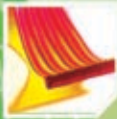


Stock Code: 8003



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



3rd Quarterly Report 2006

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The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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\$12,326,000 and HK\$20,120,000, respectively for the three months and nine months ended 31st December 2006.
- Loss attributable to equity holders of the company was approximately HK\$3,563,000 and HK\$10,631,000, respectively, for the three months and nine months ended 31st December 2006 versus a loss of HK\$5,807,000 and HK\$13,711,000 for the corresponding periods of last year.
- As at 31st December 2006, the Group had approximately HK\$6,923,000 or HK\$0.02 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 2006, together with the comparative unaudited figures for the corresponding period in 2005 as follows:

	Note	Unaudited Three months ended 31st December		Unaudited Nine months ended 31st December	
		2006 HK\$'000	2005 HK\$'000 (As restated)	2006 HK\$'000	2005 HK\$'000 (As restated)
Turnover	2	12,326	5,733	20,120	13,666
Cost of sales		(5,101)	(4,883)	(10,838)	(9,218)
Gross profit		7,225	850	9,282	4,448
Other revenue	2	236	8	1,502	25
Other income	2	(43)	2,885	3,628	4,379
Selling and distribution costs		(200)	(122)	(450)	(327)
Administrative expenses		(6,138)	(7,418)	(19,738)	(20,526)
Other operating expenses	3	(4,752)	(1,824)	(4,880)	(1,824)
Operating loss		(3,672)	(5,621)	(10,656)	(13,825)
Finance costs		(76)	(66)	(340)	(88)
Share of profits less losses of associates		196	(75)	368	261
Loss before taxation		(3,552)	(5,762)	(10,628)	(13,652)
Taxation charge	4	(11)	(45)	(3)	(59)
Loss for the period		(3,563)	(5,807)	(10,631)	(13,711)
Attributable to:					
Equity holders of the company		(3,563)	(5,807)	(10,631)	(13,711)
Minority interests		—	—	—	—
Loss per share					
— Basic	5	(1.1) cents	(2.1) cents	(3.3) cents	(4.9) cents
— Diluted		N/A	N/A	N/A	N/A

NOTES:

(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, 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	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover:				
Sales of goods, net of discounts and value-added tax	<u>12,326</u>	<u>5,733</u>	<u>20,120</u>	<u>13,666</u>
Other revenue:				
Interest income	<u>236</u>	<u>8</u>	<u>245</u>	<u>25</u>
Dividend income from associate	<u>—</u>	<u>—</u>	<u>1,257</u>	<u>—</u>
	<u>236</u>	<u>8</u>	<u>1,502</u>	<u>25</u>
Other income (expenses):				
Reversal of provision for slow moving inventories	<u>—</u>	<u>—</u>	<u>—</u>	<u>9</u>
Reversal of impairment loss of fixed assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>336</u>
Reversal of overprovision for engineering services fee	<u>277</u>	<u>1,586</u>	<u>1,547</u>	<u>1,902</u>
Reversal of provision for doubtful debts	<u>(549)</u>	<u>1,290</u>	<u>—</u>	<u>1,747</u>
Reversal of provision for other receivables	<u>—</u>	<u>—</u>	<u>—</u>	<u>362</u>
Reversal of provision for outstation expenses	<u>53</u>	<u>—</u>	<u>53</u>	<u>—</u>
Gain on disposal of property, plant, and equipment and leasehold interests in land	<u>176</u>	<u>—</u>	<u>2,028</u>	<u>—</u>
Exchange gain	<u>—</u>	<u>9</u>	<u>—</u>	<u>23</u>
	<u>(43)</u>	<u>2,885</u>	<u>3,628</u>	<u>4,379</u>
Total revenues	<u>12,519</u>	<u>8,626</u>	<u>25,250</u>	<u>18,070</u>

(3) **Other operating income (expenses)**

	Three months ended 31st December		Nine months ended 31st December	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Provision for doubtful debts	(1,177)	(23)	(1,177)	(23)
Loss on disposal of fixed assets	—	—	—	—
Provision for slow moving inventories	(2,113)	(1,801)	(2,113)	(1,801)
Bad debts written off	(1,485)	—	(1,485)	—
Exchange gain/(loss)	23	—	(105)	—
	<u>(4,752)</u>	<u>(1,824)</u>	<u>(4,880)</u>	<u>(1,824)</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	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong profits tax	11	—	11	—
Overseas taxation	—	45	(8)	59
	<u>11</u>	<u>45</u>	<u>3</u>	<u>59</u>

- (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 31st December 2006 (Nine months ended 31st December 2005: nil). The amount represents the underprovision of profits tax for the year 2003/2004.
- (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.

(5) **Loss per share**

The calculation of the Group's basic loss per share for the three months and nine months ended 31st December 2006 are based on the Group's net loss of approximately HK\$3,563,000 and HK\$10,631,000 (for the three months and nine months ended 31st December 2005: approximately HK\$5,807,000 and HK\$13,711,000) and the number of 338,596,000 ordinary shares in issue during the period (nine months ended 31st December 2005: 282,196,000 ordinary shares).

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

(6) Reserves

	Share premium <i>HKS'000</i>	PRC statutory reserves <i>HKS'000</i>	Merger difference <i>HKS'000</i>	Translation reserve <i>HKS'000</i>	Accumulated losses <i>HKS'000</i>	Total <i>HKS'000</i>
At 1st April 2005	96,616	7,658	(250)	—	(103,475)	549
Loss for nine months period	—	—	—	—	(13,711)	(13,711)
At 31st December 2005	<u>96,616</u>	<u>7,658</u>	<u>(250)</u>	<u>—</u>	<u>(117,186)</u>	<u>(13,162)</u>
At 1st April 2006	96,616	7,808	(250)	715	(117,874)	(12,985)
Share premium resulted from the issuance of new share over par value	282	—	—	—	—	282
Loss for the period	—	—	—	—	(10,631)	(10,631)
At 31st December 2006	<u>96,898</u>	<u>7,808</u>	<u>(250)</u>	<u>715</u>	<u>(128,505)</u>	<u>(23,334)</u>

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 nine months ended 31st December 2006 (nine months ended 31st December 2005: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Result of operations

For the nine months ended 31st December 2006, the Group recorded a total turnover of approximately HK\$20,120,000 and loss attributable to equity holders of the company of approximately HK\$10,631,000 as compared to a turnover of approximately HK\$13,666,000 and a loss of approximately HK\$13,711,000 for the same period of last year.

Our gross margin was 46% for the nine months period as compared to a gross profit margin of 33% for the corresponding period in 2005.

The Group posted a loss of approximately HK\$10,631,000 for the nine months period ended 31st December 2006 which was 22% lower from the loss incurred for the same period of last year. The reduction of the loss was mainly attributable to the increase in gross margin and other revenue.

Other revenue solely consisted of the bank interest income and dividend income from our associate for the nine months ended 31st December 2006.

Other income mainly consisted of reversal of overprovision for engineering services fee of approximately HK\$1,547,000, gain on disposal of property, plant, and equipment and leasehold interests in land of approximately HK\$2,028,000 and reversal of provision for outstation expenses of approximately HK\$53,000 for the nine months ended 31st December 2006.

Selling and distribution costs increased by 38% due to increase in sample and replacement costs and commission expenses and promotion expenses as compared with the same period of last year.

The administrative expenses slightly decreased by 4%, compared with the corresponding period of last year, primarily due to the reduction of occupancy, travel and entertainment expenses.

Other operating expenses increased by 168% compared with the same period of last year primarily due to increase in provision for doubtful debts and bad debts written off.

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

Segment information

Sales from the telecommunications products, the biotechnology products and others accounted for 97.3%, 0.2% and 2.5% respectively of the turnover of the Group for the nine months period ended 31st December 2006. There was no 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 Company has conditionally agreed to dispose of the subsidiaries engaging in the assembly, distribution and integration of telecommunications products which have been operating at a loss for the past few years and is not expected to generate any profit in the near future. To avoid duplication and accumulation of marketing costs by using multiple sales vehicle and further depletion of the Group's resources in telecom manufacturing, the Directors (including the independent non-executive directors) of the Company consider it is best for the Group to dispose of those loss-making subsidiaries to Mr. Lau See Hoi and concentrate their effort on telecom trading businesses. (Please refer to the Major and Connected Transaction below).

Gas turbine generators

During the nine months period, there is no sale of gas turbine generator, even though the Group continued to implement aggressive marketing strategies to promote the sale of gas turbine generators in the telecom, petroleum and other industries. The Company has conditionally agreed to dispose of this business to Mr. Lau See Hoi. (Please refer to the Major and Connected Transaction below).

Biotechnology products

During the nine months period, there is tiny sale of biotechnology products, even though the Group has made the great effort to promote the products in the PRC and North American market. The Company has conditionally agreed to dispose of this business to Mr. Lau See Hoi. (Please refer to the Major and Connected Transaction below).

Liquidity, financial resources and capital structure

As at 31st December 2006, our cash balance of approximately HK\$6,923,000 has increased by 102% when comparing with the cash balance of approximately HK\$3,420,000 as of 31st March 2006.

As at 31st December 2006, the Group had net current liabilities of approximately HK\$10,377,000. The group has considered disposing its office properties located in the PRC, raising additional bank loans and equity capital 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 31st December 2006, 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 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.

MAJOR AND CONNECTED TRANSACTION

On 22nd January 2007, the Company (as Vendor) and Mr. Lau See Hoi (as Purchaser) entered into a Sale and Purchase Agreement pursuant to which the Company has conditionally agreed to dispose of and Purchaser has conditionally agreed to acquire the entire issued share capital of (a) T S Telecom (B.V.I.) Ltd. and its subsidiaries comprised T S International Company Limited, TSTT (Canada) Ltd., T S International Ltd., T S Electric and Power Co., Ltd., T S Telecom (Shenzhen) Co., Ltd., Ying Zhi Xun Telecom Equipment (Shenzhen) Co., Ltd., and (b) T S Bio-Medical (B.V.I.) Ltd. and its subsidiaries comprised T S Bio-Technology Ltd. and T S Bio-Technology (Wuhan) Co., Ltd. (as Disposal Group) and the Advances to Disposal Group upon completion of the Corporate Restructuring for a cash consideration of HK\$3,000,000.

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 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 nine months ended 31st December 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

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 31st December 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 no. of shares	Approximate percentage holding of shares %
	Personal interest	Family interest	Corporate interest	Other interest			
Mr. Lau See Hoi (Note)	—	—	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 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 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 31st December 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)	Beneficial owner	168,960,000	49.90
Lau See Hoi (Note)	Interest of a controlled corporation	168,960,000	49.90

Note: 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.

INTEREST DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed above, as at 31st December 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 nine months ended 31st December 2006.

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

Hong Kong, 13th February 2007