



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

Annual Report 2000-2001

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.

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CORPORATE PROFILE



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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

	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	78,818	96,845	107,620	141,631
Gross Profit	47,616	72,875	49,153	55,978
Profit before Taxation	1,086	38,027	12,984	17,332
Profit Attributable to Shareholders	2,096	40,340	11,115	15,096
Total Assets	231,821	194,665	63,940	56,381
Total Liabilities	30,602	13,324	13,063	16,619
Minority Interests	5,876	934	—	—
Net Assets	195,343	180,407	50,877	39,762



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CHAIRMAN'S STATEMENT

Dear Shareholders:

It has been ten years since the establishment of our business operations. Looking back, we achieved a lot to grow the Group. This year, we continue to pursue our mission to maximize return for shareholders by transforming value, encouraging innovations and strengthen corporate governance and operations.

Business Review

During the year, T S Telecom worked hard to manage the shifting business environment of China's telecom maintenance equipment market. The restructuring and asset reorganizations of mainland's local telephone bureaus were still hampering the approval of contracts and projects which were originally pending negotiation, causing the decline of our revenue and profit for the year.

While business of our power monitoring systems for fixed line telecom networks were stagnating, we did well in the launching of our new products, PowerCom BSMS and Gas Turbine Generators during the year. Both of them are well received by customers. We expected a significant portion of our business growth would come from these two new products in the coming years.

PowerCom BSMS is a state-of-the-art power and environment monitoring system for mobile base stations. Mobile phone subscribers are growing fast and the need to ensure service quality of mobile phone systems is imminent. While the mobile telecommunication technologies evolve rapidly, our research and development team worked very hard to stay ahead of such evolution. We believe that 3G mobile technologies will revolutionize the way we communicate. So our researchers are now making sure that our next generation PowerCom BSMS can revolutionize the monitoring of the 3G mobile base stations.

Launching gas turbine generators was the key business initiative during the year. We completed the productions of the first two units of stationed gas turbine generator, capable of generating a total of 6,000 kilowatt of electricity output. Our joint venture factory in Harbin is in the process of producing the first unit of mobile gas turbine generator, capable of generating 1,000 kilowatt of electricity output. While our plan is to offer a full range of genset products, we are seeking partnership opportunity with an innovative micro-turbine manufacturer to provide generators capable of generating 28 to 300 kilowatt of electricity output.

For the international market, we are proud to state that we are invited by our strategic partner in France to develop the mobile gas turbine genset market in North America. A more solid game plan will be developed in late 2001.



CHAIRMAN'S STATEMENT

Prospect

Telecommunications will no doubt continue to be the major growth area in the coming years. With China's accession to the World Trade Organization and rapidly increasing domestic demand, business opportunities from the telecom sector will continue to grow.

The broadening of our products offering allows the Group to increase the flow of products into our customer base. In the near run, we expect to achieve significant growth as the Group continues to implement our marketing initiatives and devote resources on research and development of new technologies. With a strong customer base and sound products, we are confident about the Group's prospect.

We also expect our business in gas turbine generators to grow. The current energy revolution could prove to be one of the most significant development of the 21st century, overshadowing in some respect the lasting impact of the computer revolution of the past decade. The energy shortage experienced in California is an early bell-ringing phenomenon of an energy crisis in the making, particularly in certain regions of the developing world where the infrastructure of power generating systems is facing chronic degradation and obsolescence. Concerns over the environment from mega-projects have encouraged the development of new, clean, on-site burning technology, reversing a long-standing trend towards central generation which we hope to vigorously accelerate through the introduction of a complete line of reliable, long life, low emission gensets for distributed power generation. Hence, we plan to devote considerable resource to cultivate this opportunity.

Appreciation

The past ten years have been an exciting journey with great opportunities, challenge and reward. On behalf of the Directors, I would like to extend our gratitude and sincere appreciation to all management and staff members for their hard work and dedication throughout the past decade.

Lau See Hoi
Chairman

Hong Kong, 27th June 2001



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MANAGEMENT DISCUSSION AND ANALYSIS



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Financial Review

For the year ended 31st March 2001, the Group recorded a total turnover of HK\$78.8 million and profit attributable to shareholders of HK\$2.0 million as compared to a turnover of HK\$96.8 million and a profit of HK\$40.3 million for the corresponding period of last year.

The reduction in turnover is largely attributable to the continuing restructuring of the local telephone bureaus in the mainland. The decrease in profit is mainly due to the reduction in revenue and increase of overheads arising from the increase in payroll expenses, new office expenses, and expenditures from marketing activities.

The Group remains strong in cash flow management. As of 31st March 2001, the Group had cash of HK\$100,312,000 or HK\$0.36 per share.

Business Review

Overview

In 2000, the restructuring of local telephone bureaus in the PRC are still progressing at varying pace and hence affect our turnover. Nonetheless, the Group managed to capture new business from the launch of our PowerCom BSMS to the two mobile operators and shipment of our first two units of gas turbine generators for a newly established telecom station in Shantou.

Despite the slowdown experience during the year, management is optimistic in the future performance of the Group and its growth in the industry. Since 31st March 2001, the Group signed a total of approximately HK\$25,631,000 of new contracts.

Expanding into New Markets

The Mainland

The Group continued to expand its market coverage and customer base in the mainland by increasing headcount and implementing aggressive marketing strategies. Our marketing effort during the year mainly focused on developing relationship with the two mobile phone operators as well as the local telephone bureaus of second-tier cities and inland area as we believed significant business growth will come from these area.

Southeast Asia

During the year, we had discussions with enterprises in major Southeast Asia countries on cooperation venture. We were cautious that the economies of in the region had not fully recovered. Political turmoil in certain of countries had deterred us from making investment. Hence, the Group had decided to delay implementing its marketing effort for Southeast Asia.

MANAGEMENT DISCUSSION AND ANALYSIS

Launching new products

During the year, the Group had successfully launched two new products — PowerCom BSMS and gas turbine generators.

PowerCom BSMS

PowerCom BSMS was launched at the end of the first quarter. The Group managed to sign the first sales contract with the Shanghai branch of China United Telecommunications Corporation (“China Unicom”) in July, 2000. The sales contract includes a commitment from the Shanghai branch of China Unicom to dedicate the Group as its sole solution provider for monitoring systems of all mobile phone network control centers and base stations in Shanghai in the coming years.

In September, 2000, the Group signed sales contracts with the Wubei branch and Jilin branch of China Mobile Communication Corporation (“China Mobile”) to provide our PowerCom BSMS for their communication centers and remote base stations.

The Group is now actively in negotiation of signing additional contracts to provide PowerCom BSMS for other branches of China Mobile and China Unicom.

To anticipate future growth, the Group entered into an agreement in May, 2001 to acquire a real estate in Shenzhen for the purpose of expanding our capacity to assemble power monitoring systems.

Gas Turbine Generators

This new product was also launched at the end of the first quarter. The Group signed the first sales contract in July, 2000 to provide two units of our QD30C gas turbine generators of 6,000 kilowatt output power for a new fixed-network telephone station of the Shantou Telephone Bureau of China Telecom. The two generators were assembled by D&T Engineering Co., Ltd., the Group’s 45% equity joint venture factory in Harbin.

The Group subsequently signed another sales contract with a subsidiary of the Shanghai Branch of China Telecom to provide our QD10B series of mobile gas turbine generator.

The Group is actively marketing gas turbine generators in China and has received extremely positive feedback from telephone operators in the mainland. To cope with future production, the Group signed an agreement with a supplier, Turbomeca Asia Pacific Pte. Ltd., a worldwide leader in the design and manufacture of small and medium size gas turbines for industrial and military purposes, to acquire their 900 kilowatt to 1,500 kilowatt MAKILA-TI turboshaft gas turbine engine core in the next five years.



MANAGEMENT DISCUSSION AND ANALYSIS



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Forming new joint venture

In September, 2000 the Group, through a 51.25% owned subsidiary Cyber First Technology Limited ("Cyber First"), entered into an agreement with Beijing Zhongdian Yiping Science & Technology Limited to set up a new joint venture. The new joint venture Beijing Telecom Science-Soft Information Systems Co., Ltd. ("Beijing Telecom Science-Soft") is 80% owned by Cyber First and will engage in the development of large scale telecom software platforms and applications for fixed line and mobile telephone operators in China. Major telephone operators in the mainland will need to invest a significant amount to re-create or upgrade their network management applications in the area of resource management, billing and customer services, network & system maintenance and telephone directory. The Group believes that these capital investments are necessary for the mainland telecom bureaus to offer value added services or compete with foreign invested telecom operators upon the de-regulation of telecommunications industry pursuant to China entering into the World Trade Organization. The formation of the joint venture aims to capture this anticipated growth area in the telecom sector.

Placing of New Shares

In August, 2000, the Company placed 22,000,000 new ordinary shares with nominal value of HK\$0.1 to a group of independent investors for a consideration of HK\$1.0 each, totalling HK\$22,000,000. The Directors considered that it is in the best interest of the Company to raise further capital from the equity market by way of the share placement in order to enhance the capital base of the Company as well as to strengthen the cash flow of the Company.

The placing shares represent approximately 8.33% of the issued share capital of the Company before the placement and approximately 7.69% of the issued share capital of the Company as enlarged by the placement.

The net proceeds of the share placement are approximately HK\$20,369,000. The amount is used for general working capital of the Group.

Continuous Investments in Technologies

The Group has been continuously working on developing new products in fiber-optic technologies. The field trials for the Fibersmart system continues to progress within its highly ambitious framework of development. Part of this development programme includes a regiment of systems integration that further enhances the functionality of Fibersmart. While timing of Fibersmart field trials were longer than anticipated, the Group is confident in the system's market appeal, and the added future revenues that will be earned for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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 and HK\$25.1 million on various projects in the fiscal years 2000 and 2001, respectively as follows:

Fiscal year 2000

- 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.

Fiscal year 2001

- approximately HK\$1.0 million was applied to acquire fixed assets for the Group's headquarters in Hong Kong, PRC's headquarters in Shenzhen, and the branch offices in PRC.
- approximately HK\$11.0 million was used to acquire 3 demo units of gas turbine generators.
- approximately HK\$7.5 million was used to invest in a subsidiary, Beijing Telecom Science-Soft, which is principally engaged in the development of large scale telecom software platforms and applications for fixed line and mobile telephone operators in China.
- approximately HK\$5.6 million was used to conduct research and development activities.
- the balance of HK\$72.4 million was placed as deposits with banks in Hong Kong as at the year end.



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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>A new sales office was established in the city of Wuhan in March, 2000.</i></p> <p><i>A new China headquarters was established in the city of Shenzhen in March, 2000.</i></p> <p><i>The Group's headcount increased from 157 in December, 1999 to 233 in March, 2001.</i></p> <p><i>A Group was appointed to coordinate our marketing activities in Indonesia.</i></p>
<p>Vertical Integration for Core Business Lines</p>	<p><i>Our factory in Shenzhen is engaged in assembling all of our CDU and power monitoring systems.</i></p> <p><i>The formation of this 75% equity interest joint venture, KD Net, commenced business operations in January, 2001. It is principally engaged in the manufacture and distribution of telecommunications equipment and software.</i></p> <p><i>Our joint venture factory in Harbin has commenced the assembling of gas turbine generator sets since July, 2000.</i></p> <p><i>The Group signed an agreement to acquire a real estate in Shenzhen for the purpose of expanding our capacity to assemble power monitoring systems in May, 2001.</i></p>

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
New Product Development	<p>Broadband network access equipment – <i>The Group continued to work actively to develop product strategies and standards for the broadband applications and it is now rescheduled to be completed by March, 2002 due to the rapid changes in related technologies.</i></p> <p>Powercom BSMS – <i>It was launched at the end of June, 2000. The Group managed to sign sales contracts with the Shanghai branch of China Unicom and the Jilin and Wubei branch of China Mobile.</i></p> <p>Fibersmart – <i>The Group continued to conduct development of new products in fiber-optic technologies. The field trials for the Fibersmart system continues to progress within its highly ambitious framework of development.</i></p> <p>Gas Turbine Generators – <i>This new product was launched in June, 2000. The Group signed sales contracts in July, 2000 to provide two units of our QD30C gas turbine generators of 6,000 kilowatt output power for a new fixed-network telephone station of the Shantou Telephone Bureau of China Telecom and another sales contract to provide our QD 10B series to a subsidiary of Shanghai branch of China Mobile.</i></p> <p><i>An agreement was signed with a French company, a worldwide leader in the design and manufacture of small and medium size gas turbines for industrial and military purposes, to acquire their 900 kilowatt to 1,500 kilowatt gas turbine engine core in the next five years.</i></p>



COMPARISON OF THE BUSINESS OBJECTIVES SET OUT IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS



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Business Objectives as stated in the Prospectus dated 23rd November 1999	Actual Business Progress
<p>Formation of Joint Ventures</p>	<p>Beijing Kong Da Net Telecommunication Equipment Ltd. – <i>The formation of this 75% equity interest joint venture was completed in December, 1999. It is principally engaged in the manufacture and distribution of telecommunications equipment and software.</i></p> <p>D & T Engineering Co., Ltd. Harbin – <i>The new joint venture factory in Harbin has commenced the assembling of gas turbine generator sets since July, 2000.</i></p> <p>Beijing Telecom Science-Soft Information Systems Inc. – <i>The Group, through its 51.25% owned subsidiary formed a joint venture with Beijing Zhongdian Yiping Science & Technology Development Co., Ltd. to engage in the development of large scale telecom software platforms and applications for fixed line and mobile telephone operators in China.</i></p>

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. LAU See Hoi, aged 52, 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 41, 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 42, is the president of the Group. He is also the vice president and chief 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 ten 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 35, 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 reporting 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. KUONG Kin Wa, aged 32, 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 for Computer Telephony Integration System and a DSP engineer in Silicon Valley prior to joining the Group in 1995.

Mr. WONG Kai Tat, aged 49, 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, 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..



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT



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Independent Non-executive Directors

Mr. SZE, Tsai Ping Michael, aged 56, has over ten years' experience in the securities field. He was a former council member of the Stock Exchange of Hong Kong Limited. Currently, he is a member of the Cash Market Consultative Panel of Hong Kong Exchanges and Clearing Limited and he is a member of the Listing Committee, member of the Disciplinary Appeals Committee of the Stock Exchange of Hong Kong Limited. He is also a member of the Securities and Futures Appeal Panel and a committee member of the Hong Kong Stockbrokers Association Limited.

Mr. Sze was trained as a professional accountant in London, U.K., and he is a fellow member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Society of Accountants, a fellow member of the Association of Chartered Certified Accountants, and a Certified Public Accountant. He is also a fellow member of the Hong Kong Institute of Directors Limited. He was appointed as an independent non-executive director of the Group on 24th July 2000.

Mr. TAN, Ye Kai Byron, aged 32, was appointed as an independent non-executive director of the Group on 2nd January 2001. Mr. Tan is an investment adviser and has more than eight years experience in the fields of auditing, accounting and merchant banking. Mr. Tan holds a degree in accountancy from Deakin University in Australia. He is a member of Australian Society of CPAs and is a Chartered Financial Analyst.

Senior Management

Mr. HU Han Jiang, aged 32, is the director of the Group's research and development division. Prior to joining the Group in May, 1995, he had over four 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.

Ms. HOU Tie Juan, aged 37, is the deputy director of engineering responsible for the installation and maintenance of the Group's telecommunication monitoring products. Ms Hou graduated from the Automatic Control System Department of Beijing University of Aeronautics and Astronautics with bachelor and master degrees and was a lecturer in the university. She has extensive experience in computer programming and joined the Group in November, 1996.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management *(continued)*

Mr. WOUN Cheuk Tai, aged 32, is the general manager overseeing the operations and sales and marketing activities 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. NG, Chok Tung Jordan, aged 40, is the marketing manager responsible for the sales and marketing of the telecommunication monitoring products of the Group. Mr. Ng has over fourteen years' experience in sales and marketing of telecommunication products. He joined the Group in March, 2001.

Mr. ZHOU Ning, aged 32, is the general manager of information technology responsible for the development of the Group's telecommunication products and software systems. Mr. Zhou graduated from Beijing University of Posts & Telecommunications with a bachelor degree in engineering. Prior to joining the Group in March, 2001, he had over eight years' experience in information technology system in telecommunication industry.

Mr. FOO, Tin Chung Victor, aged 32, 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 system in the University of New South Wales. Prior to joining the Group in 1999, Mr. Foo was an auditor in PricewaterhouseCoopers and the finance manager of a listed company in Hong Kong. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Society of Accountants.

Mr. MAK, Ka Chun Billy, aged 30, is the finance manager overseeing the accounting activities of the Group. 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 2001 Annual General Meeting of the Company will be held at Suite 4002, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong on Friday, 3rd August 2001 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 2001.
2. To re-elect retiring directors and to authorize the board of directors to fix their remuneration.
3. To re-appoint auditors and to authorize the board of directors to fix their remuneration.
4. As 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



NOTICE OF ANNUAL GENERAL MEETING

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 earlier 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 General 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 own 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 exchanges 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;



NOTICE OF ANNUAL GENERAL MEETING

(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 earlier 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 law 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 General 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, 27th June 2001

Principal Place of Business in Hong Kong:

Suite 4002, Gloucester Tower

The Landmark

11 Pedder Street

Central

Hong Kong



NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. In order to qualify for attending for the forthcoming Meeting of the Company, all shares transfer accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Hong Kong 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. The Form of Proxy shall be in writing under your hand or your attorney duly authorized in writing, or in the case of a corporation, either under its Common Seal or under the hand of an officer, attorney or other person duly authorised to sign the same. Only one of the joint holders needs to sign.
3. In the case of joint shareholders, any one of such persons may vote at the Meeting either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding. The person whose name stands first in the register of members in respect of such share shall alone be entitled to vote in respect thereof.
4. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the Meeting. A proxy need not be a member of the Company.
5. To be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority, (if any) under which it is signed or a notarially certified copy of such power or authority, must be delivered at the Company's branch registrars in Hong Kong, Hong Kong 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.
6. Delivery of the form of proxy will not preclude a member from attending and voting at the Meeting if the member so desires.
7. A form of proxy for use at the Meeting is enclosed herewith.
8. 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 members of the Company together with the 2001 Annual Report.



CORPORATE INFORMATION



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Board of Directors

Executive Directors

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

Independent Non-Executive Directors

Mr. Sze Tsai Ping, Michael
Mr. Tan Ye Kai, Byron

Company Secretary

Mr. Hung, Randy King Kuen AHKSA, AICPA

Authorised Representatives

Mr. Hung, Randy King Kuen AHKSA, AICPA
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. Sze Tsai Ping, Michael
Mr. Tan Ye Kai, Byron

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, Hong Kong
Shanghai Commercial Bank, Hong Kong
The Bank of East Asia, PRC

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 Registrars and Transfer Office

Hong Kong 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 Adviser

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 Anderson Legal)
37th Floor, Gloucester Tower
The Landmark
11 Pedder Street
Central, Hong Kong

Stock Quote

8003

Web Site of the Company

<http://www.tstelecom.com>

REPORT OF THE DIRECTORS

The directors submit 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 2001.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 12 to the accounts.

An analysis of the Group's turnover and contribution to operating profit for the year by principal activity and the Group's turnover by principal market is set out in note 2 to the accounts.

Results and Appropriations

The results for the year are set out in the consolidated profit and loss account on page 30.

The directors do not recommend the payment of a dividend.

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\$280,000.

Fixed Assets

Details of the movements in fixed assets of the Group 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.

Borrowings

Details of the Group's borrowings are set out in note 25 to the accounts.

Four Year Financial Summary

A summary of the results of the assets and liabilities of the Group for the last four financial years is set out on page 3.



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REPORT OF THE DIRECTORS



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Purchase, Sale or Redemption of Shares

During the period from 11th December to 29th December 2000 and on 2nd January 2001, the Company repurchased 3,804,000 shares at a total cost of HK\$1,739,000 through The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Saved as disclosed above, the Company has not redeemed any of its shares during the year and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Placing of New Shares

In August, 2000, the Company placed 22,000,000 new shares to thirty-six independent placees. The placees are independent of and not connected with the directors, chief executives, substantial shareholders or management shareholders of the Company, its subsidiaries or its associated corporations. Details of the placing of new shares of the Company are set out in note 19(c) to the account.

Distributable Reserves

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 2001, 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\$145,855,000 (2000: 125,070,000).

REPORT OF THE DIRECTORS

Directors

The directors during the year were:

Executive directors

Mr. Lau See Hoi

Mr. Chong Tak Wah

Mr. Wong Weng

Mr. Hung, Randy King Kuen

Mr. Kuong Kin Wa

Mr. Wong Kai Tat (resigned on 24th July 2000 as a non-executive director and appointed on 24th July 2000 as an executive director)

Independent non-executive directors

Mr. Sze, Tsai Ping Michael (appointed on 24th July 2000)

Mr. Tan, Ye Kai Byron (appointed on 2nd January 2001)

Mr. Tang Chi Keung (resigned on 13th November 2000)

In accordance with Article 117 of the Company's Articles of Association, Mr. Wong Weng, Mr. Hung, Randy King Kuen, Mr. Tan, Ye Kai Byron retires at the forthcoming annual general meeting and, being eligible, offers themselves for re-election.

Biographical Details of Directors and Senior Management

Biographical details of directors and senior management are set out on pages 13 to 15.

Directors' Service Contracts

Each of the executive directors, except one, has entered into a service agreement 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. One of the executive directors has entered into a service agreement with the Company under which he is to act as an executive director for an initial term of one year commencing from 24th July 2000 and shall continue thereafter until terminated by either party giving to the other not less than three calendar months' notice in writing. All 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.

Each of the independent non-executive directors was appointed for a period commencing on his appointment date to the annual general meeting for the year ended 31st March 2001.



REPORT OF THE DIRECTORS



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Directors' Service Contracts *(continued)*

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 24(a)(ii) and 26 to the accounts.

Except as disclosed above, no contracts of significance 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 2001, which do not constitute connected transactions under the Rules Governing the Listing of Securities on Growth Enterprise Market ("GEM") of the Stock Exchange (the "GEM Listing Rules"), are disclosed in notes 26 (a) to (d) to the accounts.
- (b) Other related party transactions, which also constitute connected transactions under the GEM Listing Rules, required to be disclosed are as follows:
 - (i) T S International Company Limited ("T S International") has entered into an agreement commencing from 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 exceeding HK\$4,000,000. For the year ended 31st March 2001, research and development service fee amounting to HK\$795,000 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"), a related company in which a director of the Company has a beneficial interest, 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.

REPORT OF THE DIRECTORS



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Connected Transactions (continued)

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 2001, the interests of the directors, chief executives 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:

	Number of shares				Total	Approximate percentage holding of shares %
	Personal interests	Family interests	Corporate interests	Other interests		
Directors						
Mr. Lau See Hoi (note (i))	—	—	168,960,000	—	168,960,000	59.87
Mr. Chong Tak Wah (note (ii))	—	—	—	168,960,000	168,960,000	59.87
Mr. Wong Weng (note (iii))	—	—	—	168,960,000	168,960,000	59.87
Mr. Hung, Randy King Kuen	360,000	—	—	—	360,000	0.13

Notes:

- (i) These shares are held by T S Telecom, the ultimate holding company of the Company, in which Mr. Lau See Hoi holds 7,239,250 shares (representing approximately 32.92% of the issued share capital of T S Telecom).
- (ii) These shares are held by T S Telecom in which Mr. Chong Tak Wah holds 2,165,250 shares (representing approximately 9.85% of the issued share capital of T S Telecom).
- (iii) These shares are held by T S Telecom in which Mr. Wong Weng holds 2,885,500 shares (representing approximately 13.12% of the issued share capital of T S Telecom).

Save as disclosed above, none of the directors, chief executives 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 2001 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.

REPORT OF THE DIRECTORS

Directors' Interests in Equity Securities *(continued)*

(b) Share options

As at 31st March 2001, 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 2001, 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 price of the options is Canadian dollar 0.50 per share expiring on 6th September 2004. The number of outstanding options as at 31st March 2001 is as follows:

Name of director	As at 31st March 2000	Exercised during the year	As at 31st March 2001
Mr. Lau See Hoi	400,000	400,000	—
Mr. Chong Tak Wah	300,000	300,000	—
Mr. Wong Weng	300,000	300,000	—

No option had been granted during the year.

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 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.



REPORT OF THE DIRECTORS



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Substantial Shareholders

The register of substantial shareholders maintained under section 16 (1) of the Securities (Disclosure of Interests) Ordinance shows that as at 31st March 2001, 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 interest of 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) in the shares capital of the Company as at 31st March 2001 and 26th June 2001 are summarized below:

	As at 31st March 2001	As at 26th June 2001
Dao Heng Securities's directors	130,000	—
Dao Heng Securities	1,000,000	1,000,000
Dao Heng Securities's associates	4,902,000	4,902,000
Total	6,032,000	5,902,000

Pursuant to the agreement dated 1st December 1999 entered into between the Company and Dao Heng Securities, Dao Heng Securities has received and will receive a 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.

REPORT OF THE DIRECTORS



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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	19%
— five largest customers combined	50%

Purchases

— the largest supplier	23%
— five largest suppliers combined	63%

None of the directors, their associates or any shareholders (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.

Board Practices and Procedures

The Company has complied with Board Practices and Procedures as set out in 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 GEM Listing Rules 5.23 and 5.24, an audit committee was established on 18th November 1999. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls. The audit committee has met four times during this year to review the Company's operating results, providing advice and recommendations to the Board.

Subsequent Events

Details of significant events which have been taken place subsequent to the balance sheet date are set out in note 27 to the accounts.

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, 27th June 2001



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 on pages 30 to 62 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 circumstances of the Company and the Group, 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 2001 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, 27th June 2001



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CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March 2001



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	Note	2001 HK\$'000	2000 HK\$'000
Turnover	2	78,818	96,845
Cost of sales		(31,202)	(23,970)
Gross profit		47,616	72,875
Other revenues	2	6,322	5,844
Selling and distribution costs		(4,392)	(7,683)
Administrative expenses		(48,844)	(33,526)
Operating profit	3	702	37,510
Finance costs	4	(97)	(44)
Share of profit less loss of associated companies		481	561
Profit before taxation		1,086	38,027
Taxation credit	5	182	2,313
Profit after taxation		1,268	40,340
Minority interests		828	—
Profit attributable to shareholders	6 and 20	2,096	40,340
Dividend	7 and 20	—	17,000
Basic earnings per share	8	HK0.76 cent	HK19.11 cents

CONSOLIDATED BALANCE SHEET

As at 31st March 2001

	Note	2001 HK\$'000	2000 HK\$'000
Fixed assets	11	15,962	5,002
Investments in associated companies	13	12,755	12,358
Investment securities	14	3,468	—
Current assets			
Inventories	15	15,516	10,752
Trade receivables	16	77,262	41,897
Other receivables, prepayments and deposits		6,546	3,854
Pledged bank deposits	25	4,586	2,544
Bank balances and cash	17	95,726	118,258
		199,636	177,305
Current liabilities			
Trade payables		7,158	6,086
Other payables and accrued expenses		13,839	6,357
Due to an associated company	18	7,224	—
Current portion of obligations under a finance lease	21	100	100
Taxation payable		181	450
Short-term bank loan, secured	25	1,869	—
		30,371	12,993
Net current assets		169,265	164,312
Total assets less current liabilities		201,450	181,672
Financed by:			
Share capital	19	28,220	26,400
Reserves	20	167,123	154,007
Shareholders' funds		195,343	180,407
Minority interests		5,876	934
Long-term portion of obligations under a finance lease	21	175	275
Deferred taxation	22	56	56
		201,450	181,672

Lau See Hoi
Director

Hung, Randy King Kuen
Director



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BALANCE SHEET

As at 31st March 2001



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	Note	2001 HK\$'000	2000 HK\$'000
Investments in subsidiaries	12	140,842	40,921
Current assets			
Other receivables		55	449
Due from subsidiaries	18	113	9,893
Bank balances and cash		41,173	100,376
		41,341	110,718
Current liabilities			
Other payables		108	25
Due to a subsidiary	18	8,000	144
		8,108	169
Net current assets		33,233	110,549
Total assets less current liabilities		174,075	151,470
Financed by:			
Share capital	19	28,220	26,400
Reserves	20	145,855	125,070
		174,075	151,470

Lau See Hoi
Director

Hung, Randy King Kuen
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash (outflow)/inflow from operating activities	23(a)	(30,455)	28,433
Returns on investments and servicing of finance			
Interest received		5,876	5,138
Interest expenses		(97)	(44)
Dividend paid		—	(17,000)
Net cash inflow/(outflow) from returns on investments and servicing of finance		5,779	(11,906)
Taxation			
Hong Kong profits tax refunded		—	1,914
Overseas taxation paid		(3)	(344)
Total taxation (paid)/refunded		(3)	1,570
Investing activities			
Sale of fixed assets		1	112
Purchase of investment securities		(5,290)	—
Purchase of fixed assets		(12,723)	(2,586)
Investment in an associated company		—	(1,267)
Purchase of a subsidiary	23(d)	—	(5,296)
Net cash outflow from investing activities		(18,012)	(9,037)
Net cash (outflow)/inflow before financing		(42,691)	9,060
Financing	23(b)		
Issue of ordinary shares		22,000	118,800
Capital injection from minority shareholders		1,871	934
New/(repayment of) bank loan		1,869	(81)
Capital element of finance lease payments		(100)	(135)
Share issue/repurchase expenses		(1,700)	(12,875)
Repurchase of ordinary shares		(1,739)	—
Net changes in bank deposits pledged		(2,042)	(1,566)
Net cash inflow from financing		20,159	105,077



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CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2001



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	2001 HK\$'000	2000 HK\$'000
(Decrease)/increase in cash and cash equivalents	(22,532)	114,137
Cash and cash equivalents at 1st April	118,258	4,121
Cash and cash equivalents at 31st March	95,726	118,258
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	95,726	118,258

CONSOLIDATED STATEMENT OF RECOGNIZED GAINS AND LOSSES

For the year ended 31st March 2001

	Note	2001 HK\$'000	2000 HK\$'000
Profit for the year	20	2,096	40,340
Deficit on revaluation of investment securities	20	(1,822)	—
Total recognized gains and losses		274	40,340
(Goodwill)/negative goodwill taken directly to reserves	20	(3,899)	265
		(3,625)	40,605



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NOTES TO THE ACCOUNTS



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2000-2001

1 Principal Accounting Policies

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

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment securities, in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(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 recognized 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 diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE ACCOUNTS

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) Goodwill/negative goodwill

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

Negative goodwill represents the excess of the fair values ascribed to the separable net assets of a subsidiary acquired over the purchase consideration 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	20% — 25%
Motor vehicles	25%



NOTES TO THE ACCOUNTS

1 Principal Accounting Policies *(continued)*

(e) Property, plant and equipment *(continued)*

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalized 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 recognized in the profit and loss account.

(f) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards 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.



NOTES TO THE ACCOUNTS

1 Principal Accounting Policies *(continued)*

(g) Investment securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

(h) Inventories

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

(i) 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.



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1 Principal Accounting Policies *(continued)*

(j) 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.

(k) 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.

(l) Revenue recognition

- (i) Revenue from the sale of goods is recognized 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 recognized when the services are rendered.
- (iii) Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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1 Principal Accounting Policies *(continued)*

(m) Retirement benefit costs

The group's contributions to the defined contribution retirement schemes are expensed as incurred. The assets of the scheme are held separately from those of the group in independently administered funds.

(n) Research and development costs

Research and development costs are expensed as incurred.

(o) 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 capitalized 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 and gas turbine generators. Revenues recognised during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Sales of goods, net of discounts and value-added tax	78,818	96,253
Rendering of maintenance services	—	592
	78,818	96,845
Other revenues		
Interest income		
— on subscription monies <i>(note)</i>	—	3,457
— on bank deposits	5,849	2,149
Others	473	238
	6,322	5,844
Total revenues	85,140	102,689

Note: This represents interest income on subscription monies received from the initial public offering of the Company's shares during the year ended 31 March 2000.

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2 Revenue and Turnover (continued)

An analysis of the Group's turnover and contribution to operating profit for the year by principal activity is as follows:

	Turnover		Operating profit	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Principal activities:				
Telecommunications products	60,878	96,845	32,710	62,706
Gas turbine generators	17,940	—	3,655	—
	78,818	96,845	36,365	62,706
Less: unallocated costs			(35,663)	(25,196)
Operating profit			702	37,510

An analysis of the Group's turnover by principal market is as follows:

	Turnover	
	2001 HK\$'000	2000 HK\$'000
Principal markets:		
Mainland China	77,438	92,233
Hong Kong and Macau	1,380	4,612
	78,818	96,845

NOTES TO THE ACCOUNTS

3 Operating Profit

Operating profit is stated after charging the following:

	2001 HK\$'000	2000 HK\$'000
Staff costs (inclusive of directors' emoluments)	19,360	13,805
Research and development costs	5,577	2,477
Operating leases in respect of land and buildings	3,305	2,683
Depreciation:		
Owned fixed assets	1,633	1,072
Leased fixed assets	118	51
Auditors' remuneration	662	632
Retirement benefit costs	298	65

4 Finance Costs

	2001 HK\$'000	2000 HK\$'000
Interest on short-term bank loan and overdrafts	70	—
Interest on other loans wholly repayable within five years	—	35
Interest element of a finance lease	27	9
	97	44



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NOTES TO THE ACCOUNTS

5 Taxation Credit

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

	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax		
— Over provisions in prior years	—	2,737
Overseas taxation		
— Provisions for the year	—	(366)
— Over provisions in prior years	266	82
	266	(284)
	266	2,453
Share of taxation attributable to an associated company	(84)	(140)
	182	2,313

- (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 (2000: nil).
- (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 Group's PRC subsidiaries, T S Telecom (Shenzhen) Company Limited and Ying Zhi Xun Telecom Equipment (Shenzhen) Co. Ltd., 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 of income tax for the following three years. The first profit making year, for tax purposes, for the PRC subsidiaries is the year ended 31st December 1999.

Another subsidiary, Beijing Kong Da Net Telecommunication Equipment Ltd., is under the Income Tax Law of the PRC for Enterprises with Foreign Investment, entitled to an income tax holiday for three years from the year ended 31st December 2000 and a 50% reduction of income tax rate for the following three years.



NOTES TO THE ACCOUNTS

5 Taxation Credit *(continued)*

(iii) *(continued)*

A subsidiary, Beijing Telecom Science-Soft Information System Co., Ltd., and an associated company, D&T Engineering Co., Ltd., Harbin, 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\$4,044,000 (2000: HK\$4,624,000).

7 Dividend

The directors do not recommend the payment of a final dividend.

The dividend in the consolidated profit and loss account for the year ended 31st March 2000 amounting to HK\$17,000,000 was paid by a subsidiary to its then shareholders prior to the group reorganization 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\$2,096,000 (2000: HK\$40,340,000) and the weighted average number of 275,919,589 (2000: 211,127,473) ordinary shares in issue during the year. In determining the weighted average number of shares, a total of 3,500,000 shares issued for the establishment of the Company and reorganization of the Group and a further 181,300,000 shares being the capitalization shares issued immediately followed by the new issue of shares to the public were deemed to have been issued since 1st April 1999.

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



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9 Retirement Benefit Costs

The Group has participated in the mandatory provident fund (the "fund") for its employees in Hong Kong. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit costs charged to profit and loss account represents contribution paid and payable by the Group to the fund. The assets of the fund are held separately from those of the Group in an independently administered fund.

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.

Total contributions made by the Group during the year ended 31st March 2001 amounted to HK\$298,000 (2000: HK\$65,000).

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:

	2001 HK\$'000	2000 HK\$'000
Fees	336	102
Other emoluments:		
Basic salaries, housing allowances and other allowances	7,855	3,399
Bonus shares (<i>note (i)</i>)	—	4,092
Benefit from exercise of ultimate holding company's share options (<i>note (ii)</i>)	4,462	1,108
	12,653	8,701

NOTES TO THE ACCOUNTS

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

(a) Directors' emoluments *(continued)*

- (i) 13,200,000 bonus shares of HK\$0.1 each in the Company were granted to certain directors by the capitalization 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 ended 31st March 2000. 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 ended 31st March 2001, certain directors exercised their options to subscribe for 1,000,000 (2000: 255,000) ordinary shares in the ultimate holding company. Each of the options entitles the holder to subscribe for one common share at Canadian dollar 0.5 each (2000: Canadian dollar 0.38 each) in the ultimate holding company at any time prior to 6th September 2004.

The three independent non-executive directors received director's fees for the year ended 31st March 2001 of approximately HK\$151,000 (2000: not applicable), HK\$91,000 (2000: HK\$51,000), HK\$60,000 (2000: not applicable) and HK\$34,000 (2000: HK\$51,000). 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 2001 of approximately HK\$1,950,000 (2000: HK\$1,299,000), HK\$1,560,000 (2000: HK\$4,283,000), HK\$1,560,000 (2000: HK\$600,000), HK\$1,430,000 (2000: HK\$550,000), HK\$910,000 (2000: HK\$759,000) and HK\$445,000 (2000: not applicable).

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 in the Company subject to the terms and conditions stipulated therein. As at 31st March 2001, no option had been granted under the share option scheme.



NOTES TO THE ACCOUNTS



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

(b) Five highest paid individuals

For the year ended 31st March 2001, the five highest paid individuals include 5 directors (2000: 3 directors and 2 employees).

For the year ended 31st March 2000, two of the employees mentioned above were appointed as directors during that year, and their emoluments in the capacity as employees and directors were included in the employee's and directors' emoluments respectively.

	2001 HK\$'000	2000 HK\$'000
Directors	—	6,341
Employees		
— basic salaries, housing allowance and other allowances	—	1,564
— bonus shares (<i>note</i>)	—	818
	—	8,723

Note: 2,640,000 bonus shares of HK\$0.1 each in the Company were granted to certain employees by the capitalization 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 ended 31st March 2000. The total value of the bonus shares at the date of grant is estimated to be around HK\$818,000.

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

Emolument bands	Number of individuals	
	2001	2000
HK\$nil — HK\$1,000,000	—	2

NOTES TO THE ACCOUNTS

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 2000	1,100	1,849	5,711	878	9,538
Additions	—	419	12,241	63	12,723
Disposals	—	—	(37)	—	(37)
At 31st March 2001	1,100	2,268	17,915	941	22,224
Accumulated depreciation:					
At 1st April 2000	38	1,106	3,316	76	4,536
Charge for the year	22	255	1,253	221	1,751
Disposals	—	—	(25)	—	(25)
At 31st March 2001	60	1,361	4,544	297	6,262
Net book value:					
At 31st March 2001	1,040	907	13,371	644	15,962
At 31st March 2000	1,062	743	2,395	802	5,002

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

At 31st March 2001, the net book value of fixed assets held by the Group under a finance lease amounted to approximately HK\$314,000 (2000: HK\$432,000).



NOTES TO THE ACCOUNTS

12 Investments in Subsidiaries - Company

	2001 HK\$'000	2000 HK\$'000
Investments at cost:		
Unlisted shares	48,921	40,921
Amount due from a subsidiary	91,921	—
	140,842	40,921

The amount due from a subsidiary is unsecured, interest-free and will not be demanded for repayment within the next twelve months.

The following is a list of the subsidiaries at 31st March 2001:

Name	Country/ place of incorporation	Principal activities and place of operation	Particulars of issued share capital and registered capital	Effective 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%
Infoland Technology Limited	British Virgin Islands	Investment holding in Hong Kong	320 ordinary shares of US\$1 each	51.25%
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%



NOTES TO THE ACCOUNTS

12 Investments in Subsidiaries - Company (continued)

Name	Country/ place of incorporation	Principal activities and place of operation	Particulars of issued share capital and registered capital	Effective interest held
Indirectly held by the Company (continued)				
TSTT (Canada) Ltd	Canada	Investment holding in Canada	100 common shares of CAD 1 each	100%
T S Electric and Power Co., Ltd.	Hong Kong	Investment holding in Hong Kong	10,000 ordinary shares of HK\$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%
Cyber First Technology Limited	Hong Kong	Investment holding in Hong Kong	10,000 ordinary shares of HK\$1 each	51.25%
Beijing Telecom Science-Soft Information System Co., Ltd. ("Beijing Telecom Science-Soft")	PRC	Development of large scale telecom software platforms	Registered capital RMB10,000,000	41%

Ying Zhi Xun, T S Shenzhen, KD Net and Beijing Telecom Science-Soft 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 2000 and 2001 have been used after making adjustments as appropriate for compliance with accounting principles generally accepted in Hong Kong.



NOTES TO THE ACCOUNTS



13 Investments in Associated Companies

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	12,755	12,358
Unlisted shares, at cost	4,755	4,755

The following is a list of associated companies at 31st March 2001:

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%

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 2000 and 2001 have been used after making adjustments as appropriate for compliance with accounting principles generally accepted in Hong Kong.

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14 Investment Securities

	Group	
	2001 HK\$'000	2000 HK\$'000
Equity securities, at market value Listed in Hong Kong	3,468	—

15 Inventories, at cost

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	2,318	2,627
Work in progress	2,561	2,200
Finished goods	10,637	5,925
	15,516	10,752

16 Trade Receivables

Included in the balance are trade receivables totalling HK\$Nil (2000: HK\$3,824,000) due by an associated company and the retention monies totalling approximately HK\$18,253,000 (2000: HK\$9,956,000) which is expected to be settled more than twelve months from the balance sheet date.

17 Bank Balances and Cash

Included in the balance is an amount of HK\$7,909,000 (2000: HK\$5,006,000) which is denominated in Renminbi. Renminbi is not a freely convertible currency.

18 Due from/Due to Group Companies/Due to an associated company

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

NOTES TO THE ACCOUNTS

19 Share Capital

	Company	
	2001 HK\$'000	2000 HK\$'000
Authorised: 800,000,000 ordinary shares of HK\$0.1 each	80,000	80,000
Issued and fully paid:	No. of shares (in thousand)	HK\$'000
Shares exchange upon the reorganization (note (a))	3,500	350
Issues of shares (note (b))	260,500	26,050
At 31st March 2000	264,000	26,400
At 1st April 2000	264,000	26,400
Placement of new shares (note (c))	22,000	2,200
Repurchase of shares (note (d))	(3,804)	(380)
At 31st March 2001	282,196	28,220

- (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. 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. On 18th November 1999, four shares were allotted and issued for cash at par.
- (b) On 18th November 1999, pursuant to written resolutions of the shareholders of the Company:
- 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;
 - 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
 - Out of the share premium account created as a result of the New Issue, HK\$18,130,000, was capitalized 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.
- (c) In August, 2000, the Company placed 22,000,000 new shares of HK\$0.1 each to certain independent third parties at a price of HK\$1.00 per share. The market price of the Company's shares was HK\$1.17 per share on the last transaction date before the placement took place. The new shares rank *pari passu* in all respects with the existing issued shares of the Company. The net proceeds of approximately HK\$20,369,000 are used as additional working capital to the Group.
- (d) During the year, 3,804,000 ordinary shares of HK\$0.1 each were repurchased on the Stock Exchange at an aggregate price of HK\$1,739,000. The shares were cancelled by the Company.



NOTES TO THE ACCOUNTS

20 Reserves

Group	Share premium HK\$'000	PRC	Merger difference HK\$'000	Investment revaluation HK\$'000	Negative goodwill HK\$'000	Retained earnings HK\$'000	Total HK\$'000
		statutory reserves HK\$'000					
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)
Capitalization 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
At 1st April 2000	79,875	5,449	(250)	—	265	68,668	154,007
Premium on issue of shares	19,800	—	—	—	—	—	19,800
Repurchase of shares	(1,359)	—	—	—	—	—	(1,359)
Share issue/repurchase expenses	(1,700)	—	—	—	—	—	(1,700)
Goodwill written off	—	—	—	—	(265)	(3,634)	(3,899)
Deficit on revaluation	—	—	—	(1,822)	—	—	(1,822)
Profit for the year	—	—	—	—	—	2,096	2,096
Transfer between reserves	—	190	—	—	—	(190)	—
At 31st March 2001	96,616	5,639	(250)	(1,822)	—	66,940	167,123
Company and subsidiaries	96,616	1,831	(250)	(1,822)	—	61,638	158,013
Associated companies	—	3,808	—	—	—	5,302	9,110
At 31st March 2001	96,616	5,639	(250)	(1,822)	—	66,940	167,123



NOTES TO THE ACCOUNTS



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 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.
- (b) The PRC statutory reserves represents transfers made to the general reserve fund and the enterprise development fund set up by certain subsidiaries and associated companies 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.

	Share premium HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Company			
At 1st April 1999	—	—	—
Surplus arising on issue of shares in exchange for shares in a subsidiary	40,571	—	40,571
Premium on the issue of shares	110,880	—	110,880
Share issue expenses	(12,875)	—	(12,875)
Capitalization issue	(18,130)	—	(18,130)
Profit for the year	—	4,624	4,624
At 31st March 2000	120,446	4,624	125,070
At 1st April 2000	120,446	4,624	125,070
Premium on the issue of shares	19,800	—	19,800
Repurchase of shares	(1,359)	—	(1,359)
Share issue/repurchase expenses	(1,700)	—	(1,700)
Profit for the year	—	4,044	4,044
At 31st March 2001	137,187	8,668	145,855

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21 Obligations under a Finance Lease

	Group	
	2001 HK\$'000	2000 HK\$'000
Obligations under a finance lease wholly repayable within five years	275	375
Current portion included in current liabilities	(100)	(100)
	175	275

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 (outflow)/inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	1,086	38,027
Share of profit less loss of associated companies	(481)	(561)
Depreciation charge	1,751	1,123
Loss on disposal of fixed assets	11	72
(Increase)/decrease in inventories	(4,764)	1,283
Decrease in amounts due from a related company and the ultimate holding company	—	21,862
Increase in trade receivables, other receivables, prepayments and deposits	(38,084)	(26,342)
Increase in trade payables, other payables and accrued expenses	8,554	35
Increase/(decrease) in amounts due to a fellow subsidiary and an associated company	7,224	(1,504)
Interest income	(5,849)	(5,606)
Interest expenses	97	44
Net cash (outflow)/inflow from operating activities	(30,455)	28,433

NOTES TO THE ACCOUNTS

23 Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Loans and obligations under a finance lease		Short-term bank loan	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April	106,275	—	934	—	375	110	—	81
New bank loan/(repayment of loans)	—	—	—	—	—	—	1,869	(81)
Minority interests in share of loss	—	—	(828)	—	—	—	—	—
Minority interests in a newly acquired subsidiary	—	—	3,899	—	—	—	—	—
Payment of capital element of a finance lease	—	—	—	—	(100)	(135)	—	—
Capital injection from minority shareholders	—	—	1,871	934	—	—	—	—
Issue of ordinary shares	22,000	118,800	—	—	—	—	—	—
Repurchase of ordinary shares	(1,739)	—	—	—	—	—	—	—
Share exchange upon the reorganization	—	350	—	—	—	—	—	—
Share issue/repurchase expenses	(1,700)	(12,875)	—	—	—	—	—	—
Inception of a finance lease	—	—	—	—	—	400	—	—
At 31st March	124,836	106,275	5,876	934	275	375	1,869	—



NOTES TO THE ACCOUNTS

23 Notes to the Consolidated Cash Flow Statement (continued)

(c) Purchase of a subsidiary

	2001 HK\$'000	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	8,000	704
Amount due to a related company	—	(1,032)
Trade and other payables	—	(1,397)
Minority shareholders' interests	(3,899)	—
	4,101	6,265
Goodwill/(negative goodwill)	3,899	(265)
	8,000	6,000

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

	2001 HK\$'000	2000 HK\$'000
Cash consideration	(8,000)	(6,000)
Bank balances and cash in hand acquired	8,000	704
Net cash outflow in respect of the purchase of a subsidiary	—	(5,296)



NOTES TO THE ACCOUNTS

24 Commitments

(a) Commitments under operating leases

- (i) At 31st March 2001, 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:

	2001 HK\$'000	2000 HK\$'000
Within one year	672	414
In the second to fifth year inclusive	1,459	1,002
	2,131	1,416

- (ii) In addition, 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 Group and T S Holdings. Half of the rental expenses of the premises is borne and paid by the Group 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.

(b) Financial commitments

At 31st March 2001, the Group had outstanding forward exchange contracts to buy European dollar amounted to approximately HK\$5,625,000 (2000: Nil).

25 Banking facilities

- (a) As at 31st March 2001, total banking facilities granted to the Group amounted to HK\$9,800,000 (2000: HK\$9,800,000). The facilities are supported by certain fixed deposits of the Group amounting to approximately HK\$2,586,000 (2000: HK\$2,544,000).
- (b) The short-term bank loan is wholly repayable within one year and is secured by a fixed deposits of the Group amounting to HK\$2,000,000 (2000: nil).



NOTES TO THE ACCOUNTS

26 Related Party Transactions

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

	Note	Group	
		2001 HK\$'000	2000 HK\$'000
Purchase from an associated company, D&T Engineering		9,346	—
Administrative service fees paid to T S Holdings	(a)	960	960
Commission expenses paid to a director	(b)	900	—
Sales to an associated company, Shanghai Hua Cheng		—	7,968
Acquisition of Ying Zhi Xun from T S Canada Inc. ("T S Canada")	(c)	—	6,000
Purchase of leasehold properties from a director	(d)	—	467
Research and development expenses charged by the ultimate holding company	(e)	795	—

- (a) Mr. Lau See Hoi, a director of the Company, has a beneficial interest in this company.
- (b) This represents commission paid to a firm in respect of the placement of the Company's shares as mentioned in note 19(c) to the accounts. The firm is controlled by Mr. Wong Kai Tat, a director of the Company.
- (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) 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.



NOTES TO THE ACCOUNTS



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26 Related Party Transactions *(continued)*

- (e) 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 exceeding HK\$4,000,000.

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 Subsequent events

On 25th May 2001, the Group entered into an agreement with an independent property developer in Shenzhen to purchase a property located in the PRC at a consideration of approximately HK\$7,850,000. The agreement is expected to be completed by 30th November 2001.

28 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.

29 Approval of Accounts

The accounts were approved by the board of directors on 27th June 2001.