wholly-owned subsidiary of the Company, entered into an agreement on 29 November 2005 for a term of three years commencing from 1 December 2005 with T S Telecom Limited, the ultimate holding company, under which the latter will provide management, marketing and research services to the Group at an annual service fee of not exceeding HK\$1,600,000 and can be revised by the parties from time to time by mutual agreement as circumstances warranted, provided that the annual service fee shall in total not exceed HK\$2,500,000.

(16) **Commitments**

Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30th September 2006 HK\$'000	31st March 2006 HK\$'000
Not later than one year	1,336	1,524
Later than one year and not later than five years	991	673
	<b>2,327</b>	<b>2,197</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Result of operations

For the six months ended 30th September 2006, the Group recorded a total turnover of approximately HK\$7,794,000 and loss attributable to equity holders of the company of approximately HK\$7,068,000 as compared to a turnover of approximately HK\$7,933,000 and a loss of approximately HK\$7,904,000 for the same period of last year.

Our gross margin was 26% for the six months period as compared to a gross profit margin of 45% for the corresponding period in 2005.

Other revenue solely consisted of the bank interest income and dividend income from our associate for the six months ended 30th September 2006.

Other income mainly consisted of reversal of overprovision for engineering services fee of approximately HK\$1,269,000, gain on disposal of property, plant and equipment and leasehold interests in land of approximately HK\$1,852,000 and reversal of provision for doubtful debts of approximately HK\$550,000 for the six months ended 30th September 2006.

Selling and distribution costs increased by 22% due to increase in customer training expenses, sample and replacement costs and promotion expenses as compared with the same period of last year.

The administrative expenses increased by 4.8%, compared with the corresponding period of last year, primarily due to a service fee of approximately HK\$1,396,000 charged by our holding company, T S Telecom Ltd..

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

The Group posted a net loss of approximately HK\$7,068,000 for the six months period ended 30th September 2006, which was 11% 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 other revenue and other income.

### Segment information

Sales from telecommunications products accounted for 97% and business from unallocated products accounted for 3% of the turnover of the Group for the six months period ended 30th September 2006. There was no sale of gas turbine generator and biotechnology products during the interim period.

### Telecommunications products

During the interim 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 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 September 2006, our cash balance of approximately HK\$1,631,000 has declined by 52% when comparing with the cash balance of approximately HK\$3,420,000 as of 31st March 2006.

As at 30th September 2006, the Group had net current liabilities of approximately HK\$6,964,000. The Group has applied for a bank loan of approximately HK\$2,900,000 denominated in Renminbi secured by the Shenzhen office properties to finance its current operation.

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 September 2006, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

For the six months period ended 30th September 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.

## **Future plans for material investments**

As at 30th September 2006, the Group had not authorized or contracted for any capital expenditure commitments and no future plans for material investments or capital assets.

## **Material acquisitions and disposals**

During the six months period ended 30th September 2006, the Group did not have any material acquisitions and disposals of major subsidiaries and affiliated companies.

## **Gearing ratio**

The Group's gearing ratio as at 30th September 2006, which was derived from the total borrowings to shareholder's funds, decreased to 8.4% from 48.3 % as at 31st March 2006.

## **Contingent liabilities**

As at 30th September 2006, the Group did not have any material contingent liabilities.

## **Subsequent events**

No subsequent events had occurred after 30th September 2006, which may have a significant effect on the assets and liabilities or future operations of the Group.

## **Foreign exchange exposure**

Since most of the transaction of the Group were denominated in Renminbi or Hong Kong dollars, the Group did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the period under review.

## **Employees and remuneration policy**

As at 30th September 2006, the Group employed 140 staff in the PRC and Hong Kong, representing a decrease of 14 staff from 31st March 2006 and a decrease of 21 staff from 30th September 2005. The decrease in staff was mainly from the PRC operations. Remuneration of employees, including directors' emoluments was approximately HK\$2,965,000 and HK\$6,114,000 respectively for the three and six months periods under review as compared to approximately HK\$3,205,000 and HK\$6,503,000 for the corresponding periods of the preceding financial year. The decrease was primarily due to the tight cost control program implemented by the Group.

The Group reviewed employee's remuneration from time to time and salary adjustment was normally made on an annual basis. Special adjustment based on length of service and good performance could be made at any time when warranted. In addition to salaries, the Group provided employee's benefit such as medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance 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 30th September 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 six months ended 30th September 2006, except for the following deviation:

- (i) There is no division of roles of chairman and chief executive officer that both offices are held by Mr. Lau See Hoi.

### **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.

## **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 30th September 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 1. 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 September 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 September 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 September 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 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 six months ended 30th September 2006.

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

Hong Kong, 14th November 2006