

Annual Report **2001-2002**



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

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This report, for which the directors of T S Telecom Technologies Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to T S Telecom Technologies Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: - (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

# Contents

Corporate Profile	2
Financial Highlights	3
Chairman's Statement	4
Management Discussion and Analysis	6
Comparison of the Business Objectives set out in the Prospectus with Actual Business Progress	10
Biographical Details of Directors and Senior Management	13
Notice of Annual General Meeting	15
Corporate Information	20
Report of the Directors	21
Auditors' Report	29
Consolidated Profit and Loss Account	30
Consolidated Balance Sheet	31
Balance Sheet	32
Consolidated Cash Flow Statement	33
Consolidated Statement of Recognized Gains and Losses	34
Notes to the Accounts	35

## Corporate Profile

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

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 and gas turbine generators.

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

	<b>2002</b>	2001	2000	1999	1998
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<b><u>62,153</u></b>	<u>78,818</u>	<u>96,845</u>	<u>107,620</u>	<u>141,631</u>
Gross Profit	<b><u>22,114</u></b>	<u>47,616</u>	<u>72,875</u>	<u>49,153</u>	<u>55,978</u>
(Loss)/Profit before Taxation	<b><u>(56,634)</u></b>	<u>1,086</u>	<u>38,027</u>	<u>12,984</u>	<u>17,332</u>
(Loss)/Profit Attributable to Shareholders	<b><u>(56,942)</u></b>	<u>2,096</u>	<u>40,340</u>	<u>11,115</u>	<u>15,096</u>
Total Assets	<b><u>185,294</u></b>	<u>231,821</u>	<u>194,665</u>	<u>63,940</u>	<u>56,381</u>
Total Liabilities	<b><u>39,145</u></b>	<u>30,602</u>	<u>13,324</u>	<u>13,063</u>	<u>16,619</u>
Minority Interests	<b><u>5,926</u></b>	<u>5,876</u>	<u>934</u>	<u>—</u>	<u>—</u>
Net Assets	<b><u>140,223</u></b>	<u>195,343</u>	<u>180,407</u>	<u>50,877</u>	<u>39,762</u>

## Chairman's Statement

Dear Shareholders:

It was a difficult fiscal year for the Group. We were challenged by rigorous competitions from major domestic telecom equipment suppliers coupling with continuous restructuring of the telecom industry in the People's Republic of China ("PRC"). While the Group implemented contingency measures to minimize impact, the unpleasant state of affairs caused the Group to incur a loss position this year.

### **Business Review**

During the year, the Group continued to deliver quality products and customer services to telephone companies in the mainland.

The fixed line telephone operators finally announced the final stage of their restructuring plan, which called for reorganization of the country's telephone offices into two companies. While we were positive on the arrangements, we noted that the fixed line telephone operators continued to adopt conservative procurement and credit policies. As a result, demand of our products from fixed line operators was not as good as expected.

We were enthusiastic that our PowerCom BSMS were well received by the two major mobile phone operators. Nonetheless, competitions from domestic telecom equipment suppliers had intensified. With larger economies of scale, these competitors were willing to offer lower pricing and yet a longer credit period. In this respect, we responded with initiatives to enhance our product functionality and at the same time reduced our product costing so we can offer better and more valued added product solutions.

The Group kick-started a new marketing campaign for gas turbine generators this year with a conference held in Beijing Diayutai State Guesthouse. At the conference, we introduced our gas turbine generators to key personnel of the telecom industry as well as officials from provincial and national government and military units. We had then received numerous requests for follow-up meetings from the attendants. Such results reinforced our confidence that we had a bright future in providing gas turbine generators.

As part of our plan to expand on the international market, we are now distributing our cable monitoring equipment to telephone operators in New Zealand via our new sales office in the region. We are also working on a business plan to develop gas turbine generator market in Europe and North America with our strategic partners. While the domestic market place changed rapidly, the growth of the Group may rest on the development of a global market.

## Chairman's Statement

### **Prospect**

We deeply concern about the poor operating results. So we had implemented a new operation plan toward the end of the fiscal year. The new operation plan, aiming to boost revenue and bring the company back to profitability again, involved reorganizations of branch office personnel, introduction of new incentive schemes, and implementation of initiatives to control marketing and engineering expenses. We are also building a new business model with a new focus on expediting development of new products and establishing presence on the international market. With today's rapidly changing market place, the ability to realize quality management at the global standard is the sole key for survival. Thus in the face of this challenge, it is essential for our Group to continue to strive for excellence, further consolidate our foundation, and have ceaseless passion for reform.

### **Appreciation**

On behalf of the directors and officers of the Group, I would like to thank you for your continuing support to the Group.

**Lau See Hoi**

*Chairman*

Hong Kong, 24th June 2002

# Management Discussion and Analysis

## Result of Operations

For the fiscal year ended 31st March 2002, the Group reported a total turnover of HK\$62.2 million and loss attributable to shareholders of HK\$56.9 million as compared to a turnover of HK\$78.8 million and a profit of HK\$2 million in the previous year.

The loss position was mainly attributable to the decline in turnover of HK\$16.6 million, decline in gross profit margin to 36% and increases in approximately HK\$8.3 million of certain recurring expenditures and approximately HK\$20.3 million in certain non-recurring expenses.

The decline in turnover was the result of rigorous competitions from major domestic telecom suppliers coupling with lower than expected demand of power monitoring equipment amid continuous restructuring of fixed line operators and cooling off of investment sentiment of mobile operators in lieu of their clouding growth picture.

Our gross profit margin dropped to 36% from 60% in the previous year. The decline was mainly because significant portion of the Group's turnover this year came from mobile operators that required higher product and engineering costs resulting in lower profit margin than contracts from fixed line operators.

Recurring expenditures that contributed to the loss position mainly included an increase of HK\$6 million of payroll expenses as we increased the number of our headcount and salary base in the PRC during the year, an increase of HK\$1.6 million in research and development costs, an increase of HK\$0.7 million in rental payments and operating expenses of our new offices in Shenzhen and Wuhan.

Non-recurring expenses that contributed to the loss position totalled HK\$20.3 million primarily included a general provision for long aged accounts receivable of HK\$8.9 million, provision for long aged inventories of HK\$1.5 million, marketing expenses incurred for promoting our gas turbine generators of HK\$1.4 million, payments for non-recurring employment termination costs of HK\$3.8 million and provision for the impairment loss on investment securities of HK\$4.7 million

## Liquidity, Financial Resources and Capital Structure

As at 31st March 2002, our cash balance including pledged bank deposits was HK\$66.9 million. The cash balance declined from HK\$100.3 million in the previous year primarily due to the current year loss position, establishment of new offices, the making of a mobile gas turbine generator demo unit as well as purchasing of two gas turbine shafts inventory in preparation of closing additional contracts of mobile gas turbine generators.

The Group financed its operations and investing activities primarily by operating revenue, internal resources, balance of proceeds from our initial public offering, proceeds from a share placement exercised in August, 2000 and bank facilities.

As at 31st March 2002, the Group had a short-term bank loan of HK\$11.2 million denominated in Renminbi. The amount was primarily used to finance short-term cash flows for our China operations and finance the acquisition of a real estate property in Shenzhen, China to be used as our new head quarter in the mainland. The loan is wholly repayable within one year and is now secured by a fixed deposit of the Group. Save as this short-term bank loan, the Group had no bank financing other than certain finance leases totalling HK\$1.2 million as at 31st March 2002.



## Management Discussion and Analysis

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. As at 31st March 2002, the Group had no significant exposures under foreign exchange contracts, interest or currency swaps or other financial derivatives.

### **Charges on Group Assets**

As at 31st March 2002, the Group had a pledged bank deposit of HK\$14.3 million to a bank for banking facilities of HK\$9.8 million and a short-term bank loan of HK\$11.2 million.

### **Gearing Ratio**

The Group's gearing ratio, which was derived from the total borrowings to shareholder' funds, increase to 8.9% from 1.1% in the previous year.

### **Equity Investment**

In 2000, the Group invested HK\$5.3 million for shares of a listed company in Hong Kong. The shares are to be held as the Group's long-term investments.

Based on the latest share price and the net assets value of the investee company, the Group took the cumulative loss of HK\$4.7 million recorded in the revaluation reserve to the profit and loss account as impairment loss on the value of the shares.

### **Employees and Remuneration Policy**

As at 31st March 2002, the Group employed approximately 225 staff in the PRC, Hong Kong and New Zealand.

Staff remuneration is reviewed by the Group from time to time and increases are granted normally annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides staff benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

### **The Business of Telecommunications Monitoring Systems**

The Group's main business is in the distribution of monitoring systems to fixed line and mobile phone operators in China. The Group continued to implement aggressive marketing strategies to promote our products. While we were optimistic on the telecommunications market and had invested immensely on both technologies and human resources in anticipation of the completion of the restructuring of mainland telephone companies, our business for the current year was below our expectation. It was no doubt that the disappointing results were attributed to the rapidly changing business environment and increased competitions from domestic telecom equipment providers. While it has always been our policy not to accept unfavorable pricing and payment terms, our competitors are more inceptive on the contrary. The Group believes that our product quality and excelled customer services would prevail over our competitors. But we reckon that we are now operating in a more competitive market environment. Hence, we have been building a new business model to manage the new market environment. The new business model includes expediting new product developments, and exploiting new international markets.

## Management Discussion and Analysis

### **Developing Fiber-Optic Related Equipment**

Toward the end of the fiscal year, the Group initiated a soft launch of our fiber monitoring systems by extending field trial coverage with additional potential customers. We aimed to utilize more field trials to better position our systems, which would be competing with similar equipment being offered by certain multinational companies. The Group is also working on a plan to develop optical network equipment and photoelectric components, the essential ingredient for making fiber optic switching and maintenance equipment. We believe that optical network equipment and photoelectric components would become one of the Group's major business in the coming years.

### **Marketing of Gas Turbine Generators**

The Group is enthusiastic on the achievement in developing and marketing our gas turbine generators. In September, 2001, the Group delivered a 1,000KW mobile gas turbine generator to Shanghai Telephone Office to be used as emergency backup power for the communication systems of the Asia Pacific Economic Cooperation Conference ("APEC") held in Shanghai. In October, 2001, the Group held a conference in Beijing Diaoyutai Guesthouse to promote our full line of gas turbine generators. Attendants of the conference included key personnel from the mainland telecom operators as well as officials from provincial and national government and military units. The result of the conference was extremely positive and the Group has since started negotiating field trials, technical conferences and follow-up meetings with most attendants.

### **Alliance with Strategic Partners**

The Group has entered into an agreement with Sparton Technology Inc. ("Sparton"), our long term technical partner for an exclusive rights to distribute cable monitoring systems in Australia, New Zealand and South East Asia (except for Taiwan), in addition to our sole distribution right for the Greater China region.

Moreover, the Group has also aligned with a NASDAQ listed company to distribute the latter's micro-turbine generators in the Greater China region.

### **Establishments of New Offices**

The Group has acquired a real estate property in Shenzhen, China for HK\$7,842,000 as our new headquarters on the mainland. The new headquarters can accommodate 200 people and is the main site for our expanding research team as well as marketing personnel. The acquisition was financed by a short-term bank loan.

The Group has also established a new sales office in New Zealand to serve telecom operators in Australia and New Zealand in lieu of our new agreement with Sparton.

# 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, HK\$25.1 million and HK\$17.9 million on various projects in the fiscal years 2000, 2001 and 2002, 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 Telecommunications 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.

### Fiscal year 2002

- approximately HK\$2.0 million was used to acquire a new PRC's headquarters and fixed assets in Shenzhen.
- approximately HK\$8.7 million was used to acquire 5 units of gas turbine generators with different ranges of power output for further development.
- approximately HK\$7.2 million was used to conduct research and development activities.
- the balance of HK\$54.5 million was placed as deposits with banks in Hong Kong as at the year end.

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

Business Objectives as stated in the Prospectus dated 23rd November 1999	Actual Business Progress
<p>Increase market share of existing products by setting up additional sales offices, recruiting more sales personnel and forming strategic alliance with local manufacturers</p>	<p>A new sales office in Wuhan was established in March, 2000.</p> <p>A sales representative was appointed to coordinate our marketing activities in Indonesia.</p> <p>A distribution agreement was signed with Sparton for the exclusive right to distribute its cable monitoring equipment in Australia, New Zealand and South East Asia (except for Taiwan).</p> <p>A new office in New Zealand was being established.</p> <p>A strategic alliance with a NASDAQ listed company was formed to distribute microturbines in China.</p> <p>The Group's headcount increased from 157 in December, 1999 to 225 in March, 2002</p>
<p>Vertical Integration for Core Business Lines</p>	<p>Our factory in Shenzhen is engaged in assembling all of our CDU and power monitoring systems.</p> <p>The formation of a 75% equity interest joint venture, Beijing Kong Da Net Telecommunications Equipment Ltd., commenced business operations in January, 2001.</p> <p>Our joint venture factory in Harbin has commenced the assembling of gas turbine generator sets since July, 2000.</p> <p>The Group acquired a real estate in Shenzhen as our new China headquarters.</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><b>Broadband Network Access Equipment</b> — The Group discontinued its developments of broadband equipment due to the Group's changes in focus to develop photoelectric equipment.</p> <p><b>Powercom BSMS</b> — It was successfully launched at the end of June, 2000.</p> <p><b>Fibersmart</b> — The trail testing continues to progress within its highly ambitious framework of development.</p> <p><b>Gas Turbine Generators</b> — The Stationary Gas Turbine Generator was launched in June, 2000. Our first mobile gas turbine generator was deployed in September, 2001 as emergency backup power for communication systems for Asia Pacific Economic Cooperation Conference ("APEC") held in Shanghai.</p> <p><b>Photoelectric Equipment</b> — The Group has formed a strategic plan to develop photoelectric component and optical network equipment.</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
Formation of Joint Ventures	<p><b>Beijing Kong Da Net Telecommunications Equipment Ltd.</b> — The formation of this 75% equity interest joint venture was completed in December, 1999.</p> <p><b>D &amp; T Engineering Co., Ltd. Harbin</b> — The joint venture factory in Harbin has commenced the assembling of gas turbine generator sets since July, 2000.</p> <p><b>Beijing Telecom Science-Soft Information Systems Inc.</b> - The Group, through its 51.25% owned subsidiary formed a joint venture in December, 2000 to develop large scale telecom software platforms and applications for telephone operators in China. Nonetheless, the Group had decided to discontinue this joint venture in late September, 2001 due to irreconcilable difference with the joint venture partner. The joint venture is now being dissolved.</p>

## Biographical Details of Directors and Senior Management

### Directors

#### Executive Directors

**Mr. LAU See Hoi**, aged 53, is the chairman, chief executive officer 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. WONG Weng**, aged 43, 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 36, 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. WONG Kai Tat**, aged 50, 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..

#### Independent Non-executive Directors

**Mr. SZE, Tsai Ping Michael**, aged 57, 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, member of the Listing Committee and 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.

## Biographical Details of Directors and Senior Management

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, fellow member of the Hong Kong Society of Accountants, 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 33, 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 33, 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 38, is the deputy director of engineering responsible for the installation and maintenance of the Group's telecommunications 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.

**Mr. WOUN Cheuk Tai**, aged 33, is the deputy 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. FOO, Tin Chung Victor**, aged 33, 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 31, 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 2002 Annual General Meeting of T S Telecom Technologies Limited (the "Company") will be held at Suite 4002, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong on Friday, 2nd August 2002 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 2002.
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:

**"THAT:**

conditional on the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the shares of the Company to be issued pursuant to the exercise of any option grant under the new share option scheme of the Company ("Share Option Scheme")

- (i) the existing share option scheme of the Company adopted 18th November 1999 be and is hereby terminated; and
  - (ii) the Share Option Scheme be and is hereby approved and adopted and the directors of the Company be and are hereby authorized, at their absolute, to grant options and to allot and issue shares of the Company pursuant to the exercise of subscription rights attaching to any options."
5. As special business, to consider and, if thought fit, pass the following resolutions with or without amendments as an ordinary resolutions:

**"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 unissued 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;

## Notice of Annual General Meeting

- (b) the Directors be and are authorised during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount 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 paragraphs (a) and (b) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), (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 share option scheme or similar arrangement for the time being adopted for the grant or issue to employees and/or specified participants of the Company and/or any of its subsidiaries of options to subscribe for, or rights to acquire, shares of the Company or, (iv) any scrip dividend or similar arrangement providing for the allotment of shares in the capital of the Company in lieu of the whole or part of the cash payment for any dividend on shares of the Company pursuant to the Articles of Association of the Company from time to time, shall not in aggregate exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this Resolution; and
- (d) for the purpose of this Resolution:—

“Relevant Period” means the period from the time of passing of this Resolution until whichever is the earliest of:—

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws of the Cayman Islands 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

## Notice of Annual General Meeting

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).”

6. As special business, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

**“THAT:**

- (a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase (i) issued shares capital of the Company and (ii) other rights to subscribe for shares in the capital of the Company in accordance with laws and requirements and regulations of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the securities 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 Growth Enterprise Market of the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution; and
- (c) for the purpose of this Resolution:—

“Relevant Period” means the period from the passing of this Resolution until whichever is earliest of:—

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of the Cayman Islands 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.”

## Notice of Annual General Meeting

7. As special business, to consider and if, pass the following resolution as an ordinary resolution:

“**THAT** subject to the passing of the Ordinary Resolution Nos. 5 and 6 in the notice convening the meeting dated 24th June 2002, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with additional securities pursuant to Resolution No. 5 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. 6, 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, 24th June 2002

*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, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than forty-eight hours before the appointed time for holding the Meeting.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing, or if the appointor of a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.
3. Where there are joint registered holders of any share, any one of such persons may vote at any 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 any 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.
4. Any member of the Company entitled to attend and vote at a meeting of the Company 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. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint any number of proxies to attend in his stead at any one general meeting (or at any one class meeting).
5. 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, shall be delivered at the Company's branch registrars in Hong Kong, Hong Kong Registrars Limited, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than forty-eight hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument purposed to vote, or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting not less than forty-eight hours before the time appointed for the taking of the poll, and in default the instrument of proxy shall not be treated valid provided always that the chairman of the meeting may at his discretion direct that an instrument of proxy shall be deemed to have been duly deposited upon receipt of telex or cable or facsimile confirmation from the appointor that the instrument of proxy duly signed is in the course of transmission to the Company.
6. Delivery of any instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. A form of proxy for use at the Meeting is enclosed herewith.

## Corporate Information

### Board of Directors

#### Executive Directors

Mr. Lau See Hoi, Chairman and Chief Executive Officer  
Mr. Wong Weng, President  
Mr. Hung, Randy King Kuen, Chief Financial Officer  
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. Lau See Hoi

### 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  
Rooms 1901-5, 19th Floor, Hopewell Centre,  
183 Queen's Road East, Hong Kong.

### Auditors

PricewaterhouseCoopers  
*Certified Public Accountants*  
22/F Prince's Building  
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  
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 2002.

### **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 11 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

### **Results and Appropriations**

The results of the Group 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 of the Company during the year are set out in note 19 to the accounts.

### **Fixed Assets**

Details of the movements in fixed assets of the Group are set out in note 10 to the accounts.

### **Borrowings**

Details of the Group's borrowings are set out in note 24 to the accounts.

### **Five Year Financial Summary**

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

### **Purchase, Sale or Redemption of Shares**

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

## Report of the Directors

### Distributable Reserves

Pursuant to the Companies Law (1998 Revision) of the Cayman Islands and the Articles of Association of the Company, the 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 2002, 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\$145,516,000.

### Share Options

(i) *The Company*

On 18th November 1999, a share option scheme ("Existing Share Option Scheme") was approved at an extraordinary general meeting of the Company as an incentive to the employees under which the Board may, at their discretion, invites full time employees including executive directors of any member of the Group to take up options to subscribe for shares in the Company at a price to be determined by the Board which will not be less than (a) the closing price of the shares on the Growth Enterprise Market ("GEM") as stated in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") daily quotations sheet on the grant date, or (b) the average of the closing prices of the shares on the GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date, whichever is higher, provided that the subscription price shall not be lower than the par or nominal value of the shares.

The maximum number of shares in respect of which options may be granted (together with share issued pursuant to options exercised and shares in respect of which any options remain outstanding) under the Existing Share Option Scheme of the Company may not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options granted pursuant to the Existing Share Option Scheme.

No option may be granted to any employee which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares and when aggregated with the total number of shares already issued and remaining issuable to him under the Existing Share Option Scheme, would exceed 25% of the aggregate number of shares for the time being issued and are issuable under the Existing Share Option Scheme. The offer of a grant of share options may be accepted within 28 days from the date of the offer with payment of consideration of HK\$10.00 by the grantee. Each option gives the holder the right to subscribe for one share at the relevant exercise price.

Share options may be exercised during the three-year period commencing on the date on which the options is granted, and shall expire at the end of the three year period or 18th November 2009, whichever is earlier. The share options granted are not recognised in the accounts until they are exercised.



## Report of the Directors

### Share Options *(continued)*

From 1st September 2001, the Stock Exchange has amended Chapter 17 (Share Option Schemes) of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"). In accordance with the revised rules, it is possible for the Company to grant further options from its existing scheme only if the options granted are in accordance with the requirements of the new rules of Chapter 17. Accordingly, the Company will adopt a new share option scheme to replace the Existing Share Option Scheme to comply with the current statutory requirements after obtaining the shareholders' approval in the annual general meeting which will be held on 2nd August 2002.

As at 31st March 2002, no option had been granted under the Share Option Scheme.

(ii) *The ultimate holding company*

On 26th September 1997, a share option plan ("Share Option Plan") was approved at an extraordinary general meeting of the ultimate holding company as an incentive to the directors, officers, managements, consultants and employees of the ultimate holding company and its subsidiaries to take up options to subscribe for shares in the ultimate holding company at a price to be determined by the board of directors of the ultimate holding company. The exercise price will not be lower than 25% of the last daily closing price of the shares of the ultimate holding company on the TSX Venture Exchange.

The maximum number of shares in respect of which options may be granted (together with share issued pursuant to options exercised and shares in respect of which any options remain outstanding) under the Share Option Plan of the ultimate holding company, may not exceed 10% of the issued share capital of the ultimate holding company from time to time excluding for this purpose shares issued on exercise of options granted pursuant to the Share Option Plan.

The aggregate number of shares of ultimate holding company that may be reserved for issuance as incentive stock option or other stock purchase or option plans must not exceed 5% of the issued share of the ultimate holding company to any one individual, except consultants and persons employed in investor relations activities, at the time of granting. For both consultants and persons employed in investor relation activities, the aggregate number of options granted to them must not exceed 2% of the total number which were of shares already issued.

Share options may be exercised during the three-year period commencing on the date on which the option is granted, and shall expire at the end of the five year period. The share options granted are not recognised in the accounts until they are exercised.

No option had been granted or exercised during the year. As at 31st March 2002, there were no outstanding options under the Share Option Plan.

## Report of the Directors

### Directors

The directors during the year were:

#### Executive directors

Mr. Lau See Hoi

Mr. Wong Weng

Mr. Hung, Randy King Kuen

Mr. Wong Kai Tat

Mr. Chong Tak Wah (resigned on 15th July 2001)

Mr. Kuong Kin Wa (resigned on 1st July 2001)

#### Independent non-executive directors

Mr. Sze, Tsai Ping Michael

Mr. Tan, Ye Kai Byron

In accordance with Article 117 of the Company's Articles of Association, Mr. Wong Kai Tat retires by rotation and, being eligible, offers himself for re-election.

### Biographical Details of Directors and Senior Management

Biographical details of directors and senior management are set out on pages 13 and 14.

### Directors' Service Contracts

Each of the current 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.

Save as disclosed above, Mr. Wong Kai Tat who is proposed for re-election at the forthcoming annual general meeting does not have 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.

## Report of the Directors

### Directors' Interests in Contracts

Details of directors' interests in contracts are set out in notes 23(b)(ii) and 25 to the accounts.

Save as disclosed above, no contracts of significance in relation to the Group'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

Details of transactions regarded as connected transactions and required to be disclosed as defined under the GEM Listing Rules, 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 exceed HK\$4,000,000. For the year ended 31st March 2002, research and development service fee amounting to HK\$2,929,000 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, Mr. Lau See Hoi, 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 HK\$215,370. The license fee is calculated based on 50% of the total monthly rental and related estate management fee.
- (iii) A Consultancy Agreement dated 16th July 2001 was entered into between the Company and a former director, Mr. Chong Tak Wah for a period of six months with effect from 16th July 2001. Pursuant to the Consultancy Agreement, Mr. Chong Tak Wah agreed to provide consultancy services to the Company in relation to advising strategies for pending sales contract proposals in Mainland China and consultation upon other matters reasonably requested by the Company relating to its business in Mainland China. A fixed fee of HK\$2,200,000 was mutually agreed between the Company and Mr. Chong Tak Wah and which is calculated according to a certain percentage of the worth of the pending sales contracts in Mainland China.

## Report of the Directors

### 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 2002, the interests of the directors, chief executives 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 as notified to the Company were as follows:

Name of director	Number of ordinary shares of HK\$0.1 each				Total	Approximate
	Personal interests	Family interests	Corporate interests	Other interests		percentage holding of shares
						%
Mr. Lau See Hoi <i>(note (i))</i>	—	—	168,960,000	—	168,960,000	59.87
Mr. Wong Weng <i>(note (ii))</i>	—	—	—	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. Wong Weng holds 2,885,500 shares (representing approximately 13.12% of the issued share capital of T S Telecom).

Save as disclosed above, at no time during the year, the directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register as at 31st March 2002 maintained under Section 29 of the SDI Ordinance.

Saved as disclosed above, at no time during the year was the Company, its subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Report of the Directors

### Substantial Shareholders

The register of substantial shareholders maintained under section 16 (1) of the SDI Ordinance shows that as at 31st March 2002, 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 ordinary 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 that competed with or might compete with the business of the Group.

### Sponsor's Interests

To the best knowledge of the Company's sponsor, Dao Heng Securities Limited ("Dao Heng Securities"), its directors, employees or associates (as referred to in Note 3 Rule 6.35 of the GEM Listing Rules) did not have any interest in the securities of the Company as at 31st March 2002.

Pursuant to the sponsorship agreement dated 1st December 1999 entered into between the Company and Dao Heng Securities, Dao Heng Securities has received and shall receive an annual 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 management services to certain companies in the Group at a total monthly fee of HK\$80,000 for the period from 1st April 1998 to 14th November 2004. Mr. Lau See Hoi has a beneficial interest in T S Holdings.

### Major Customers and Suppliers

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

#### Sales

— the largest customer	25%
— five largest customers combined	51%

#### Purchases

— the largest supplier	18%
— five largest suppliers combined	48%

## Report of the Directors

### **Major Customers and Suppliers** *(continued)*

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**

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

### **Audit Committee**

Pursuant to Rules 5.23 and 5.24 of the GEM Listing Rules, 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 met four times during the year to review the operating results of the Company, provide advice and recommendations to the Board.

### **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, 24th June 2002

## Auditors' Report



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22nd Floor, Prince's Building  
Central, Hong Kong

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

*(incorporated in the Cayman Islands with limited liability)*

We have audited the accounts on pages 30 to 66 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 of the Group as at 31st March 2002 and of the Group's loss and cash flows 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, 24th June 2002

## Consolidated Profit and Loss Account

For the year ended 31st March 2002

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	2	<b>62,153</b>	78,818
Cost of sales		<b>(40,039)</b>	(31,202)
Gross profit		<b>22,114</b>	47,616
Other revenues	2	<b>2,231</b>	6,322
Selling and distribution costs		<b>(5,602)</b>	(4,392)
Administrative expenses		<b>(56,162)</b>	(48,844)
Other operating expenses		<b>(18,902)</b>	—
Operating (loss)/profit	3	<b>(56,321)</b>	702
Finance costs	4	<b>(670)</b>	(97)
Share of profit less loss of associated companies		<b>357</b>	481
(Loss)/profit before taxation		<b>(56,634)</b>	1,086
Taxation (charge)/credit	5	<b>(258)</b>	182
(Loss)/profit after taxation		<b>(56,892)</b>	1,268
Minority interests		<b>(50)</b>	828
(Loss)/profit attributable to shareholders	6 and 19	<b>(56,942)</b>	2,096
Basic (loss)/earnings per share	7	<b>HK(20.18 cents)</b>	HK0.76 cent



## Consolidated Balance Sheet

As at 31st March 2002

	Note	2002 HK\$'000	2001 HK\$'000
Fixed assets	10	<b>34,150</b>	15,962
Interests in associated companies	12	<b>12,957</b>	12,755
Investment securities	13	<b>578</b>	3,468
Current assets			
Inventories	14	<b>17,361</b>	15,516
Trade receivables	15	<b>45,134</b>	77,262
Other receivables, prepayments and deposits		<b>8,177</b>	6,546
Pledged bank deposits	24	<b>14,363</b>	4,586
Bank balances and cash	16	<b>52,574</b>	95,726
		<b>137,609</b>	199,636
Current liabilities			
Trade payables		<b>4,169</b>	7,158
Trade payables due to an associated company	17	<b>12,614</b>	7,224
Other payables and accrued expenses		<b>9,674</b>	13,839
Current portion of obligations under finance leases	20	<b>577</b>	100
Taxation payable		<b>267</b>	181
Short-term bank loan, secured	24	<b>11,215</b>	1,869
		<b>38,516</b>	30,371
Net current assets		<b>99,093</b>	169,265
Total assets less current liabilities		<b>146,778</b>	201,450
Financed by:			
Share capital	18	<b>28,220</b>	28,220
Reserves	19	<b>112,003</b>	167,123
Shareholders' funds		<b>140,223</b>	195,343
Minority interests		<b>5,926</b>	5,876
Long-term portion of obligations under finance leases	20	<b>629</b>	175
Deferred taxation	21	<b>—</b>	56
		<b>146,778</b>	201,450

**Lau See Hoi**  
Director

**Hung, Randy King Kuen**  
Director

## Balance Sheet

As at 31st March 2002

	Note	2002 HK\$'000	2001 HK\$'000
Investments in subsidiaries	11	157,493	140,842
Current assets			
Other receivables		27	55
Due from subsidiaries	17	112	113
Bank balances and cash		24,219	41,173
		<u>24,358</u>	<u>41,341</u>
Current liabilities			
Other payables		35	108
Due to subsidiaries	17	8,080	8,000
		<u>8,115</u>	<u>8,108</u>
Net current assets		<u>16,243</u>	<u>33,233</u>
Total assets less current liabilities		<u><u>173,736</u></u>	<u><u>174,075</u></u>
Financed by:			
Share capital	18	28,220	28,220
Reserves	19	145,516	145,855
		<u><u>173,736</u></u>	<u><u>174,075</u></u>

**Lau See Hoi**  
Director

**Hung, Randy King Kuen**  
Director

## Consolidated Cash Flow Statement

For the year ended 31st March 2002

	Note	2002 HK\$'000	2001 HK\$'000
Net cash outflow from operating activities	22(a)	<b>(24,161)</b>	(30,455)
Returns on investments and servicing of finance			
Interest received		<b>2,085</b>	5,876
Interest expenses		<b>(566)</b>	(70)
Interest element of finance lease rental payments		<b>(104)</b>	(27)
Net cash inflow from returns on investments and servicing of finance		<b>1,415</b>	5,779
Taxation			
Hong Kong profits tax refunded		<b>86</b>	—
Overseas taxation paid		<b>(159)</b>	(3)
Total taxation paid		<b>(73)</b>	(3)
Investing activities			
Purchase of fixed assets		<b>(19,393)</b>	(12,723)
Sale of fixed assets		—	1
Purchase of investment securities		—	(5,290)
Net cash outflow from investing activities		<b>(19,393)</b>	(18,012)
Net cash outflow before financing		<b>(42,212)</b>	(42,691)
Financing	22(b)		
Issue of ordinary shares		—	22,000
Capital injection from minority shareholders		—	1,871
New bank loan		<b>11,215</b>	1,869
Repayment of bank loan		<b>(1,869)</b>	—
Capital element of finance lease payments		<b>(509)</b>	(100)
Share issue/repurchase expenses		—	(1,700)
Repurchase of ordinary shares		—	(1,739)
Net changes in bank deposits pledged		<b>(9,777)</b>	(2,042)
Net cash (outflow)/inflow from financing		<b>(940)</b>	20,159
Decrease in cash and cash equivalents		<b>(43,152)</b>	(22,532)
Cash and cash equivalents at 1st April		<b>95,726</b>	118,258
Cash and cash equivalents at 31st March		<b>52,574</b>	95,726
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		<b>52,574</b>	95,726

## Consolidated Statement of Recognized Gains and Losses

For the year ended 31st March 2002

	Note	2002 HK\$'000	2001 HK\$'000
(Loss)/profit for the year	19	<b>(56,942)</b>	2,096
Impairment loss on investment securities charged to the profit and loss account	19	<b>1,822</b>	—
Deficit on revaluation of investment securities	19	—	(1,822)
Total recognized gains and losses		<b>(55,120)</b>	274
Goodwill taken directly to reserves	19	—	(3,899)
		<b>(55,120)</b>	<b>(3,625)</b>

# Notes to the Accounts

## 1 Principal Accounting Policies

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

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, the investment securities are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are applicable to the Group and, unless otherwise stated, are effective for accounting periods commencing on or after 1st January 2001:

SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	:	Segment reporting
SSAP 29	:	Intangible assets
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 31st March. Subsidiaries are those entities which are controlled, directly or indirectly by the Company who has the power to govern the financial and operating policies of those entities so as to obtain benefits from their activities.

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.

# Notes to the Accounts

## 1 Principal Accounting Policies *(continued)*

### (b) Group accounting *(continued)*

#### (i) Consolidation *(continued)*

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 unamortised goodwill or negative goodwill or goodwill or negative goodwill and exchange differences taken to reserves and which were 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 for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (ii) 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 and also, if any, goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

#### (iii) 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.

# Notes to the Accounts

## 1 Principal Accounting Policies *(continued)*

### (b) Group accounting *(continued)*

#### (iii) Translation of foreign currencies *(continued)*

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. Upon disposal of a foreign entity, the cumulative exchange is included in the profit and loss account as part of the gain or loss on disposal.

### (c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Buildings	2% – 2.7%
Leasehold improvements	25%
Furniture and equipment	20% – 25%
Motor vehicles	25%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in buildings, leasehold improvements and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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.

# Notes to the Accounts

## 1 Principal Accounting Policies *(continued)*

### (d) Assets under leases

#### (i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities.

The finance charges are charged to the profit and loss account over the lease periods.

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 risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### (e) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition.

Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provision as set out in 1(a) of SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.



# Notes to the Accounts

## 1 Principal Accounting Policies *(continued)*

### (e) Goodwill/negative goodwill *(continued)*

For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill has not be restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, prior to 1st January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

### (f) Investment securities

Investment securities which are held for non-trading purposes 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.

Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

### (g) 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.

### (h) Accounts receivable

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

# Notes to the Accounts

## 1 Principal Accounting Policies *(continued)*

### (i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

### (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) 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) Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (l) 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.

### (m) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Development costs that do not meet the above criteria are expensed as incurred.

# Notes to the Accounts

## 1 Principal Accounting Policies *(continued)*

### (n) 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.

### (o) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, interests in associated companies in the related segments, inventories and receivables, mainly exclude investments in securities and cash and bank balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

## Notes to the Accounts

### 2 Turnover, Revenue and Segment Information

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:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Turnover		
Sales of goods, net of discounts and value-added tax	<b>62,153</b>	78,818
Other revenues		
Interest income	<b>2,085</b>	5,849
Others	<b>146</b>	473
	<b>2,231</b>	6,322
Total revenues	<b>64,384</b>	85,140

#### Primary reporting format — business segments

The Group is organised into two main business segments:

- Telecommunications products
- Gas turbine generators

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

#### Secondary reporting format - geographical segments

The Group's operates in two main geographical areas :

Mainland China — telecommunications products and gas turbine generators

Hong Kong — telecommunications products

## Notes to the Accounts

### 2 Turnover, Revenue and Segment Information *(continued)*

#### Primary reporting format — business segments

	Telecommunications products 2002 HK\$'000	Gas turbine generators 2002 HK\$'000	Unallocated 2002 HK\$'000	Group 2002 HK\$'000
Turnover	57,360	4,793	—	62,153
Segment results	(25,082)	(3,394)	—	(28,476)
Interest income	—	—	2,085	2,085
Unallocated corporate expenses	—	—	(29,930)	(29,930)
Operating loss				(56,321)
Finance costs				(670)
Share of profit less loss of associated companies	568	(211)	—	357
Loss before taxation				(56,634)
Taxation charge				(258)
Loss after taxation				(56,892)
Minority interests				(50)
Loss attributable to shareholders				(56,942)
Segment assets	60,021	30,213	—	90,234
Interests in associated companies	11,956	1,001	—	12,957
Unallocated assets	—	—	82,103	82,103
Total assets				185,294
Segment liabilities	11,468	12,622	—	24,090
Unallocated liabilities	—	—	15,055	15,055
Total liabilities				39,145
Capital expenditure	464	7,027	13,342	20,833
Depreciation	756	—	1,546	2,302
Impairment charge on investment securities	—	—	4,712	4,712
Other significant non-cash expenses other than depreciation	10,360	—	—	10,360

## Notes to the Accounts

### 2 Turnover, Revenue and Segment Information *(continued)*

#### Primary reporting format — business segments

	Telecommunications products 2001 HK\$'000	Gas turbine generators 2001 HK\$'000	Unallocated 2001 HK\$'000	Group 2001 HK\$'000
Turnover	<u>60,878</u>	<u>17,940</u>	—	<u>78,818</u>
Segment results	<u>15,018</u>	<u>4,299</u>	—	19,317
Interest income	—	—	5,849	5,849
Unallocated corporate expenses	—	—	(24,464)	<u>(24,464)</u>
Operating profit				702
Finance costs				(97)
Share of profit less loss of associated companies	535	(54)	—	<u>481</u>
Profit before taxation				1,086
Taxation credit				<u>182</u>
Profit after taxation				1,268
Minority interests				<u>828</u>
Profit attributable to shareholders				<u>2,096</u>
Segment assets	85,770	25,646	—	111,416
Interests in associated companies	11,543	1,212	—	12,755
Unallocated assets	—	—	107,650	<u>107,650</u>
Total assets				<u>231,821</u>
Segment liabilities	18,820	7,529	—	26,349
Unallocated liabilities	—	—	4,253	<u>4,253</u>
Total liabilities				<u>30,602</u>
Capital expenditure	963	10,975	785	12,723
Depreciation	359	—	1,392	1,751

## Notes to the Accounts

### 2 Turnover, Revenue and Segment Information *(continued)*

#### Secondary reporting format — geographical segments

	Turnover	Total assets	Capital expenditure
	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000
Mainland China	58,565	47,986	18,841
Hong Kong	936	123,433	1,965
Other Asia Pacific Region	2,652	918	27
	<u>62,153</u>	<u>172,337</u>	<u>20,833</u>
Interests in associated companies		<u>12,957</u>	
Total assets		<u>185,294</u>	

#### Secondary reporting format — geographical segments

	Turnover	Total assets	Capital expenditure
	2001	2001	2001
	HK\$'000	HK\$'000	HK\$'000
Mainland China	77,438	92,856	12,591
Hong Kong	1,380	124,443	132
Other Asia Pacific Region	—	1,767	—
	<u>78,818</u>	<u>219,066</u>	<u>12,723</u>
Interests in associated companies		<u>12,755</u>	
Total assets		<u>231,821</u>	

## Notes to the Accounts

### 3 Operating (Loss)/Profit

Operating (loss)/profit is stated after charging the following:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Staff costs (including directors' remuneration)	<b>28,884</b>	19,360
Research and development costs	<b>7,208</b>	5,577
Operating leases in respect of land and buildings	<b>4,063</b>	3,305
Depreciation:		
Owned fixed assets	<b>1,814</b>	1,633
Leased fixed assets	<b>488</b>	118
Loss on disposal of fixed assets	<b>343</b>	11
Auditors' remuneration	<b>722</b>	662
Included in other operating expenses:		
Impairment loss on investment securities	<b>4,712</b>	—
Provision for doubtful debts	<b>8,860</b>	—
Provision for inventories	<b>1,500</b>	—

### 4 Finance Costs

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Interest on short-term bank loan and overdrafts	<b>566</b>	70
Interest element of finance leases	<b>104</b>	27
	<b>670</b>	97



## Notes to the Accounts

### 5 Taxation (Charge)/Credit

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

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Overseas taxation		
— Charge for the year	<b>(159)</b>	—
— Over provision in prior years	—	266
Deferred taxation (note 21)	<b>56</b>	—
	<b>(103)</b>	266
Share of taxation attributable to an associated company	<b>(155)</b>	(84)
	<b>(258)</b>	182

No provision for deferred taxation liabilities/(assets) for the year has been made in respect of the following:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Accelerated depreciation allowances	<b>21</b>	1,218
Tax losses	<b>(4,102)</b>	(1,566)
	<b>(4,081)</b>	(348)

- (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 (2001: nil).
- (ii) Overseas taxation represents the tax on the representative 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.

## Notes to the Accounts

### 5 **Taxation (Charge)/Credit** *(continued)*

(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 Telecommunications 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.

An associated company, D&T Engineering Co., Ltd., Harbin, in the PRC is in the course of applying for certain income tax preferential treatments in the PRC.

### 6 **(Loss)/Profit Attributable to Shareholders**

The loss/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$339,000 (2001: profit of HK\$4,044,000).

### 7 **(Loss)/Earnings per Share**

The calculation of the basic loss/earnings per share is based on the Group's loss attributable to shareholders of HK\$56,942,000 (2001: profit of HK\$2,096,000) and 282,196,000 (2001: weighted average number of 275,919,589 ) ordinary shares in issue during the year.

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

### 8 **Retirement Benefit Costs**

The Group has participated in the mandatory provident fund scheme (the "fund") for its employees in Hong Kong. Contributions to the fund 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.

## Notes to the Accounts

### 8 Retirement Benefit Costs *(continued)*

The Group has no other obligations other than the above-mentioned contributions.

Total contributions made by the Group during the year ended 31st March 2002 amounted to HK\$484,000 (2001: HK\$298,000).

### 9 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:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Fees	<b>458</b>	336
Other emoluments:		
Basic salaries, housing allowances and other allowances	<b>7,058</b>	7,855
Benefit from exercise of ultimate holding company's share options (note (i))	—	4,462
Contributions to pension schemes	<b>54</b>	—
Compensation for loss of office as director, paid by the company	<b>3,561</b>	—
	<b>11,131</b>	12,653

- (i) During the year ended 31st March 2001, certain directors exercised their options to subscribe for 1,000,000 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 in the ultimate holding company at any time prior to 6th September 2004.

The two independent non-executive directors received director's fees for the year ended 31st March 2002 of approximately HK\$260,000 (2001: HK\$151,000) and HK\$198,000 (2001: HK\$60,000). They did not receive any other emoluments.

## Notes to the Accounts

### 9 Directors' and Senior Management's Emoluments *(continued)*

#### (a) Directors' emoluments *(continued)*

The executive directors received individual emoluments, excluding benefits from share options exercised, pensions and compensation for loss of office as director, for the year ended 31st March 2002 of approximately HK\$1,606,000 (2001: HK\$1,950,000), HK\$1,560,000 (2001: HK\$1,560,000), HK\$1,560,000 (2001: HK\$1,560,000), HK\$1,430,000 (2001: HK\$1,430,000), HK\$252,000 (2001: HK\$910,000) and HK\$650,000 (2001: 445,000).

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years were also directors and their emoluments are reflected in the analysis presented above.

### 10 Fixed Assets

Group	Buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment	Motor vehicles	Total HK\$'000
			HK\$'000	HK\$'000	
Cost:					
At 1st April 2001	1,100	2,268	17,915	941	22,224
Additions	7,842	1,766	9,016	2,209	20,833
Disposals	—	(687)	—	—	(687)
At 31st March 2002	8,942	3,347	26,931	3,150	42,370
Accumulated depreciation:					
At 1st April 2001	60	1,361	4,544	297	6,262
Charge for the year	22	302	1,297	681	2,302
Disposals	—	(344)	—	—	(344)
At 31st March 2002	82	1,319	5,841	978	8,220
Net book value:					
At 31st March 2002	8,860	2,028	21,090	2,172	34,150
At 31st March 2001	1,040	907	13,371	644	15,962

## Notes to the Accounts

### 10 Fixed Assets *(continued)*

The Group's interests in buildings at their net book values are analysed as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
In the PRC, held on:		
Leases of over 50 years	<b>1,018</b>	1,040
Leases of between 10 to 50 years	<b>7,842</b>	—
	<u>8,860</u>	<u>1,040</u>

As at 31st March 2002, the property ownership certificate of a building amounting to HK\$7,842,000 (2001: Nil) has not been formally transferred to the Group, pending the completion of relevant legal and registration procedures.

At 31st March 2002, the net book value of fixed assets held by the Group under finance leases amounted to approximately HK\$1,442,000 (2001: HK\$314,000).

### 11 Investments in Subsidiaries - Company

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Investments at cost:		
Unlisted shares/investments	<b>48,921</b>	48,921
Amounts due from subsidiaries	<b>108,572</b>	91,921
	<u>157,493</u>	<u>140,842</u>

The amounts due from subsidiaries are unsecured, interest-free and will not be demanded for repayment within the next twelve months.

## Notes to the Accounts

### 11 Investments in Subsidiaries - Company *(continued)*

The following is a list of the subsidiaries at 31st March 2002:

Name	Country/ place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital and registered capital	Effective interest held
<b>Directly held by the Company</b>				
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%
<b>Indirectly held by the Company</b>				
T S International Company Limited ("T S International")	Hong Kong	Investment holding in Hong Kong	100,000 ordinary shares of HK\$1 each	100%
T S International Limited	New Zealand	Trading of power monitoring equipment in Asia Pacific region	100 ordinary shares of NZ\$1 each	100%
Ying Zhi Xun Telecom Equipment (Shenzhen) Co. Ltd. ("Ying Zhi Xun")	PRC	Assembling of cable pressurization equipment and power monitoring equipment in the PRC	Registered capital US\$500,000	100%
T S Telecom (Shenzhen) Company Limited ("T S Shenzhen")	PRC	Assembling and distribution of cable pressurization equipment and power monitoring equipment in the PRC	Registered capital US\$190,000	100%
TSTT (Canada) Ltd	Canada	Investment holding in Canada	100 common shares of CAD 1 each	100%

## Notes to the Accounts

### 11 Investments in Subsidiaries - Company (continued)

Name	Country/ place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital and registered capital	Effective interest held
<b>Indirectly held by the Company (continued)</b>				
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 Telecommunications 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	In liquidation	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 2001 and 2002 have been used after making adjustments as appropriate for compliance with accounting principles generally accepted in Hong Kong.

### 12 Interests in Associated Companies

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>12,957</b>	12,755
Unlisted investments, at cost	<b>4,755</b>	4,755

## Notes to the Accounts

### 12 Interests in Associated Companies *(continued)*

The following is a list of associated companies at 31st March 2002:

Name	Place of establishment 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 Telecommunications 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 2001 and 2002 have been used after making adjustments as appropriate for compliance with accounting principles generally accepted in Hong Kong.

### 13 Investment Securities

	Group	
	2002 HK\$'000	2001 HK\$'000
Equity securities, at market value, listed in Hong Kong	<b>578</b>	3,468



## Notes to the Accounts

### 14 Inventories, at cost

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>2,218</b>	2,318
Work in progress	<b>573</b>	2,561
Finished goods	<b>14,570</b>	10,637
	<b>17,361</b>	15,516

### 15 Trade Receivables

Included in the balance are retention monies totalling approximately HK\$24,763,000 (2001: HK\$18,253,000) which is expected to be settled more than twelve months from the balance sheet date.

With consider of Group's normal sales cycle, the Group grants credit periods of up to 2 years to its customers.

At 31st March 2002, the ageing analysis of the trade receivables were as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Less than six months	<b>11,683</b>	32,064
Between six months and one year	<b>10,826</b>	24,179
Between one year and two years	<b>20,322</b>	17,383
More than two years	<b>2,303</b>	3,636
	<b>45,134</b>	77,262

### 16 Bank Balances and Cash

Included in the balance is an amount of HK\$16,867,000 (2001: HK\$7,909,000) which is denominated in Renminbi. Renminbi is not a freely convertible currency.

## Notes to the Accounts

### 17 Due from/Due to Subsidiaries/Trade Payables Due to An Associated Company

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

### 18 Share Capital

	Company	
	2002 HK\$'000	2001 HK\$'000
Authorised: 800,000,000 ordinary shares of HK\$0.1 each	<u>80,000</u>	<u>80,000</u>
Issued and fully paid:	<b>No. of shares (in thousand)</b>	HK\$'000
At 1st April 2000	264,000	26,400
Placement of new shares (note (a))	22,000	2,200
Repurchase of shares (note (b))	(3,804)	(380)
At 31st March 2001	<u>282,196</u>	<u>28,220</u>
At 1st April 2001 and 31st March 2002	<u>282,196</u>	<u>28,220</u>

(a) 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 then existing issued shares of the Company. The net proceeds of approximately HK\$20,369,000 have been used as additional working capital to the Group.

(b) During the year ended 31st March 2001, 3,804,000 ordinary shares of HK\$0.1 each were repurchased on The Stock Exchange of Hong Kong Limited at an aggregate price of HK\$1,739,000. The shares were cancelled by the Company.

## Notes to the Accounts

### 19 Reserves

Group	Share premium HK\$'000	PRC		Investment revaluation HK\$'000	Negative goodwill HK\$'000	Retained earnings HK\$'000	Total HK\$'000
		statutory reserves HK\$'000 (Note (a))	Merger difference HK\$'000 (Note (b))				
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	<u>96,616</u>	<u>5,639</u>	<u>(250)</u>	<u>(1,822)</u>	<u>—</u>	<u>66,940</u>	<u>167,123</u>
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	<u>96,616</u>	<u>5,639</u>	<u>(250)</u>	<u>(1,822)</u>	<u>—</u>	<u>66,940</u>	<u>167,123</u>
At 1st April 2001	96,616	5,639	(250)	(1,822)	—	66,940	167,123
Impairment loss on investment securities	—	—	—	1,822	—	—	1,822
Loss for the year	—	—	—	—	—	(56,942)	(56,942)
Transfer between reserves	—	460	—	—	—	(460)	—
At 31st March 2002	<u>96,616</u>	<u>6,099</u>	<u>(250)</u>	<u>—</u>	<u>—</u>	<u>9,538</u>	<u>112,003</u>
Company and subsidiaries	96,616	2,291	(250)	—	—	4,034	102,691
Associated companies	—	3,808	—	—	—	5,504	9,312
At 31st March 2002	<u>96,616</u>	<u>6,099</u>	<u>(250)</u>	<u>—</u>	<u>—</u>	<u>9,538</u>	<u>112,003</u>

## Notes to the Accounts

### 19 Reserves (continued)

- (a) 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.
- (b) 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>Share premium</b>	<b>Retained earnings</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
<b>Company</b>			
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
	<u>137,187</u>	<u>8,668</u>	<u>145,855</u>
At 31st March 2001	<u>137,187</u>	<u>8,668</u>	<u>145,855</u>
At 1st April 2001	137,187	8,668	145,855
Loss for the year	—	(339)	(339)
	<u>137,187</u>	<u>8,329</u>	<u>145,516</u>
At 31st March 2002	<u>137,187</u>	<u>8,329</u>	<u>145,516</u>

## Notes to the Accounts

### 20 Obligations under Finance Leases

	Group	
	2002	2001
	HK\$'000	HK\$'000
Obligations under finance leases wholly repayable within five years	1,206	275
Current portion included in current liabilities	(577)	(100)
	<u>629</u>	<u>175</u>

At 31st March 2002, the Group's finance lease liabilities were repayable as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	657	127
In the second year	625	127
In the third to fifth year	44	95
	<u>1,326</u>	<u>349</u>
Future finance charges on finance leases	(120)	(74)
Present value of finance lease liabilities	<u>1,206</u>	<u>275</u>

The present value of finance leases liabilities are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	577	100
In the second year	585	100
In the third to fifth year	44	75
	<u>1,206</u>	<u>275</u>

## Notes to the Accounts

### 21 Deferred Taxation

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
At 1st April	<b>56</b>	56
Transfer to profit and loss account (note 5)	<b>(56)</b>	—
	<hr/>	<hr/>
At 31st March	<b>—</b>	56
	<hr/> <hr/>	<hr/> <hr/>
Provided for in respect of accelerated depreciation allowances	<b>—</b>	56
	<hr/> <hr/>	<hr/> <hr/>

The potential deferred taxation liabilities/(assets) not provided for in the accounts represent:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Accelerated depreciation allowances	<b>1,239</b>	1,218
Tax losses	<b>(5,668)</b>	(1,566)
	<hr/>	<hr/>
	<b>(4,429)</b>	(348)
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the Accounts

### 22 Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of (loss)/profit before taxation to net cash outflow from operating activities

	2002 HK\$'000	2001 HK\$'000
(Loss)/profit before taxation	<b>(56,634)</b>	1,086
Share of profit less loss of associated companies	<b>(357)</b>	(481)
Depreciation charge	<b>2,302</b>	1,751
Loss on disposal of fixed assets	<b>343</b>	11
Impairment loss on investment securities	<b>4,712</b>	—
Increase in inventories	<b>(1,845)</b>	(4,764)
Decrease/(increase) in trade receivables, other receivables, prepayments and deposits	<b>30,497</b>	(38,084)
(Decrease)/increase in trade payables, other payables and accrued expenses	<b>(7,154)</b>	8,554
Increase in trade payables due to an associated company	<b>5,390</b>	7,224
Interest income	<b>(2,085)</b>	(5,849)
Interest expenses	<b>670</b>	97
	<hr/>	<hr/>
Net cash outflow from operating activities	<b>(24,161)</b>	(30,455)
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## Notes to the Accounts

### 22 Notes to the Consolidated Cash Flow Statement (continued)

#### (b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Obligations under finance leases		Short-term bank loan	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1st April	124,836	106,275	5,876	934	275	375	1,869	—
Net changes in bank loan	—	—	—	—	—	—	9,346	1,869
Minority interests in share of profit/(loss)	—	—	50	(828)	—	—	—	—
Minority interests in a newly acquired subsidiary	—	—	—	3,899	—	—	—	—
Payment of capital element of finance leases	—	—	—	—	(509)	(100)	—	—
Capital injection from minority shareholders	—	—	—	1,871	—	—	—	—
Issue of ordinary shares	—	22,000	—	—	—	—	—	—
Repurchase of ordinary shares	—	(1,739)	—	—	—	—	—	—
Share issue/repurchase expenses	—	(1,700)	—	—	—	—	—	—
Inception of a finance lease	—	—	—	—	1,440	—	—	—
At 31st March	124,836	124,836	5,926	5,876	1,206	275	11,215	1,869

#### (c) Major non-cash transaction

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$1,440,000 (2001: Nil).



## Notes to the Accounts

### 22 Notes to the Consolidated Cash Flow Statement *(continued)*

#### (d) Purchase of a subsidiary

	2002 HK\$'000	2001 HK\$'000
Net assets acquired		
Bank balances and cash	—	8,000
Minority shareholders' interests	—	(3,899)
	<hr/>	<hr/>
	—	4,101
Goodwill	—	3,899
	<hr/>	<hr/>
Satisfied by cash	—	8,000
	<hr/> <hr/>	<hr/> <hr/>

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

	2002 HK\$'000	2001 HK\$'000
Cash consideration	—	(8,000)
Bank balances and cash in hand acquired	—	8,000
	<hr/>	<hr/>
Net cash outflow in respect of the purchase of a subsidiary	—	—
	<hr/> <hr/>	<hr/> <hr/>

### 23 Commitments

#### (a) Capital commitments for fixed assets

	Group	
	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for	681	—
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the Accounts

### 23 Commitments *(continued)*

#### (b) Commitments under operating leases

- (i) At 31st March 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>2002</b>	(Restated) 2001
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>3,274</b>	1,945
Later than one year and not later than five years	<b>4,034</b>	1,490
	<b><u>7,308</u></b>	<u>3,435</u>

- (ii) In addition, T S (Holdings) Company Limited ("T S Holdings"), a related company in which a director, Mr. Lau See Hoi, 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 expense 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 expired 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.

### 24 Banking facilities

- (a) As at 31st March 2002, total banking facilities granted to the Group amounted to HK\$9,800,000 (2001: HK\$9,800,000). The facilities are supported by certain fixed deposits of the Group amounting to approximately HK\$2,363,000 (2001: HK\$2,586,000).
- (b) The short-term bank loan is wholly repayable within one year and is secured by a fixed deposit of the Group amounting to HK\$12,000,000 (2001: HK\$2,000,000).

## Notes to the Accounts

### 25 Related Party Transactions

Save as disclosed in note 23(b)(ii) and elsewhere in the accounts, the following significant related party transactions have been entered into by Group during the year:

	Note	Group	
		2002 HK\$'000	2001 HK\$'000
Purchase from an associated company, D & T Engineering		<b>4,897</b>	9,346
Design fee for gas turbine generators paid to an associated company, D & T Engineering		<b>3,355</b>	—
Administrative service fees paid to T S Holdings	(a)	<b>960</b>	960
Commission expenses paid to a director	(b)	<b>—</b>	900
Research and development expenses charged by the ultimate holding company	(c)	<b>2,929</b>	795
Consultancy fee paid to a former director	(d)	<b>2,200</b>	—

- (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 18(a) to the accounts. The firm is controlled by Mr. Wong Kai Tat, a director of the Company.
- (c) T S International entered into an agreement on 15th November 1999 for a term of three years with T S Telecom Ltd. ("T S Telecom"), the ultimate holding company, under which the latter will provide research and development services to the Group at a monthly charge which is calculated on the basis of the costs to be incurred by T S Telecom for and in connection with the provision of such services, provided that the annual service fee payable shall in total not exceed HK\$4,000,000.
- (d) A Consultancy Agreement dated 16th July 2001 was entered into between the Company and a former director, Mr. Chong Tak Wah for a period of six months with effect from 16th July 2001. Pursuant to the Consultancy Agreement, Mr. Chong Tak Wah agreed to provide consultancy services to the Company in relation to advising strategies for pending sales contract proposals in Mainland China and consultation upon other matters reasonably requested by the Company relating to its business in Mainland China. A fixed fee of HK\$2,200,000 was mutually agreed between the Company and Mr. Chong Tak Wah and which is calculated according to a certain percentage of the worth of the pending sales contracts in Mainland China.

## Notes to the Accounts

### **25 Related Party Transactions** *(continued)*

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.

### **26 Ultimate Holding Company**

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

### **27 Approval of Accounts**

The accounts were approved by the board of directors on 24th June 2002.