



TS Telecom Technologies Limited
大誠電訊科技有限公司 | Stock Code: 8003

First Quarterly Report 2007



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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\$4,060,000 for the first quarter ended 30th June 2007 compared with a turnover of approximately HK\$3,008,000 for the same period of last year.
- The Group posted a net loss of approximately HK\$7,913,000 for the first quarter ended 30th June 2007, which was 73% higher than the net loss incurred for the first quarter of last year.
- As at 30th June 2007, the Group has approximately HK\$1,249,000 or HK\$0.004 per share of cash on hand.

RESULTS

The Board of Directors (the "Board") of T S Telecom Technologies Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30th June 2007, together with the comparative unaudited figures for the corresponding period in 2006 as follows:

		Three months ended	
		30th June	
		2007	2006
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	2	4,060	3,008
Cost of sales		(1,943)	(2,141)
Gross profit		2,117	867
Other income	2	3	2,638
Selling and distribution costs		(101)	(282)
Administrative expenses		(7,041)	(7,742)
Other operating expenses	3	(2,833)	(13)
Operating loss		(7,855)	(4,532)
Finance costs		(231)	(126)
Share of results of associate		173	82
Loss before tax		(7,913)	(4,576)
Income tax		–	–
Loss for the period		(7,913)	(4,576)
Loss attributable to equity holders of the Company		(7,913)	(4,576)
Loss per share – Basic	4	(2.3) cents	(1.4) cents
Loss per share – Diluted	4	N/A	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 31 March 2007. 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 months are as follows:

	Three months ended	
	30th June	
	2007	2006
	HK\$'000	HK\$'000
Turnover		
Sale of goods, net of discounts and value-added tax	4,060	3,008
Other income		
Interest income	3	4
Dividend income	–	1,257
Reversal of overprovision for engineering services fee	–	1,377
	3	2,638
Total revenue	4,063	5,646

(3) Other operating expenses

	Three months ended	
	30th June	
	2007	2006
	HK\$'000	HK\$'000
Provision for impairment loss of inventories	(1,815)	–
Provision for impairment loss of trade receivables	(882)	–
Provision for impairment loss of other receivables	(136)	–
Loss on disposal of fixed assets	–	(13)
	(2,833)	(13)

(4) Loss per share

The calculation of the Group's basic loss per share for the three months ended 30th June 2007 are based on the Group's net loss of approximately HK\$7,913,000 (three months ended 30th June 2006: approximately HK\$4,576,000) and the number of 338,596,000 ordinary shares in issue during the period (three months ended 30th June 2006: 282,196,000 ordinary shares).

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

(5) Reserves

	PRC					Total
	Share premium	statutory reserves	Merger difference	Translation reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2007	96,898	8,004	(250)	1,170	(129,505)	(23,683)
Loss for the period	–	–	–	–	(7,913)	(7,913)
At 30th June 2007	96,898	8,004	(250)	1,170	(137,418)	(31,596)

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 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.

(6) Comparative figure

Certain of the 2006 comparative figures have been reclassified to conform with the basis of presentation adopted in the current period.

INTERIM DIVIDEND

The directors do not recommend the payment of a dividend for the three months ended 30th June 2007 (three months ended 30th June 2006: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operations

Turnover was approximately HK\$4,060,000 for the first quarter ended 30th June 2007 compared with a turnover of approximately HK\$3,008,000 for the same period of last year.

The gross margin was 52% for the current quarter as compared to a gross profit margin of 29% for the corresponding period in 2006 as a major component of turnover was composed of service income.

The other income represented bank interest income of approximately HK\$3,000.

During the period, the Group continued to control selling and distribution costs and administrative expenses tightly. Selling and distribution costs declined by 64% and administrative expenses declined by 9.1%, as compared to the same period of last year.

Other operating expenses mainly consisted of provision for impairment loss of inventories of approximately HK\$1,815,000, provision for impairment loss of trade receivables of approximately HK\$882,000 and provision for impairment loss of other receivables of approximately HK\$136,000.

The increase in finance costs was attributable to the extra interest charges on a new short term loan of HK\$2,000,000 obtained on 16th April 2007.

The Group posted a net loss of approximately HK\$7,913,000 for the first quarter ended 30th June 2007, which was 73% 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 2007. 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 to close and sign contracts. It was quite clear that the business environment of the telecom monitoring equipment industry of China has become 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 are 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 would be beneficial to the Group by disposing of those loss-making subsidiaries to Mr. Lau See Hoi and concentrating the effort on telecom trading businesses.

Gas Turbine Generators

During the 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.

Biotechnology Products

During the period, there is no sale of biotechnology products, even though the Group has made the great effort to promote the products in the PRC and North American markets. The Company has conditionally agreed to dispose of this business to Mr. Lau See Hoi.

Liquidity, Financial Resources and Capital Structure

As at 30th June 2007, our cash balance of approximately HK\$1,249,000 has decreased by approximately 53% when comparing with the cash balance of approximately HK\$2,637,000 as of 31st March 2007.

As at 30th June 2007, the Group had net current liabilities of approximately of HK\$18,976,000, the Directors have taken active measures to improve the liquidity and financial position of the Group during the year ended 31st March 2007 and subsequently. 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. and 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. (the “Disposal Group”) and the advances to the Disposal Group upon completion of a corporate restructuring for a total consideration of HK\$3,000,000. Moreover, on 30th April 2007, an Offeror entered into the Agreement with a substantial shareholder of the Company, T S Telecom Limited (the “Vendor”), pursuant to which the Offeror has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, all the shares of the Company held by the Vendor at an aggregate consideration of HK\$5,000,000 and the Offeror has undertaken to settle all actual or contingent liabilities of the Company to the extent of HK\$9,000,000 that exist on the date of Completion. Both of which can substantially reduce the Company’s liabilities. Therefore, the Directors are of the view that the Group will have sufficient working capital for the foreseeable future.

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 2007, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

For the three months period ended 30th June 2007, there was no change in the capital structure and issued capital of the Group.

SHARE OPTION SCHEME

The Company has a share option scheme (the “Scheme”) under which the directors, employees, customers or any individual business or entity providing goods or services may take up options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. The maximum number of shares which can be granted under the Scheme may not exceed 10% of the issued share capital of the Company at the time of granting of the option.

No option was granted under the Scheme during the period under review or outstanding as at 30th June 2007.

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 2007, 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 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, interim and quarterly reports and 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 2007, the interests and short positions of the Directors and Chief Executives 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

Director	Number of ordinary shares of HK\$0.1 each				Total number of shares	Approximate percentage of shareholding %
	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"), a substantial shareholder 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

Director	Associated corporation	Nature of interests	Total number of shares	Approximate percentage of shareholding %
Mr. Lau See Hoi	T S Telecom Ltd.	Personal	7,239,250	32.92

As at 30th June 2007 and save as disclosed above, none of the Directors and Chief Executives 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 or its subsidiaries 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 2007, 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 of shareholding %
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
Gold City Assets Holdings Ltd. ("Gold City") (Note 2)	Beneficial owner	168,960,000	49.90
Ng Mui King Joky (Note 2)	Interest of a controlled corporation	168,960,000	49.90

Notes:

1. These shares are held by TST, a substantial shareholder 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 to be held by Gold City, of which 51% is owned by Ms. Ng Mui King Joky, upon completion of the Agreement for Sale and Purchase of 168,960,000 shares of the Company from TST to Gold City.

Save as disclosed above, as at 30th June 2007, 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.

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 2007.

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

Hong Kong, 14th August 2007

As at the date of this report, the Directors of the Company are as follows:

Executive directors:

Lau See Hoi
(Chairman and Chief Executive Officer)
Wong Kai Tat

Independent non-executive directors:

Sze Tsai Ping, Michael
Hui Sin Man, Alice
Kwan Kai Cheong