



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



BUILDING YOUR DIGITAL FUTURE

ANNUAL REPORT

1999-2000
年報

Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (THE “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 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.

香港聯合交易所有限公司(「聯交所」)創業板市場(「創業板」)之特點

創業板乃為帶有高投資風險之公司提供一個上市之市場。尤其在創業板上市之公司毋須有過往溢利紀錄，亦毋須預測未來溢利。此外，在創業板上市公司可能因其新興性質及該等公司經營業務之行業或所在國家而帶有風險。有意投資之人士應了解投資於該等公司之潛在風險，並應經過審慎周詳之考慮後方可作出投資決定。創業板之較高風險及其他特色表示創業板較適合專業及其他資深投資者。

由於創業板上市公司新興之性質使然，在創業板買賣之證券可能會較於主板買賣之證券有較大之市場波動風險，同時無法保證在創業板買賣之證券會有高流通量之市場。

創業板通過聯交所為創業板而設之互聯網頁發佈消息，上市公司毋須在憲報指定之報章刊登付款公佈披露資料。因此，有意投資之人士應注意彼等須閱覽創業板網頁，以取得創業板上市發行人之最新資料。

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Corporate Profile

T S Telecom Technologies Limited ("the Company") is a telecommunications system solution provider. Since 1991, we have been providing product solutions to telephone operators in the Greater China region, including Hong Kong and Macau. Our products range from advanced maintenance and monitoring systems, proprietary monitoring software and digital access equipment for fixed and mobile telecommunications networks.

The Company has grown rapidly and became a public company with its shares listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 2nd December 1999.

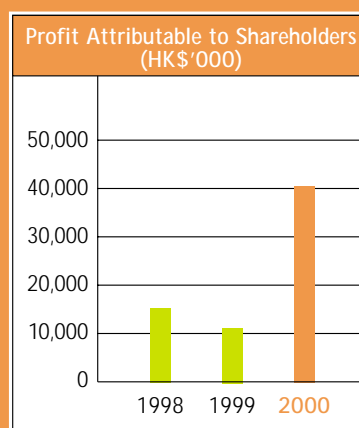
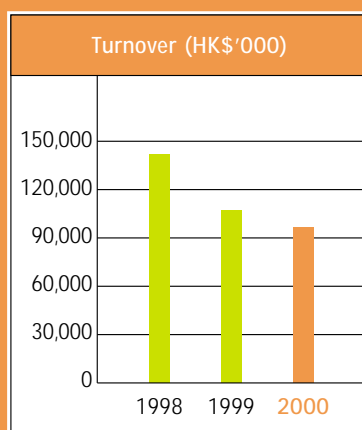
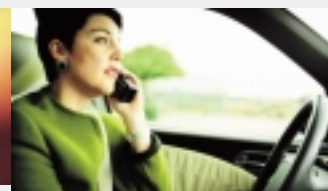
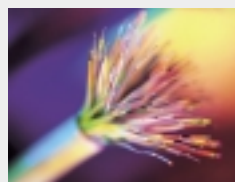
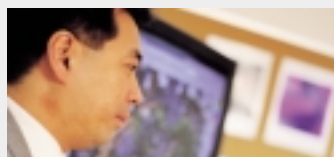
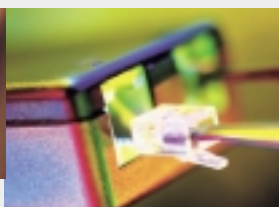
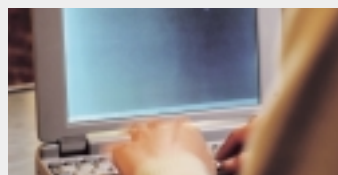
Currently, operations of the Company and its subsidiaries (collectively the "Group") are carried out primarily through our Hong Kong headquarters, and branch offices in Beijing, Shanghai, Shenzhen, Guangzhou, and Wuhan. We also have investments in joint venture operations in Beijing, Shanghai and Harbin to manufacture advanced telecommunications equipment.



The Group's success rests mainly on our investments in technology and customer services. In the 21st century, telecommunications will undoubtedly become more important as a pillar of economic growth. We are excited about the opportunities and challenges that lie ahead in this exciting industry, and we will continue to invest in technological research and human resources to better serve our customers - the strategies that will enable us to be a leader in our marketplace.

Financial Highlights

	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	96,845	107,620	141,631
Gross Profit	72,875	49,153	55,978
Profit before Taxation	38,027	12,984	17,332
Profit Attributable to the Shareholders	40,340	11,115	15,096
Earnings Per Share - Basic	19.11cents	6.01cents	8.17cents
Total Assets	194,665	63,940	56,381
Total Liabilities	13,324	13,063	16,619
Minority Interests	934	—	—
Net Assets	180,407	50,877	39,762



Chairman's Statement



Mr. Lau See Hoi, *Chairman*

Dear Shareholders,

T S Telecom Technologies Limited had an exciting year. I am proud to announce that profit attributable to shareholders for the financial year 1999/2000 amounted to HK\$40.3 million, an increase of 263% over the previous year. The encouraging results were attributable to the tremendous efforts made by the management in maximizing shareholders' value.

On 2nd December 1999, the Company listed its shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited with an over-subscription of 200 times on the initial public offering trench. The listing had substantially strengthened the Group's financial capability in fulfilling its plans for growth and expansion, and laying an important foundation for future development.

Business Review

This year, we managed to register a significant increase in profit margin. The boost in profitability was mainly due to the success of vertical integration and re-engineering of the Group's business processes as well as our focus on producing higher profit margin products.

At the beginning of the second quarter of the financial year 1999/2000, the Group expanded its representative offices in Beijing, Shanghai and Guangzhou to branches, in order to better serve our customers. This also resulted in an improvement of the Group's operational effectiveness and efficiency. To facilitate the expansion and rapid growth of our business, the Group had established a new office in Shenzhen, to serve as our headquarters in the mainland and a new sales office in Wuhan to serve the western region of the mainland.

Developments of our new monitoring systems for mobile phone base stations and optic fiber networks were largely completed at the end of this financial year. These products are expected to start generating revenue for the Group in the financial year 2000/2001.

Furthermore, we had set up a new joint venture factory in Harbin to assemble and distribute gas turbine generators for telecom operators. The market of such is huge. This factory is committed to providing world class backup power supply utilities to telecom operators around the globe.

Prospects and Outlook

Looking ahead, as our country will soon join the World Trade Organization ("WTO"), we are poised for rapid and continued growth in the telecom sector. We will continue our investments in technology and talent to capitalise on the growth potential.

Technology will undoubtedly transform the business landscape. We will introduce more new products to meet with the growing trend of using fiber optics and broadband applications.

As we broaden our product range and customer base, we see great potential in the Southeast Asian market and we are preparing ourselves at full speed to capture these opportunities.



Pioneer *and* Market Leader

Appreciation

On behalf of the Board, I would like to express our sincere thanks to all our shareholders for their ongoing support to the Group and to my colleagues for their invaluable contributions throughout the year.

Lau See Hoi
Chairman

Hong Kong, 19th June 2000

Management Discussion and Analysis

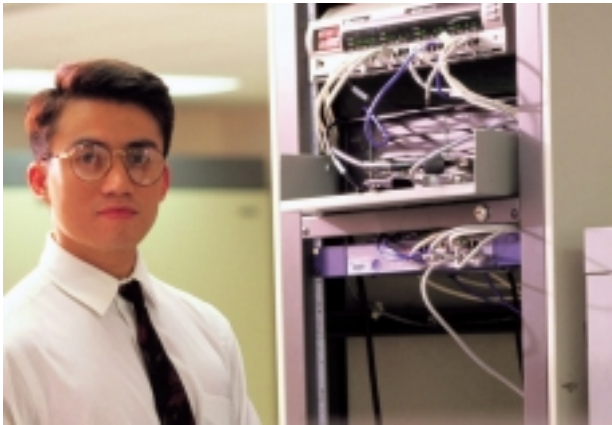
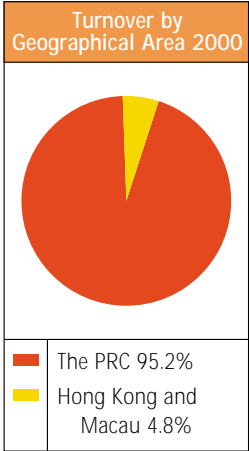
FINANCIAL REVIEW

For the year ended 31st March 2000, the Group recorded a total turnover of HK\$96.8 million, a slight decline from HK\$107.6 million realized a year earlier due to the restructuring of the telecommunications industry in China.

Owing to the success of vertical integration and business re-engineering undertaken during the year, the Group enjoyed a significant increase in its gross profit margin on average to 75% from 46% in the pervious year.

The profit attributable to shareholders for the year was HK\$40.3 million, representing an increase of 263% over the previous year and 12% over the profit forecast of HK\$36 million as stated in the Company's prospectus dated 23rd November 1999.

As at 31st March 2000, the Group had net working capital of HK\$164.3 million, including HK\$120.8 million cash on hand.



BUSINESS REVIEW

Overview

In 1999, the telecommunications industry in China underwent drastic changes, as the telecom regulatory authorities continued their restructuring. As a result, China's overall capital investments in telecom infrastructure declined by 8.7% during the year. Such restructuring should now be in its final stage. With the expected entry of China into the WTO, the growth in demand for telecom infrastructure equipment in China should resume in the near future.

In addition, the economies in the Southeast Asian region had grown rapidly following their recovery from the Asian financial crisis. Most of the countries in the region had recorded significant growth in their GDPs, and a major part of which came from the telecommunications sector.

Hence, the focus of the Group in the coming years is to position ourselves to capture this upward trend, both from the mainland and the Southeast Asia region.

Bring *State-of-the-art*
Innovations





Strong sales *and* marketing network

Expanding into New Markets

The Group continued to expand its market coverage in the mainland. We set up a new office in Shenzhen, to serve as our headquarters in the mainland and a new sales office in Wuhan to promote our products to the western part of the mainland. The second-tier cities and inland area of the People's Republic of China (the "PRC"), where telecommunications networks are still in the development stage, would be part of the Group's major source of growth in the coming years and so we expect to establish more sales offices to cover such new market sector.

Many Southeast Asian countries are planning to upgrade and expand their telecom networks. The Group is currently developing strategic plans to tap into the promising prospects the Southeast Asian telecom equipment market. While in the past, the Group's main focus is the China market, expansion into the Southeast Asian countries represents a new challenge for the Group.

Launching New Products

The Group is a market leader of specialized telecommunications monitoring system integrators. It is our technological innovation capabilities that allow us to maintain our market position. By the end of the financial year 1999/2000, we had substantially completed the development of two new products - Fibersmart and PowerCom BSMS, for which the commercial launch has been scheduled in June 2000. In addition, we have already completed the set-up of our new joint venture in Harbin to assemble gas turbine generators and are currently conducting road shows to market this new product.

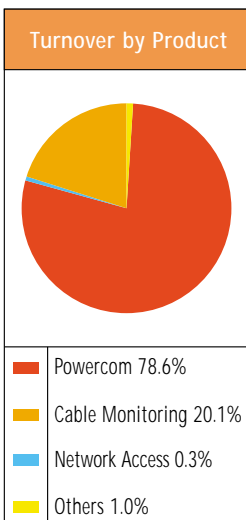
Continuous Investments in Technologies

As multi-media communications is becoming the main stream of the future of telecommunications, the current carrying capacity of narrow band network is inadequate to support such transmission needs. Rather, the ultimate solution lies in the establishment of a broadband network. The Group has been continuously working on developing new products for the broadband transmission to be completed by the end of 2001.

Use of Proceeds from the Initial Public Offering

From the date of listing on 2nd December 1999, the Group invested approximately HK\$8.5 million on various projects as follows:

- approximately HK\$1.9 million was used to fund the establishment of the Group's PRC headquarters in Shenzhen and the branch office in Shanghai.
- approximately HK\$1.3 million was used to invest in a 45% equity interest in a new joint venture in Harbin to assemble gas turbine generators.
- approximately HK\$2.8 million was used to invest in a 75% equity interest in a subsidiary, Beijing Kong Da Net Telecommunication Equipment Ltd. ("KD Net"), which is principally engaged in the manufacturing and distribution of telecommunications equipment and software.
- approximately HK\$2.5 million was used in research and development activities.
- The balance of HK\$97.5 million was placed as deposits with banks in Hong Kong as at the year end.



Comparison of the Business Objectives set out in the Prospectus with Actual Business Progress

Business Objectives as stated in the Prospectus dated 23rd November 1999	Actual Business Progress
<p>Increase market share of existing products by setting up additional sales offices, recruiting more sales personnel and forming strategic alliance with local manufacturers</p>	<p><i>The Group expanded its representative offices in Beijing, Shanghai and Guangzhou to branches.</i></p> <p><i>A new PRC headquarters in Shenzhen was established in March 2000 to facilitate future expansion.</i></p> <p><i>A new sales office in Wuhan was established in March 2000.</i></p> <p><i>Strategic plans are being developed to establish additional offices in the PRC and Southeast Asia.</i></p> <p><i>The Group recruited additional 15 sales and marketing personnel.</i></p>

<p>Vertical Intergration for Core Business Lines</p>	<p><i>The Group's production facilities in Shenzhen are now fully utilized to assemble most of our core products.</i></p> <p><i>The new joint venture factory in Harbin is now ready to commence productions of gas turbine generator sets.</i></p>
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Business Objectives as stated in the Prospectus dated 23rd November 1999

Actual Business Progress

New Product Developments

Broadband network access equipment - The Group is still working actively with the Broadband Access Office of various mainland telephone operators to develop product strategies and standards for the broadband applications. The first prototype will be completed by 31st March 2001.

Powercom BSMS - The development of a new series of power monitoring systems especially designed for mobile phone base stations in the PRC has substantially been completed and the product is ready for commercial launch by June 2000.

Fibersmart - The field trials of Fibersmart system at Beijing Telecom and Shanghai Telephone Office are now in their final stage. The product is expected to generate sales immediately upon completion of the field trials scheduled for June 2000.

Formation of Joint Ventures

ISDN - Having further considered the scale of future operation, level of involvement and market potential, the Group decided not to proceed with the agreement as originally planned to acquire the 30% equity interest in Beijing Wei Fan Communication Equipment Co., Ltd., for manufacturing ISDN equipment. Instead, the Group invested approximately HK\$2.8 million for a 75% equity interest in KD Net, which will principally engage in the manufacturing and distribution of telecommunications equipment and software.

Gas Turbine - The formation of a joint venture factory in Harbin to assemble gas turbine generator sets is now completed. The factory is now ready for commercial production.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Lau See Hoi, aged 51, is the chairman and founder of the Group and T S Telecom Ltd. Mr. Lau is responsible for the overall strategic direction of the Group. He is a Standing Committee member of the Chinese People's Political Congress Committee, Yantai, Shandong, the PRC and the vice chairman of the Foreign Investment Association of Penglai City, Shandong, the PRC.

Mr. Chong Tak Wah, aged 40, is the president and chief executive officer of the Group and T S Telecom Ltd. Mr. Chong, a founder of the Group, primarily focuses on sales and marketing as well as day to day operations of the Group. Prior to joining the Group, he worked with RayChem Canada, an affiliate of RayChem Corporation, a technology-based Fortune 500 company located in Menlo Park, California, with responsibility over the PRC market for approximately three years.

Mr. Wong Weng, aged 41, is the president of the Group. He is also the vice president and chief of staff of T S Telecom Ltd. Mr. Wong, a founder of the Group, is primarily responsible for the product research and development of the Group. Prior to joining the Group, he worked with the Macau subsidiary of Cable and Wireless PLC, a diversified multi-national telecommunications company, for almost 10 years, during part of which time he was a member of the management team overseeing the cable maintenance division.

Mr. Hung, Randy King Kuen, aged 34, is the chief financial officer, qualified accountant and the company secretary of the Group. He is also the director and chief financial officer of T S Telecom Ltd. Mr. Hung holds a bachelor's degree of accounting and a certificate of programming and data processing from the University of Southern California. He is primarily responsible for development of the Group's financial strategies and he also supervises the Group's accounting and financial report procedures and internal control. Prior to joining the Group in 1998, Mr. Hung was an auditor with Ernst & Young and had been the financial officer of a multi-national Internet service provider and a group of listed companies in Hong Kong. He is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Society of Accountants.



Mr. Lau See Hoi *Chairman*



Mr. Chong Tak Wah



Mr. Wong Weng



Mr. Hung, Randy King Kuen

Mr. Kuong Kin Wa, aged 31, is the general manager of the Group. He is primarily responsible for the Group's sales and marketing in the Asia Pacific region. Mr. Kuong is an engineer specialized in digital signal processing and is a member of the Institute of Electronic and Electrical Engineers. Mr. Kuong was a sales manager of Computer Telephony Integration System and a DSP engineer in Silicon Valley prior to joining the Group in 1995.

INDEPENDENT NON-EXECUTIVE

Mr. Wong Kai Tat, aged 48, is a practising accountant. Mr. Wong holds an LLB (Honours) degree from the University of Hong Kong, a bachelor's degree of business administration from the University of Iowa, the U.S.A. and a master of business administration degree from the University of Strathclyde, Scotland and an honorary doctor of law degree from Armstrong University in the U.S.A. He was appointed as an independent non-executive director of the Company on 8th November 1999.

Mr. Tang Chi Keung, aged 40, is a practising solicitor. Mr. Tang holds a bachelor's degree of social science from the Chinese University of Hong Kong and a bachelor's degree of law from the London University. He has also been conferred a bachelor's degree in PRC laws by the University of Law and Politics of China. He was appointed as an independent non-executive director of the Company on 8th November, 1999.

SENIOR MANAGEMENT

Mr. Zhao Qi Wang, aged 37, is the vice president and director of the Group's research and development division, in charge of the overall research activities of the Group. He graduated with a master's degree from Tsinghua University, the PRC. He joined the Group in November 1991. Prior to such time, Mr. Zhao was an engineer with the Institute of Energy Ministry.

Mr. Hu Han Jiang, aged 31, is the deputy director of the Group's research and development division. Prior to joining the Group in May 1995, he had over 4 years of experience in the electronics industry. Mr. Hu graduated from Xian University with a bachelor's degree in Engineering and is responsible for development of power monitoring system for fixed network and mobile stations.

Mr. Hsie Chong Huang, aged 32, is the general manager of the Group's Beijing Office. He is responsible for Overseeing its operations and sales and marketing activities. Mr. Hsie graduated from the Hong Kong Polytechnic University and has over 12 years of experience in the electronics field. He joined the Group in March 1994.

Mr. Lu Yan, aged 34, is the product manager responsible for implementation of fiber optic monitoring system. Mr. Lu graduated with a master's degree from the Shanghai Communication University, the PRC. Prior to joining the Group in September 1998, he was a researcher and lecturer of the Shanghai Communication University.

Mr. Woun Cheuk Tai, aged 31, is the product manager responsible for the gas turbine generator division of the Group. Mr. Woun joined the Group in January 1998. He has extensive experience in diesel and gas turbine products.



Mr. Kuong Kin Wa



Mr. Wong Kai Tat



Mr. Tang Chi Keung



Mr. Zhao Qi Wang

Mr. Foo, Victor Tin Chung, aged 31, is the senior finance manager overseeing the finance and accounting functions of the Group. Mr. Foo holds a bachelor's degree of accounting and information systems from the University of New South Wales. Prior to joining the Group in December 1999, Mr. Foo was an auditor with PricewaterhouseCoopers and finance manager of a listed company in Hong Kong. He is a member of the Australian Society of Certified Practising Accountants and an associate member of the Hong Kong Society of Accountants.

Mr. Mak Ka Chun, Billy, aged 29, is the finance manager of the Group and oversees its accounting activities. Mr. Mak graduated from Shenzhen University with a bachelor's degree in business administration and has extensive experience in PRC accounting and taxation. He joined the Group in December 1998.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the First Annual General Meeting (“Meeting”) of T S Telecom Technologies Limited will be held at Victoriana Room, Furama Hotel, One Connaught Road Central, Hong Kong on Friday, 28th July 2000 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated accounts and the reports of the directors and auditors for the year ended 31st March 2000.
2. To re-elect retiring directors and to authorise the board of directors to fix their remuneration.
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
4. A Special Business, to consider and, if thought fit, pass the following resolutions with or without amendments as Ordinary Resolutions:

A. **“THAT:**

- (a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company (“Directors”) during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants, or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined in paragraph (d) of this Resolution), (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) the exercise of any options granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of options to subscribe for, or rights to acquire, shares of the Company or, (iv) any scrip dividend or similar arrangement providing for the allotment of shares in the capital of the Company in lieu of the whole or part of the cash payment for any dividend on shares of the Company pursuant to the Articles of Association of the Company from time to time, shall not in aggregate exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution:-

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of: -

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in Meeting.

"Rights Issue" means the allotment, issue or grant of shares in the capital of the Company pursuant to an offer of shares open for a period fixed by the Directors made to holders of shares of the Company or any class thereof whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in or in any territory applicable to the Company)."

B. "THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase its owned issued shares of HK\$0.10 each in the capital of the Company in accordance with laws and requirements and regulations of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution:-

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of: -

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws of the Cayman Island to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in Meeting."

- C. "THAT subject to the passing of the Ordinary Resolution Nos. 4A and 4B, the general mandate granted to the Directors of the Company to allot, issue and deal with additional securities pursuant to Resolution No. 4A be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to Resolution No. 4B, provided that such amount of shares so repurchased shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution."

By order of the Board

Hung, Randy King Kuen

Company Secretary

Hong Kong, 19th June 2000

Principal Place of Business in Hong Kong:

Suite 4002, Gloucester Tower

The Landmark

11 Pedder Street

Central

Hong Kong

Notes:

1. In order to qualify for attending the forthcoming Meeting of the Company, all shares transfer accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, HKSCC Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than forty-eight hours before the appointed time for holding the Meeting.
2. Every member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies (if a member who is the holder of two or more shares) to attend and vote in his stead. A proxy need not be a member of the Company.
3. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority (if any) under which it is signed or a notorially certified copy thereof, must be deposited at the Company's branch registrars in Hong Kong, HKSCC Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than forty-eight hours before the appointed time for holding the Meeting or any adjournment thereof.
4. An Explanatory Statement containing further details regarding Ordinary Resolution No. 4B above as required by the Rules Governing the Listing of Securities on the Stock Exchange will be dispatched to the members of the Company together with the 2000 Annual Report.
5. In the case of a poll taken subsequently to the date of the Meeting or adjourned Meeting, the form of proxy must be deposited at the registered office or the Company's branch share registrars in Hong Kong, HKSCC Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than forty-eight hours before the time fixed for the taking of the poll. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution.
6. Completion and delivery of the form of proxy will not preclude a member from attending and voting at the Meeting if the member so desires.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lau See Hoi, Chairman
Mr. Chong Tak Wah, President & Chief Executive Officer
Mr. Wong Weng, President
Mr. Hung, Randy King Kuen, Chief Financial Officer
Mr. Kuong Kin Wa, General Manager

Independent Non-Executive Directors

Mr. Wong Kai Tat
Mr. Tang Chi Keung

COMPANY SECRETARY

Mr. Hung, Randy King Kuen AHKSA, AICPA

AUTHORISED REPRESENTATIVES

Mr. Hung, Randy King Kuen
Mr. Chong Tak Wah

COMPLIANCE OFFICER

Mr. Hung, Randy King Kuen AHKSA, AICPA

QUALIFIED ACCOUNTANT

Mr. Hung, Randy King Kuen AHKSA, AICPA

AUDIT COMMITTEE

Mr. Lau See Hoi
Mr. Tang Chi Keung
Mr. Wong Kai Tat

REGISTERED OFFICE

Ugland House
P.O. Box 309, South Church Street
George Town, Grand Cayman
Cayman Islands, British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 4002, Gloucester Tower
The Landmark, 11 Pedder Street
Central, Hong Kong

PRINCIPAL BANKERS

The Dao Heng Bank Limited
Shanghai Commercial Bank, Ltd.
The Bank of East Asia

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
P.O. Box 705, Butterfield House
Fort Street, George Town
Grand Cayman, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

HKSCC Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central, Hong Kong

SPONSOR

Dao Heng Securities Limited
12th Floor, The Center
99 Queen's Road Central
Hong Kong

LEGAL ADVISERS

As to Cayman Island Law:
Maples and Calder Asia
1002 One Exchange Square
8 Connaught Place
Central, Hong Kong

As to Hong Kong Law:
Kwok & Yih
in association with Blake Dawson Waldron
37th Floor, Gloucester Tower
The Landmark, 11 Pedder Street
Central, Hong Kong

STOCK QUOTE

8003

WEB SITES OF THE COMPANY

www.tstelecom.com
www.irasia.com/listco/hk/tstelecom

Report of the Directors

The directors have pleasure in submitting to shareholders their report together with the audited accounts of T S Telecom Technologies Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st March 2000.

Group Reorganisation

The Company was incorporated in the Cayman Islands on 24th August 1999 as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a group reorganisation, which was completed on 18th November 1999, to rationalise the Group's structure in preparation for a listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies comprising the Group. The shares of the Company were listed on GEM of the Stock Exchange on 2nd December 1999.

The Group has been treated as a continuing entity and, accordingly, the accompanying consolidated accounts have been presented on the basis set out in note 1 to the accounts.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are the assembly, distribution and integration of power monitoring and cable monitoring systems and network access equipment to the telecommunications service providers in the People's Republic of China (the "PRC") and Hong Kong. Particulars of the subsidiaries are set out in note 12 to the accounts.

As over 90% of the consolidated turnover and trading results of the Group are derived from the assembly, distribution and integration of telecommunication products in the PRC, an analysis of the consolidated trading results of the Group by principal business activity and by market is not presented.

An analysis of the consolidated turnover of the Group by principal product and by market is as follows:

By principal product:	HK\$'000
Power monitoring equipment	76,124
Cable monitoring equipment	19,500
Network access equipment	266
Others	955
	<hr/>
	96,845
By principal market:	
PRC	92,233
Hong Kong and Macau	4,612
	<hr/>
	96,845

Results and Appropriations

The results for the year are set out in the consolidated profit and loss account on page 27.

The dividend in the consolidated profit and loss account amounting to HK\$17,000,000 was paid by a subsidiary to its then shareholders prior to the Group's reorganisation on 18th November 1999.

The directors of the Company do not recommend the payment of a final dividend for the year ended 31st March 2000.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$300,000.

Fixed Assets

Details of the movements in fixed assets are set out in note 11 to the accounts.

Share Capital

Details of the movement in share capital of the Company are set out in note 19 to the accounts.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Directors

The directors during the year were:

Executive directors

Mr. Lau See Hoi	(appointed on 13th September 1999)
Mr. Chong Tak Wah	(appointed on 13th September 1999)
Mr. Wong Weng	(appointed on 13th September 1999)
Mr. Hung, Randy King Kuen	(appointed on 13th September 1999)
Mr. Kuong Kin Wa	(appointed on 13th September 1999)
Mr. Shaun Denton	(appointed on 13th September 1999 and resigned on 13th September 1999)

Independent non-executive directors

Mr. Wong Kai Tat	(appointed on 8th November 1999)
Mr. Tang Chi Keung	(appointed on 8th November 1999)

In accordance with Article 117 of the Company's Articles of Association, Mr. Tang Chi Keung retires at the forthcoming annual general meeting but, being eligible, offers himself for re-election.

Biographical Details of Directors and Senior Management

Biographical details of directors and senior management are set out on pages 12 and 13.

Directors' Service Contracts

Each of the executive directors entered into a service agreement during the year with the Company under which they are to act as executive directors for an initial term of three years commencing from 1st December 1999 and shall continue thereafter until terminated by either party giving to the other not less than six calendar months' notice in writing. The initial annual remuneration pursuant to such agreements for executive directors is in the aggregate amount of approximately HK\$7,410,000. The executive directors are also entitled to a discretionary bonus calculated as a percentage of the audited consolidated profit of the Group attributable to shareholders of the Company. The percentage shall be determined by the board of directors but in any case the aggregate amount payable each financial year to all the executive directors of the Company shall not exceed 10% of such profit.

Based on the audited financial results for the year ended 31st March 2000, the maximum amount of the discretionary bonus entitled to by the directors will be approximately HK\$4,000,000. No executive directors are entitled to such discretionary bonus for the year ended 31st March 2000.

Each of the independent non-executive directors was appointed for a period of one year commencing on 8th November 1999.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

Details of directors' interests in contracts are set out in notes 15, 24 and 26 to the accounts.

Except as disclosed above, no contracts of significance (as defined in rule 18.25 of the GEM Listing Rules) in relation to the Company's business to which the Company, its subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected Transactions

- (a) Significant related party transactions entered into by the Group during the year ended 31st March 2000, which do not constitute connected transactions under the listing rules, are disclosed in notes 24 (b) and 26 (a) to (c) to the accounts.
- (b) Other related party transactions, which also constitute connected transactions under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") required to be disclosed are as follows:
 - (i) T S International Company Limited ("T S International") entered into an agreement on 15th November 1999 for a term of three years with T S Telecom Ltd. ("T S Telecom"), the ultimate holding company, under which the latter will provide research and development services to the Group at a monthly charge which is calculated on the basis of the costs to be incurred by T S Telecom for and in connection with the provision of such services, provided that the annual service fee payable shall in total not exceed HK\$4,000,000. For the year ended 31st March 2000, no such research and development service fee was paid to T S Telecom.
 - (ii) By a license agreement dated 19th November 1999 entered into between T S (Holdings) Company Limited ("T S Holdings") and T S International, the latter is licensed to use at a monthly licence fee of HK\$132,379 from 19th November 1999 until 30th March 2002, all that portion of Suite 4002-4, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong leased to T S Holdings under a lease agreement dated 11th March 1999, and made between T S Holdings and a third party at a total monthly rental of which is HK\$215,370. The license fee is calculated based on 50% of the total monthly rental and related estate management fee.

The independent non-executive directors confirmed that the above transactions had been conducted on normal commercial terms during the ordinary and usual course of business, and are in accordance with the underlying agreements, the terms of which are fair and reasonable and for the interests of the shareholders of the Company.

Directors' Interests in Equity Securities

At 31st March 2000, the interests of the directors and their associates in the shares and options of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or which are required, pursuant to rules 5.40 to 5.49 of the GEM Listing Rules, to be notified to the Company and GEM of the Stock Exchange were as follows:

(a) Ordinary shares of HK\$0.1 each:

	Personal Interests	Family Interests	Number of shares Corporate interests	Other interests	Total	Approximate percentage holding of shares %
Directors						
Mr. Lau See Hoi (note (i))	—	—	168,960,000	—	168,960,000	64
Mr. Chong Tak Wah (note (ii))	—	—	—	168,960,000	168,960,000	64
Mr. Wong Weng (note (iii))	—	—	—	168,960,000	168,960,000	64
Mr. Hung, Randy King Kuen	360,000	—	—	—	360,000	0.14

Notes:

- (i) These shares are held by T S Telecom, the ultimate holding company of the Company, in which Mr. Lau See Hoi holds 6,839,250 shares (representing approximately 34.1% of the issued share capital of T S Telecom) together with an option to subscribe for 400,000 common shares in T S Telecom.
- (ii) These shares are held by T S Telecom in which Mr. Chong Tak Wah holds 1,865,250 shares (representing approximately 9.3% of the issued share capital of T S Telecom) together with an option to subscribe for 300,000 common shares in T S Telecom.
- (iii) These shares are held by T S Telecom in which Mr. Wong Weng holds 2,225,500 shares (representing approximately 11.1% of the issued share capital of T S Telecom) together with an option to subscribe for 300,000 common shares in T S Telecom.

Save as disclosed above, none of the directors and their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as recorded in the register as at 31st March 2000 maintained under Section 29 of the SDI Ordinance or which are required, pursuant to rules 5.40 to 5.49 of the GEM Listing Rules, to be notified to the Company and GEM of the Stock Exchange.

Directors' Interests in Equity Securities (continued)

(b) Share options

As at 31st March 2000, details of share options granted by the Company and the ultimate holding company to the directors of the Company to subscribe for the shares of the Company and the ultimate holding company were as follows:

(i) The Company

Under a share option scheme approved by the shareholders of the Company on 18th November 1999, the directors may, at their discretion, within a period of 10 years commencing on 18th November 1999, invite full-time employees of any company in the Group, including any executive directors of any members of the Group, to take up options to subscribe for shares of the Company subject to terms and conditions stipulated therein. As at 31st March 2000, no option had been granted under the share option scheme.

(ii) The ultimate holding company

Under a share option scheme of T S Telecom, certain directors of the Company have been granted options to subscribe for common shares of T S Telecom. The exercise prices of the options range from Canadian dollar 0.38 to 0.50 per share, expiring on 24th July 2000 or 6th September 2004 respectively. The number of outstanding options as at 31st March 2000 is as follows:

Name of director	As at 31st March 2000
Mr. Lau See Hoi	400,000
Mr. Chong Tak Wah	300,000
Mr. Wong Weng	300,000

During the year, 255,000 options were granted to a director by the ultimate holding company before he was appointed as a director of the Company. Each of the options entitles the holder to subscribe for one common share at Canadian dollar 0.38 each in the ultimate holding company at any time prior to 6th September 2004. During the year, such options had been exercised, and the related common shares have been disposed.

Saved as disclosed above, at no time during the year was the Company, its subsidiaries or holding company a party to any arrangements to enable the directors (including their spouses or children under 18 years of age) or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

The register of substantial shareholders maintained under section 161 (1) of the Securities (Disclosure of Interests) Ordinance shows that as at 31st March 2000, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Number of shares
T S Telecom Ltd.	168,960,000

Competing Interest

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

Sponsor's Interests

The Company's sponsor, Dao Heng Securities Limited ("Dao Heng Securities"), its directors, employees or associates (as referred to in note 3 to rule 6.35 of the GEM Listing Rules), were interested in 6,102,000 shares of HK\$0.1 each in the share capital of the Company as at 31st March 2000 and 16th June 2000.

Pursuant to an agreement dated 1st December 1999 entered into between the Company and Dao Heng Securities, the latter will receive a monthly fee for acting as the Company's retained sponsor for the period from 2nd December 1999 to 31st March 2002.

Management Contracts

There exists agreements for the provision of administrative services under which T S Holdings provides services to certain companies in the Group at a total monthly fee of HK\$80,000 for the period from 1st April 1998 to 14th November 2004. Mr. Lau See Hoi has a beneficial interest in T S Holdings.

Major Customers and Suppliers

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

– the largest customer	29%
– five largest customers combined	73%

Purchases

– the largest supplier	44%
– five largest suppliers combined	58%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

Compliance with the GEM Listing Rules

The Company has complied with rules 5.28 to 5.39 of the GEM Listing Rules since the listing of its shares on GEM of the Stock Exchange on 2nd December 1999.

Audit Committee

Pursuant to rules 5.23 and 5.24 of the GEM Listing Rules, an audit committee, comprising an executive director, Mr. Lau See Hoi, and the two independent non-executive directors, namely Mr. Tang Chi Keung and Mr. Wong Kai Tat, was established on 18th November 1999. Mr. Tang Chi Keung was appointed as the Chairman of this committee.

The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls. Since its establishment, the audit committee met three times for reviewing the Company's operating results, and providing advices and recommendations to the board of directors.

Year 2000 Compliance

The Board advises that all accounting and financial applications in the Group are fully Year 2000 compliant. Up to the date of this report, the Year 2000 issue has not created any material adverse impact on the business operations in any functional areas.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lau See Hoi

Chairman

Hong Kong, 19th June 2000

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF T S TELECOM TECHNOLOGIES LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts set out on pages 27 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st March 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19th June 2000

Consolidated Profit and Loss Account

For the year ended 31st March 2000

	Note	2000 HK\$'000	1999 HK\$'000
Turnover	2	96,845	107,620
Cost of sales		(23,970)	(58,467)
Gross profit		72,875	49,153
Other revenues	2	5,844	827
Selling and distribution costs		(7,683)	(9,980)
Administrative expenses		(33,526)	(29,676)
Operating profit	3	37,510	10,324
Finance costs	4	(44)	(17)
Share of profit of an associated company		561	2,677
Profit before taxation		38,027	12,984
Taxation credit/(charge)	5	2,313	(1,869)
Profit attributable to shareholders	6 and 20	40,340	11,115
Dividend	7 and 20	17,000	—
Basic earnings per share	8	HK19.11 cents	HK6.01 cents

Consolidated Balance Sheet

As at 31st March 2000

	Note	2000 HK\$'000	1999 HK\$'000
Fixed assets	11	5,002	2,224
Investments in associated companies	13	12,358	10,670
Current assets			
Inventories	14	10,752	7,928
Loan to a related company	15	—	4,508
Due from ultimate holding company	16	—	15,138
Trade and other receivables	17	45,751	18,373
Pledged bank deposits	25	2,544	978
Bank balances and cash	18	118,258	4,121
		177,305	51,046
Current liabilities			
Trade and other payables		12,443	11,011
Due to a fellow subsidiary	16	—	472
Current portion of obligations under a finance lease	21	100	34
Taxation payable		450	1,333
Trust receipt loans		—	81
		12,993	12,931
Net current assets		164,312	38,115
		181,672	51,009
Financed by:			
Share capital	19	26,400	100
Reserves	20	154,007	50,777
Shareholders' funds		180,407	50,877
Minority interests		934	—
Long-term portion of obligations under a finance lease	21	275	76
Deferred taxation	22	56	56
		181,672	51,009
On behalf of the Board			
Lau See Hoi Director		Chong Tak Wah Director	

Balance Sheet

As at 31st March 2000

	Note	HK\$'000
Investments in subsidiaries	12	40,921
Current assets		
Other receivables		449
Due from subsidiaries	16	9,893
Bank balances and cash		100,376
		110,718
Current liabilities		
Other payables		25
Due to a subsidiary	16	144
		169
Net current assets		110,549
		151,470
Financed by:		
Share capital	19	26,400
Reserves	20	125,070
		151,470

On behalf of the Board

Lau See Hoi
Director

Chong Tak Wah
Director

Consolidated Cash Flow Statement

For the year ended 31st March 2000

	Note	2000 HK\$'000	1999 HK\$'000
Net cash inflow from operating activities	23(a)	28,433	4,252
Returns on investments and servicing of finance			
Interest received		5,138	306
Interest expenses		(44)	(17)
Dividend received from an associated company		—	1,243
Dividend paid		(17,000)	—
Net cash (outflow)/inflow from returns on investments and servicing of finance		(11,906)	1,532
Taxation			
Hong Kong profits tax refunded/(paid)		1,914	(910)
Overseas taxation paid		(344)	(532)
Total taxation refunded/(paid)		1,570	(1,442)
Investing activities			
Purchase of fixed assets		(2,586)	(516)
Sale of fixed assets		112	—
Repayment of loan from an associated company		—	387
Purchase of a subsidiary	23(e)	(5,296)	—
Investment in an associated company		(1,267)	—
Net cash outflow from investing activities		(9,037)	(129)
Net cash inflow before financing		9,060	4,213
Financing	23(b)		
Issue of ordinary shares		118,800	—
Share issue expenses		(12,875)	—
Capital injection from minority shareholders		934	—
Capital element of finance lease payments		(135)	(34)
Repayment of trust receipt loans		(81)	(2,679)
Net cash inflow/(outflow) from financing		106,643	(2,713)

Note	2000 HK\$'000	1999 HK\$'000
Increase in cash and cash equivalents	115,703	1,500
Cash and cash equivalents at 1st April	5,099	3,599
Cash and cash equivalents at 31st March	120,802	5,099
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	120,802	5,099

Consolidated Statement of Recognised Gains and Losses

For the year ended 31st March 2000

	Note	2000 HK\$'000	1999 HK\$'000
Profit for the year	20	40,340	11,115
Total recognised gain		40,340	11,115
Negative goodwill taken directly to reserves	20	265	—
		40,605	11,115

Notes to the Accounts

1 Principal Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 24th August 1999 as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a group reorganisation, which was completed on 18th November 1999, to rationalise the Group's structure in preparation for a listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies comprising the Group. The shares of the Company were listed on GEM on 2nd December 1999.

The consolidated accounts have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of the companies comprising the Group for the financial years presented rather than from the date of acquisition of the subsidiaries and the associated companies. Accordingly, the consolidated results of the Group for the years ended 31st March 1999 and 2000 include the results of the companies comprising the Group for the two years or from their respective dates of incorporation or acquisition to 31st March 2000, where there is a shorter period, as if the current Group structure had been in existence and remained the same throughout the periods presented.

The Company was incorporated on 24th August 1999 and did not enter into any transaction until 18th November 1999 as described above. Accordingly, there are no comparatives for the Company's balance sheet.

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

The accounts are prepared under the historical cost convention.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1 Principal Accounting Policies (continued)

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

(d) Negative goodwill

Negative goodwill represents the excess of the fair values ascribed to the separable net assets of a subsidiary acquired over the purchase consideration paid and is taken to reserves in the year of acquisition

(e) Property, plant and equipment

Fixed assets are stated at cost less accumulated depreciation.

Leasehold land is depreciated over the period of the leases / land use right while other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2%
Leasehold improvements	25%
Furniture and equipment	25%
Motor vehicles	25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

1 Principal Accounting Policies *(continued)*

(f) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(g) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

1 Principal Accounting Policies *(continued)*

(j) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences, if any, are dealt with as a movement in reserves.

(k) Revenue recognition

- (i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.
- (ii) Maintenance service income is recognised when the services are rendered.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(l) Research and development costs

Research and development costs are expensed as incurred.

(m) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred except those that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

2 Revenue and turnover

The Group is principally engaged in the assembly, distribution and integration of telecommunications products. Revenues recognised during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Turnover		
Sales of goods, net of discounts and value-added tax	96,253	104,310
Rendering of maintenance services	592	3,310
	96,845	107,620
Other revenues		
Interest income		
— on subscription monies (<i>note</i>)	3,457	—
— on bank deposits	2,149	306
Others	238	521
	5,844	827
Total revenues	102,689	108,447

note: This represents interest income on subscription monies received from the initial public offering of the Company's shares during the year.

3 Operating Profit

Operating profit is stated after charging the following:

	2000 HK\$'000	1999 HK\$'000
Depreciation:		
Owned fixed assets	1,072	697
Leased fixed assets	51	47
Staff costs	13,805	11,093
Operating leases in respect of land and buildings	2,683	3,843
Auditors' remuneration	632	177
Research and development costs	2,477	2,380

4 Finance Costs

	2000 HK\$'000	1999 HK\$'000
Interest on trust receipt loans	—	13
Interest on other loans wholly repayable within five years	35	—
Interest element of a finance lease	9	4
	44	17

5 Taxation Credit/(Charge)

The amount of taxation credited/(charged) to the consolidated profit and loss account represents:

	2000 HK\$'000	1999 HK\$'000
Hong Kong profits tax	—	(749)
Over provisions in prior years	2,737	25
	2,737	(724)
Overseas taxation	(366)	(646)
Over provisions in prior years	82	—
	(284)	(646)
	2,453	(1,370)
Share of taxation attributable to an associated company	(140)	(499)
	2,313	(1,869)

- (i) No provision for Hong Kong profits tax has been made in the accounts as the group companies operating in Hong Kong have no assessable profit for the year. Hong Kong profits tax for the previous year was calculated at the rate of 16% on the estimated assessable profits of the group companies operating in Hong Kong.
- (ii) Overseas taxation represents the tax on the offices of the Group in the People's Republic of China (the "PRC") provided at the relevant tax rates applicable to them with reference to the total expenditure of these offices.
- (iii) The Company's PRC subsidiaries and an associated company, Shanghai Hua Cheng Telecommunications Equipment Co., Ltd. ("Shanghai Hua Cheng") are, under the Income Tax Law of the PRC for Enterprises with Foreign Investment, entitled to an income tax holiday for two years from the first profit making year and a 50% reduction in income tax for the following three years. The first profit making year, for tax purposes, for the PRC subsidiaries and Shanghai Hua Cheng is the year ended 31st December 1999 and year ended 31st December 1995 respectively. The preferential tax rate applicable to Shanghai Hua Cheng for the year is 13.5% (1999: 13.5%).

A subsidiary, Beijing Kong Da Net Telecommunication Equipment Ltd. ("KD Net") and an associated company, D&T Engineering Co., Ltd., Harbin ("D&T Engineering") in the PRC are in the course of applying for certain income tax preferential treatments in the PRC.

- (iv) There was no material underprovided deferred taxation for the year.

6 Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$4,624,000 (1999: not applicable).

7 Dividend

The dividend in the consolidated profit and loss account amounting to HK\$17,000,000 was paid by a subsidiary to its then shareholders prior to the group reorganisation on 18th November 1999. The dividend rate is not presented here as the directors are of the opinion that such information is not meaningful for the purpose of these accounts.

8 Earnings per Share

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of HK\$40,340,000 (1999: HK\$11,115,000) and the weighted average number of 211,127,473 (1999: 184,800,000) ordinary shares in issue during the year. In determining the number of shares in issue, a total of 3,500,000 shares issued on the establishment of the Company and on the reorganisation of the Group and a further 181,300,000 shares being the capitalisation issue immediately following the new issue of shares to the public on 2nd December 1999 as referred to in note 19 to the accounts were deemed to have been in issue since 1st April 1998.

There is no diluted earnings per share since the Company has no dilutive potential ordinary shares.

9 Retirement Benefit Costs

The Group had no provident fund scheme for its employees in Hong Kong during the year. As at 31st March 2000, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Hong Kong Employment Ordinance.

The subsidiaries in the PRC have participated in certain employees' retirement schemes implemented by the local municipal governments. Contributions are made by the relevant subsidiaries to these schemes based on certain percentages of the applicable payroll costs. The Group has no other obligations other than the above-mentioned contributions. The amount incurred by the Group for the period is not material to the consolidated results of the Group.

10 Directors' and Senior Management's Emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Fees	102	—
Other emoluments:		
Basic salaries, housing allowances and other allowances	3,399	1,335
Bonus shares (note (i))	4,092	—
Benefit from exercise of ultimate holding company's share options (note (ii))	1,108	—
	8,701	1,335

- (i) 13,200,000 bonus shares of HK\$0.1 each in the Company were granted to certain directors by the capitalisation of an amount of HK\$1,320,000 out of the share premium account arising on the new issue of the Company's shares during the year. The total value of the bonus shares at the date of grant is estimated to be around HK\$4,092,000.
- (ii) During the year, 255,000 options were granted to a director by the ultimate holding company before he was appointed as a director of the Company. Each of the options entitles the holder to subscribe for one common share at Canadian dollar 0.38 each in the ultimate holding company at any time prior to 6th September 2004. During the year, such options had been exercised.

Each of the independent non-executive directors received a director's fee of HK\$51,000 for the year ended 31 March 2000 (1999:nil). They did not receive any other emoluments.

The executive directors received individual emoluments, excluding benefits from share options exercised, for the year ended 31st March 2000 of approximately HK\$550,000 (1999: nil), HK\$600,000 (1999: nil), HK\$759,000 (1999: nil), HK\$4,283,000 (1999: nil) and HK\$1,299,000 (1999: HK\$1,335,000).

No directors waived any emoluments during the years ended 31st March 1999 and 2000.

Under the share option scheme approved by the shareholders of the Company on 18th November 1999, the directors may, at their discretion, within a period of 10 years commencing on 18th November 1999, invite full-time employees of any company in the Group, including any executive directors of any member of the Group, to take up options to subscribe for shares of the Company subject to the terms and conditions stipulated therein. As at 31st March 2000, no option had been granted under the share option scheme.

10 Directors' and Senior Management's Emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Directors	6,341	1,335
Employees		
– basic salaries, housing allowance and other allowances	1,564	1,808
– bonus shares (note)	818	–
	8,723	3,143

note: 2,640,000 bonus shares of HK\$0.1 each in the Company were granted to certain employees by the capitalisation of an amount of HK\$264,000 out of the share premium account arising on the new issue of the Company's shares during the year. The total value of the bonus shares at the date of grant is estimated to be around HK\$818,000.

For the year ended 31st March 2000, the five highest paid individuals include 3 directors and 2 employees (1999: 1 director and 4 employees).

Two of the employees mentioned above were appointed as directors during the year ended 31st March 2000, and their emoluments in the capacity as employees and directors are included in the employee's and directors' emoluments respectively. Their emoluments in the capacity as employees for the year ended 31st March 2000 amounted to approximately HK\$342,000 (1999: HK\$520,000) and HK\$520,000 (1999: HK\$399,000).

The remaining two employees received individual emoluments, excluding bonus shares, for the year ended 31st March 2000 of approximately HK\$454,000 (1999: HK\$325,000) and HK\$248,000 (1999: HK\$57,000).

The emoluments of the above employees fell within the following bands:

Emolument bands	Number of individuals	
	2000	1999
HK\$nil – HK\$1,000,000	2	4

11 Fixed Assets

	Group				
	Buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At 1st April 1999	616	1,115	3,954	457	6,142
Additions	484	734	907	861	2,986
Acquisition of a subsidiary	—	—	1,082	17	1,099
Disposals	—	—	(232)	(457)	(689)
At 31st March 2000	1,100	1,849	5,711	878	9,538
Accumulated depreciation:					
At 1st April 1999	22	1,077	2,456	363	3,918
Charge for the year	16	29	990	88	1,123
Disposals	—	—	(130)	(375)	(505)
At 31st March 2000	38	1,106	3,316	76	4,536
Net book value:					
At 31st March 2000	1,062	743	2,395	802	5,002
At 31st March 1999	594	38	1,498	94	2,224

Buildings are situated in the PRC and held on long-term land use rights.

At 31st March 2000, the net book value of fixed assets held by the Group under a finance lease amounted to HK\$431,556 (1999: HK\$94,002).

12 Investments in Subsidiaries - Company

2000
HK\$'000

Investments at cost:

Unlisted shares

40,921

The following is a list of the subsidiaries at 31st March 2000:

Name	Country/ place of incorporation	Principal activities and place of operation	Particulars of issued share capital and registered capital	Interest held
Directly held by the Company				
T S Telecom (B.V.I) Limited	British Virgin Islands	Investment holding in Hong Kong	50,000 ordinary shares of US\$1 each.	100%
Indirectly held by the Company				
T S International Company Limited (*T S International*)	Hong Kong	Investment holding in Hong Kong	100,000 ordinary shares of HK\$1 each.	100%
Ying Zhi Xun Telecom Equipment (Shenzhen) Co. Ltd. (*Ying Zhi Xun*)	PRC	Assembling of cable pressurization equipment and power monitoring equipment in the PRC	Registered capital US\$500,000	100%
T S Telecom (Shenzhen) Company Limited (*T S Shenzhen*)	PRC	Assembling and distribution of cable pressurization equipment and power monitoring equipment in the PRC	Registered capital US\$190,000	100%
TSTT (Canada) Ltd*	Canada	Investment holding in Canada	100 common shares of CAD 1 each	100%
Beijing Kong Da Net Telecommunication Equipment Ltd. (*KD Net*)*	PRC	Manufacturing of telecommunications equipment and software in the PRC	Registered capital RMB4,000,000	75%

* These companies have not yet commenced business as at 31st March 2000.

Ying Zhi Xun, T S Shenzhen and KD Net have adopted 31st December as their financial year end date for statutory reporting purposes. For the preparation of the consolidated accounts, management accounts of these subsidiaries for each of the 12 months ended 31st March 1999 and 2000 have been used after making adjustments as appropriate for compliance with accounting principles generally accepted in Hong Kong.

13 Investments in Associated Companies

	2000 HK\$'000	Group 1999 HK\$'000
Share of net assets	12,358	10,670
Unlisted shares, at cost	4,755	3,488

The following is a list of associated companies at 31st December 2000:

Name	Place of incorporation and business	Principal activities	Particulars of registered capital	Interest held indirectly
D&T Engineering Co. Ltd., Harbin* (*D&T Engineering)	PRC	Manufacture of gas turbine machines in the PRC	Registered capital RMB3,000,000	45%
Shanghai Hua Cheng Telecommunication Equipment Co., Ltd (*Shanghai Hua Cheng)	PRC	Manufacture of telecommunications equipment and accessories in the PRC	Registered capital USD1,500,000	30%

* D&T Engineering has not yet commenced business as at 31st March 2000.

Shanghai Hua Cheng and D&T Engineering have adopted 31st December as their financial year end date for statutory reporting purposes. For the preparation of the consolidated accounts, management accounts of these associated companies for each of the 12 months ended 31st March 1999 and 2000 have been used after making adjustments as appropriate for compliance with accounting principles generally accepted in Hong Kong.

14 Inventories

	2000 HK\$'000	Group 1999 HK\$'000
Raw materials	2,627	—
Work in progress	2,200	—
Finished goods	5,925	7,928
	10,752	7,928

15 Loan to a Related Company

The loan in the previous year was made to a related company which is beneficially owned by a director of the Company.

Name of borrower	Connected director	At 31st March 2000 HK\$'000	At 31st March 1999 HK\$'000	Maximum balance during the year HK\$'000
Atlantic Concord Inc.	Lau See Hoi	—	4,508	4,508

The loan to Atlantic Concord Inc. was unsecured, interest-free and repayable on demand.

16 Due from/Due to Group Companies

The balances are unsecured, interest-free and repayable on demand.

17 Trade and Other Receivables

Included in the balance are trade receivables totalling approximately HK\$3,824,000 (1999: nil) due by an associated company.

18 Bank Balances and Cash

Included in the balance is an amount of HK\$5,006,000 (1999: HK\$368,000) which is denominated in Renminbi. Renminbi is not a freely convertible currency.

19 Share Capital

	Company 2000 HK\$'000
Authorised:	
800,000,000 ordinary shares of HK\$0.1 each	80,000
Issued and fully paid	
264,000,000 ordinary shares of HK\$0.1 each	26,400

- (a) The Company was incorporated on 24th August 1999 with an authorised share capital of HK\$350,000 divided into 3,500,000 shares of HK\$0.1 each of which two shares were allotted, issued and credited as fully paid.
- (b) On 16th November 1999, 3,499,994 shares were allotted, issued and credited as fully paid, in consideration of the exchange for the entire issued share capital of T S International.
- (c) On 18th November 1999, four shares were allotted and issued for cash at par.
- (d) On 18th November 1999, pursuant to written resolutions of the shareholders of the Company:
- (i) the authorised share capital of the Company was increased from HK\$350,000 to HK\$80,000,000, divided into 800,000,000 shares of HK\$0.1 each, by the creation of an additional 796,500,000 shares of HK\$0.1 each. Such shares rank pari passu with the existing shares in all respects;
 - (ii) 79,200,000 new shares of HK\$0.1 each were issued and offered for subscription and placing at a price of HK\$1.5 per share (the "New Issue") upon listing of the Company's shares on GEM of the Stock Exchange; and
 - (iii) Out of the share premium account created as a result of the New Issue, HK\$18,130,000, was capitalised and applied in paying up in full at par 181,300,000 shares of HK\$0.1 each for allotment and issue to shareholders of the Company prior to the New Issue.
- (e) The share capital shown on the consolidated balance sheet as at 31st March 1999 represents the nominal value of the share capital of T S International, a Company's subsidiary and the Group's then ultimate holding company, as at that date.

20 Reserves

Group	Share premium HK\$'000	PRC statutory reserves HK\$'000	Merger difference HK\$'000	Negative goodwill HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st April 1998	—	2,389	—	—	37,273	39,662
Profit for the year	—	—	—	—	11,115	11,115
Transfer between reserves	—	1,419	—	—	(1,419)	—
At 31st March 1999	—	3,808	—	—	46,969	50,777
Company and subsidiaries	—	—	—	—	42,485	42,485
An associated company	—	3,808	—	—	4,484	8,292
At 31st March 1999	—	3,808	—	—	46,969	50,777
At 1st April 1999	—	3,808	—	—	46,969	50,777
Premium on issue of shares	110,880	—	—	—	—	110,880
Share issue expenses	(12,875)	—	—	—	—	(12,875)
Capitalisation issue	(18,130)	—	—	—	—	(18,130)
Difference on merger	—	—	(250)	—	—	(250)
Acquisition of a subsidiary	—	—	—	265	—	265
Dividend	—	—	—	—	(17,000)	(17,000)
Profit for the year	—	—	—	—	40,340	40,340
Transfer between reserves	—	1,641	—	—	(1,641)	—
At 31st March 2000	79,875	5,449	(250)	265	68,668	154,007
Company and subsidiaries	79,875	1,641	(250)	265	63,763	145,294
Associated companies	—	3,808	—	—	4,905	8,713
At 31st March 2000	79,875	5,449	(250)	265	68,668	154,007
Company						
Surplus arising on issue of shares in exchange for shares in a subsidiary	40,571	—	—	—	—	40,571
Premium on the New Issue	110,880	—	—	—	—	110,880
Share issue expenses	(12,875)	—	—	—	—	(12,875)
Capitalisation issue	(18,130)	—	—	—	—	(18,130)
Profit for the year	—	—	—	—	4,624	4,624
At 31st March 2000	120,446	—	—	—	4,624	125,070

20 Reserves (continued)

- (a) 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 reorganisation set out in note 1 to the accounts over the nominal value of the share capital of the Company issued in exchange thereof.
- (b) The PRC statutory reserves represents transfers made to the general reserve fund and the enterprise development fund set up by certain subsidiaries and an associated company 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.
- (c) Pursuant to the Companies Law (1998 Revision) of the Cayman Islands and the Articles of Association of the Company, share premium of the Company is distributable to the shareholders, subject to a solvency test and the provisions of the Company's Articles of Association. At 31st March 2000, in the opinion of the directors, the Company's reserves available for distribution to shareholders, comprising share premium account and retained earnings, amounted in total to approximately HK\$125,070,000 (1999: not applicable).

21 Obligations under a Finance Lease

	Group	
	2000 HK\$'000	1999 HK\$'000
Obligations under a finance lease wholly repayable within five years	375	110
Current portion included in current liabilities	(100)	(34)
	275	76

22 Deferred Taxation

Deferred taxation represents the tax effect of timing differences arising from accelerated depreciation allowance which is expected to crystallize in the foreseeable future.

23 Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Profit before taxation	38,027	12,984
Share of profit of an associated company	(561)	(2,677)
Depreciation charge	1,123	744
Loss on disposal of fixed assets	72	—
Decrease/(increase) in inventories	1,283	(729)
Decrease/(increase) in amounts due from a related company and the ultimate holding company	21,862	(1,248)
Increase in trade and other receivables	(26,342)	(3,762)
Increase/(decrease) in trade and other payables	35	(739)
Decrease in amounts due to a fellow subsidiary and a related company	(1,504)	(32)
Interest income	(5,606)	(306)
Interest expenses	44	17
Net cash inflow from operating activities	28,433	4,252

(b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Loans and obligations under a finance lease		Trust receipt loans	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
At 1st April	—	—	—	—	110	144	81	2,760
Repayment of loans	—	—	—	—	—	—	(81)	(2,679)
Payment of capital element of a finance lease	—	—	—	—	(135)	(34)	—	—
Capital injection from minority shareholders	—	—	934	—	—	—	—	—
Issue of ordinary shares	118,800	—	—	—	—	—	—	—
Share exchange upon the reorganisation	350	—	—	—	—	—	—	—
Share issue expenses	(12,875)	—	—	—	—	—	—	—
Inception of a finance lease	—	—	—	—	400	—	—	—
At 31st March	106,275	—	934	—	375	110	—	81

23 Notes to the Consolidated Cash Flow Statement (continued)

(c) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$400,000 (1999: nil).

(d) Purchase of a subsidiary

	2000 HK\$'000
Net assets acquired	
Fixed assets	1,099
Inventories	4,107
Amount due from a related company	2,216
Trade and other receivables	568
Bank balances and cash	704
Amount due to a related company	(1,032)
Trade and other payables	(1,397)
	6,265
Negative goodwill	(265)
	6,000

(e) Analysis of the net outflow in respect of the purchase of a subsidiary:

	2000 HK\$'000
Cash consideration	(6,000)
Bank balances and cash in hand acquired	704
	(5,296)

24 Commitments

(a) Commitments under operating leases

At 31st March 2000, the Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

	2000 HK\$'000	1999 HK\$'000
Within one year	414	272
In the second to fifth year inclusive	1,002	2,127
	1,416	2,399

- (b) In addition, during the year, T S (Holdings) Company Limited ("T S Holdings"), a related company in which a director of the company has a beneficial interest, entered into an operating lease with a third party in respect of an office premises which is shared by the Company and T S Holdings. Half of the rental expenses of the premises is borne and paid by the Company through T S Holdings. In November 1999, T S International entered into a licence agreement, which expires on 30th March 2002, with T S Holdings under which the Group is granted a right to use the above office premises at a monthly licence fee of approximately HK\$132,000.

25 Banking Facilities

As at 31st March 2000, total banking facilities granted to the Group amounted to HK\$9,800,000. The facilities are supported by certain fixed deposits of the Group amounting to approximately HK\$2,544,000 (1999: HK\$978,083).

26 Related Party Transactions

Save as disclosed in note 24(b) and elsewhere in these consolidated accounts, the following significant related party transactions have been entered into by Group during the year:

	Note	2000 HK\$'000	Group 1999 HK\$'000
Administrative service fees paid to T S Holdings	(a)	960	960
Purchase of leasehold properties from a director	(b)	467	—
Sales to Ying Zhi Xun	(c)	—	2,975
Acquisition of Ying Zhi Xun from T S Canada Inc. ("T S Canada")	(c)	6,000	—
Research and development expenses charged by:			
Ying Zhi Xun	(c)	—	1,058
The ultimate holding company	(d)	—	—
Sales to an associated company,			
Shanghai Hua Cheng		7,968	5,226

- (a) Mr. Lau See Hoi, a director of the Company, has a beneficial interest in this company.
- (b) The Group purchased a residential property as staff quarters from Mr. Lau See Hoi, a director of the Company, at a total consideration based on an independent market valuation of approximately HK\$467,000 (RMB500,276), prior to the listing of Company's shares on GEM of the Stock Exchange.
- (c) This company was previously owned by T S Canada, a company owned by Mr. Lau See Hoi, Mr. Chong Tak Wah and Mr. Wong Weng, all are directors of the Company. Pursuant to an agreement, the Group acquired on 30th June 1999 all the equity interests in Ying Zhi Xun from T S Canada, at a consideration of HK\$6,000,000. Ying Zhi Xun has become a wholly owned subsidiary since then.
- (d) T S International entered into an agreement on 15th November 1999 for a term of three years with T S Telecom Ltd. ("T S Telecom"), the ultimate holding company, under which the latter will provide research and development services to the Group at a monthly charge which is calculated on the basis of the costs to be incurred by T S Telecom for and in connection with the provision of such services, provided that the annual service fee payable shall in total not exceed HK\$4,000,000. For the year ended 31st March 2000, no research and development fee was paid to T S Telecom.

The directors of the Company are of the opinion that the above transactions are based on normal commercial terms in the normal course of the Group's business.

27 Ultimate Holding Company

The directors regard T S Telecom Limited, a company incorporated in Canada and listed on the Alberta Stock Exchange, as being the ultimate holding company.

28 Approval of Accounts

The accounts were approved by the board of directors on 19th June 2000.