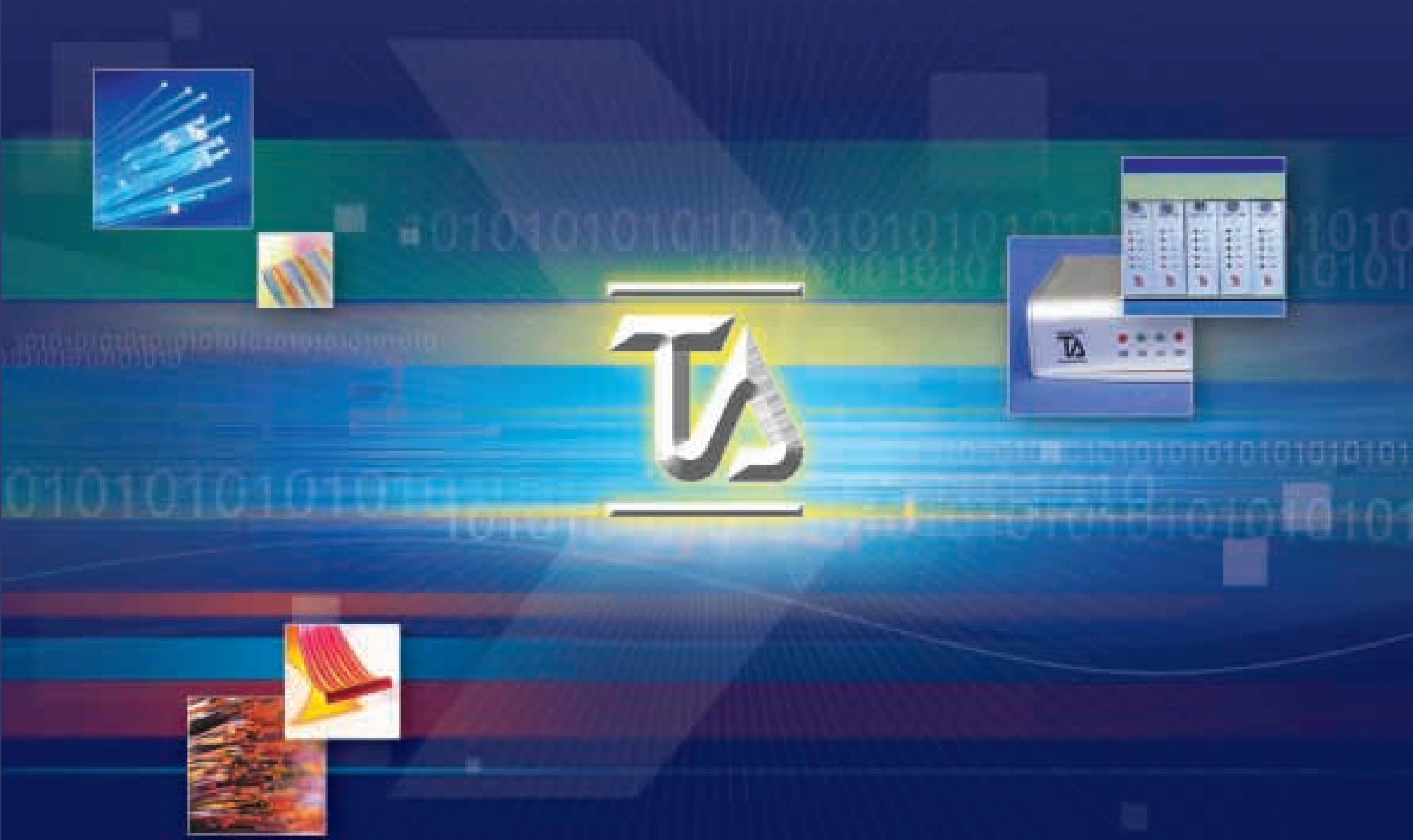
Annual Report 2004



T S Telecom Technologies Limited

大誠電訊科技有限公司

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

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

Contents

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, New Zealand office 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

	2004	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**49,263**	72,807	62,153	78,818	96,845
Gross profit	**18,680**	26,820	22,114	47,616	72,875
(Loss)/profit before taxation	**(39,253)**	(40,801)	(56,634)	1,086	38,027
(Loss)/profit attributable to shareholders	**(38,889)**	(40,739)	(56,942)	2,096	40,340
Total assets	**104,352**	168,767	185,294	231,821	194,665
Total liabilities	**39,801**	64,865	39,145	30,602	13,324
Minority interests	**57**	519	5,926	5,876	934
Net assets	**64,494**	103,383	140,223	195,343	180,407

CHAIRMAN'S STATEMENT

Dear Shareholders:

The Group posted a loss for the current fiscal year. We had been encountering enormous pressure from customers for concession in pricing and payment terms, especially towards the end of the year as the competition intensified. Nonetheless, we believe our firm focus in customer services and technology innovation will provide us a pathway to re-ignite our competitive edges.

BUSINESS REVIEW

The Group continued to operate under increasing competition from domestic telecom manufacturing suppliers in the mainland. With large economies of scale, certain suppliers were able to offer a longer payment terms and warranty period. While the Group had addressed the competition by way of offering customized versions of our base station monitoring systems to suit specific customer needs, the intensified competition and delay in business activity due to SARS had adversely affected the Group's business momentum in the market place and hence resulting in a lower turnover for the year.

During the year, the Group continued to manufacture and distribute network components, which was previously procured from outside vendors, and has broadened the product depth of our power monitoring system. We also enhanced our customer services by establishing more satellite offices nearby the locations of our major customers. These two initiations had indeed strengthened the competitiveness of our business. At the end of this fiscal year, the Group also underwent reengineering of our operations to reduce overheads and to increase the efficiency of our manufacturing and engineering work. As a result, we were able to mitigate our loss position despite the decrease in turnover.

As a technology company, we believe that the source of growth comes from our ability to develop and introduce new products to the market place. Towards the end of this fiscal year, we officially launched Fibersmart, our new state-of-the-art monitoring system, which is primarily used to monitor fiber optic telecom network and had successfully signed the first contract of its kind with a telecom operator in China. We anticipate that we would generate more business of Fibersmart in the next fiscal year. In addition, we are also completing the development of a digital surveillance system which should be ready for commercial introduction in the next few months. We are also developing a new network management system, built on the foundation of our Powercom and BSMS products, which will allow customers to tremendously improve their operations and maintenance of telecom network.

PROSPECT

We anticipate that the competition of telecom monitoring equipment market would continue to intensify. The future of the Group will rest on our ability to maintain market share of monitoring equipment, introduction of new telecom related products and controlling our running costs. For that, we have increased our focus on customer services, new product development and reengineering of our operations. Our ultimate goal is to return the Group to profitability.

CHAIRMAN'S STATEMENT

APPRECIATION

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

Mr. Lau See Hoi
Chairman

Hong Kong, 28th June 2004

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

For the fiscal year ended 31st March 2004, the Group reported a total turnover of HK$49.3 million and loss attributable to shareholders of HK$38.9 million as compared to a turnover of HK$72.8 million and a loss of HK$40.7 million in the previous year.

The decline in turnover was mainly because of the increasing competition from domestic telecom equipment suppliers, which were willing to solicit business with depressed pricing and unreasonable payment terms, in addition to the SARS effect.

Despite the decline in turnover, the Group was able to reduce expenses by implementing several cost control measures. These cost controls included reduction of headcounts and tight control in traveling and engineering expenses. This caused a dramatic reduction in selling and distribution costs and administrative expenses. The loss position reflected certain non-cash charges including depreciation and amortization of HK$7.5 million and impairment losses on fixed assets of gas turbine generators of HK$9 million.

Our gross margin improved slightly from 36.8% to 37.9% due to the manufacturing and distributing of network components which have improved the gross margin despite the Group had made concession in price in order to secure certain contracts.

The reduction in selling and distribution expenses was due to the decline in turnover and tight cost control implemented by the Group.

Administrative expenses decreased due to the decrease in payroll costs and traveling expenses.

Other operating expenses included impairment losses on certain gas turbine generators of HK$9 million for prudent financial reporting purposes.

The increase in finance costs can be attributable to the interest charges of a new short-term bank loan to secure a letter of credit facility for purchasing of certain inventories.

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENT INFORMATION

Business from telecommunications products accounts for 99.3% of the turnover of the Group for the fiscal year ended 31st March 2004 and approximately 0.7% of turnover were from gas turbine generators during the year in review.

The turnover and the operating loss for the current fiscal year of telecommunications products was HK$48.9 million and HK$17.9 million, respectively, as compared to the respectively turnover and segment operating loss of HK$68.4 million and HK$7.7 million recognized for the same period of last year. The increase of segment operating loss was mainly attributable to the decrease in turnover of the segment during the year.

Approximately HK$6.3 million of turnover of telecommunications products was generated from New Zealand and Australia, representing a significant increase from last financial year. The Group expected that business from New Zealand and Australia would continue to grow in the coming year.

TELECOMMUNICATION PRODUCTS

Mainland China Market

Business of telecommunications products from the Mainland China accounts for approximately 82% of the Group's turnover for the fiscal year ended 31st March 2004.

During the year, the Group continued to implement strategies to cope with challenges from competitors, which offer extremely aggressive pricing and payment term concessions to telephone operators. The effect was that the Group needed to take longer time and lower the price to close and sign contracts. While the Group had addressed the competition by focusing in improving the fundamentals such as offering better customer services, expanding product features and broadening product base, the turnover inevitably declined from previous year. It is quite clear that the business environment of the telecom monitoring equipment industry of China had become more unfavorable and competitive. Hence, the Group is contemplating to expedite the development of new products and reengineering our operations in order to meet such challenge.

The Group implemented a series of actions to streamline the operations of telecommunications products in China in order to operate more cost-effectively. We decentralized our engineering department into small local teams and encourage branch engineers to outsource non-technical tasks to reduce the size of the engineering team and control engineering material costs. The establishments of small local satellite offices nearby our major customers also led to decrease in traveling costs. These charges would not only improve cost effectiveness but also allow us to better serve our customers, which is one of the Group's key success factors.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group had made significant progress in development of new products this year. We launched our Fibersmart system towards the end of this fiscal year and had signed a contract and delivered the products shortly after the year ended. The Fibersmart system is a remote monitoring system for fiber optic networks. Similar to copper coaxial cables, fiber optic telecom cables are susceptible to damage caused by the environmental and human errors. The Fibersmart system is designed to automatically monitor fiber optic cable characteristics in order to identify pending or actual faults within fiber optic networks. The Group anticipated that more contracts will come from the distributions of Fibersmart system in the coming years. The Group is also in its final stage in the development of a digital surveillance system, which is capable to provide an integrated solution built around broadband and compression technologies that accepts a single incoming video feed from each camera at low bandwidth location, multiplies the stream and rebroadcasts the signal to an unlimited number of users. The digital surveillance system will not only be integrated as part of our telecom monitoring solution, but will also allow the Group to expand into new territories such as transportation, petroleum and security industries. Furthermore, the Group is working on a new product research initiative to develop a new network management system which built on the foundation of our Powercom and BSMS products to provide specialized features for the operations and maintenance of telecom network.

It is no doubt that the business of telecom monitoring equipment in China will continue to be challenging and competitive. The Group's main strategies in China market will adhere to further streamlining our cost structure and continue to offering better customer services, expanding product features and broadening product base.

Other Asia Pacific Countries and Other Markets

Business from outside of China now accounted for approximately 18% of the total turnover. The Group had become one of the key suppliers of telecom cable pressure monitoring equipment of telecom operators in New Zealand and Australia. The Group expects that the New Zealand and Australia markets will increase their contributions to our total business in the coming years. To expand the market in North America, the Group signed an agreement with T S Telecom Ltd., its substantial shareholder in Canada, in this third quarter, to supply our BSMS products. Effectively, the agreement will allow the Group to distribute its BSMS products in North America through T S Telecom Ltd. Thus far, the Group had shipped a total of HK$2.5 million of BSMS products to T S Telecom Ltd.

GAS TURBINE GENERATORS

During the year, the Group continued to negotiate sales contracts and expected sales of gas turbine generators to occur despite minimal revenue growth in the current year. The Group had approximately HK$8.3 million of backorder of mobile gas turbine pending for delivery upon obtaining clearance from the environmental agency in Beijing.

The Group had made a provision for impairment losses of certain gas turbine demo units for a total of HK$9 million during the year. Nonetheless, the Group will continue on its effort to promote gas turbine generators in the telecom and petroleum industries.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st March 2004, our cash balance was approximately HK$14.6 million (including pledged bank deposits of HK$1.9 million). The cash balance declined from approximately HK$42.4 million (including pledged bank deposits of HK$12 million) of the last fiscal year primarily due to the current year loss position and repayment of approximately HK$20.2 million of short-term bank loan during the year.

As at 31st March 2004, the Group had net current assets of approximately HK$35.2 million, including a new short term bank loan totaling approximately HK$5.6 million denominated in Renminbi. The new loan was primarily used to secure a letter of credit facility to purchase inventory. The loan is secured by the Group's real estate property in Shenzhen. The loan is repayable on 13th August 2004 and bears fixed interest rate of 5.04% per annum.

Save as the short-term bank loan disclosed above, the Group had no bank financing other than certain finance leases totaling approximately HK$44,000 as at 31st March 2004. The Group financed its operations and investing activities primarily by operating revenue, internal resources, unused proceeds from our initial public offering, proceeds from a share placement exercised in August 2000 and bank facilities. Despite the declining in cash balance, the net current assets of approximately HK$35.2 million should provide sufficient working capital for our present operations.

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. The Group adopted a conservative treasury policy with almost all bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31st March 2004, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

For the fiscal year ended 31st March 2004, there had been no change in the capital structure and issued capital of the Group.

CHARGES ON GROUP ASSETS

As at 31st March 2004, the Group pledged a real estate property in Shenzhen for a short-term bank loan of RMB6 million (equivalent to HK$5.6 million).

GEARING RATIO

The Group's gearing ratio, which was derived from the total borrowings to shareholders' funds, decreased to 8.7% from 20% in the previous fiscal year.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31st March 2004, the Group neither had any authorized or contracted capital expenditure commitments nor any future plan for material investments or capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

During the fiscal year, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

CONTINGENT LIABILITIES

As at 31st March 2004, the Group did not have any material contingent liabilities.

SUBSEQUENT EVENTS

No subsequent events occurred after 31st March 2004, which may have a significant effect, on the assets and liabilities or future operations of the Group.

FOREIGN EXCHANGE EXPOSURE

Since most of the transactions of the Group are denominated in Renminbi or HK dollars, the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year under review.

EMPLOYEES AND REMUNERATION POLICY

As at 31st March 2004, the Group employed 230 staff in the PRC, Hong Kong and New Zealand, representing a decrease of 54 staff from 31st March 2003. The decrease in staff was mainly from the PRC operations. Accordingly, the Group's remuneration to employees, including directors' emoluments, decreased by approximately HK$3.9 million to approximately HK$20.0 million for the current fiscal year.

The Group reviews employee remuneration from time to time and salary increment is normally granted annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides employee 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

BOARD PRACTICES AND PROCEDURES

Throughout the year, the company was in compliance with Board Practices and Procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules.

NON-EXPEMPT CONTINUING CONNECTED TRANSACTIONS

On 19th January 2004, the Company issued an announcement to inform the public that on the same date, T S International, an indirect wholly-owned subsidiary of the Company, has entered into a supply agreement ("the Agreement") with the Company's substantial shareholder, T S Telecom Ltd. ("T S Telecom"). Pursuant to the Agreement, T S Telecom will be entitled to purchase BSMS products from T S International for sale of such products to its customers in North America, and T S International will, at the request of T S Telecom, supply the BSMS products to T S Telecom for an aggregate value of not more than HK$16,000,000 for the financial year of the Company ending on 31st March 2004 and HK$30,000,000 for each of the two financial years of the Company ending on 31st March 2006. Approximately HK$2.5 million of BSMS products were supplied to T S Telecom during the current fiscal year.

T S Telecom is the controlling shareholder of the Company holding approximately 59.87% of the total issued share capital of the Company. Accordingly, T S Telecom is a connected person of the Company pursuant to the GEM Listing Rules and the transactions contemplated under the Agreement constitute connected transactions for the Company under the GEM Listing Rules and will be subject to the disclosure, shareholders' approval and annual review requirements as set out in Chapter 20 of the GEM Listing Rules.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. LAU See Hoi, aged 56, 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 member of the Shandong Provincial Committee of the Chinese People's Political Consultative Conference, a standing committee member of the Chinese People's Political Congress Committee, Yantai, Shandong and the vice chairman of the Shandong Overseas Friendship Association.

Mr. WONG Weng, aged 46, is the president of the Group. He is also the vice president and chief of staff of T S Telecom Ltd. Mr. Wong, a founder of the Group, is primarily responsible for the product research and development of the Group. Prior to joining the Group, he worked with the Macau subsidiary of Cable and Wireless PLC, a diversified multi-national telecommunications company, for almost ten years, during part of which time he was a member of the management team overseeing the cable maintenance division. Mr. Wong resigned as executive director and president of the Group on 3rd April 2004.

Mr. HUNG, Randy King Kuen, aged 38, 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, a certificate of China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in corporate finance. He is primarily responsible for development and implementation of the Group's financial strategies and oversees compliance of the Listing Rules as well as securities and other relevant laws and regulations. Mr. Hung also developes and supervises the Group's accounting and financial reporting procedures and internal controls. 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 52, 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., a master of business administration degree from the University of Strathclyde, Scotland, a master of applied finance degree from Macquarie University, Australia, a master of corporate finance from Hong Kong Polytechnic University and an honorary doctor of law degree from Armstrong University in the U.S.A.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. SZE, Tsai Ping Michael, aged 59, has over thirty years' experience in the financial and securities field. He was a Council Member of The Stock Exchange of Hong Kong Limited from 1996 to 2000 and was a Member of the Listing Committee of the Main Board. Currently, he is a Member of the Cash Market Consultative Panel of Hong Kong Exchanges and Clearing Limited and a Committee Member of the Hong Kong Stockbrokers Association Limited.

Mr. Sze is a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow of the Hong Kong Society of Accountants, a Fellow of the Association of Chartered Certified Accountants and a Fellow of the Hong Kong Institute of Directors. He was appointed as an Independent Non-Executive Director of the Group on 24th July 2000.

Mr. TAN, Ye Kai Byron, aged 35, was appointed as an independent non-executive director of the Company on 2nd January 2001. Mr. Tan is an investment adviser and has more than ten 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 CPA Australia and is a Chartered Financial Analyst. Mr. Tan resigned as independent non-executive director of the Company on 29th March 2004.

Ms. YIP Lam Christine, aged 35, was appointed as an independent non-executive director of the Company on 15th June 2004. Ms. Yip has substantial years of experience in administration. Currently, she is the Assistant to the President and Vice-Chancellor of the Hong Kong Baptist University. Ms. Yip holds a bachelor's degree from the Hong Kong Baptist University, a graduate diploma in business administration from Monash University, a Master of Philosophy degree from the University of Hong Kong and she is a doctoral degree candidate of the University of Bristol.

Senior Management

Mr. LI Tao, aged 35, is the director of the Group's research and development department. Mr. Li graduated from Tsinghua University with a bachelor's degree in automotive engineering.

Mr. YANG Xin Wen, aged 25, is the software research engineer of the Group. Mr. Yang is a graduate of Tsinghua University majored in automated electrical engineering and holds a master degree from China Science and Technology University.

Mr. WANG Frank, aged 23, is the software research engineer of the Group. Mr. Wang received his Bachelor of Applied Electrical Engineering Degree from China Polytechnic University. He is currently a research candidate with Beijing Aviation University.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Lau See Hoi,
Chairman and Chief Executive Officer
Mr. Wong Weng, *President (resigned on 3rd April 2004)*
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 *(resigned on 29th March 2004)*
Ms. Yip, Lam Christine *(appointed on 15th June 2004)*

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. Sze Tsai Ping, Michael
Mr. Tan Ye Kai, Byron *(resigned on 29th March 2004)*
Ms. Yip, Lam Christine *(appointed on 15th June 2004)*

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

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 Islands Law:
Maples and Calder Asia
Suite 1504
One International Finance Centre
1 Harbour View Street
Hong Kong

As to Hong Kong Law:
Richards Butler
20th Floor
Alexandra House
16-20 Chater Road
Hong Kong

STOCK CODE

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 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the Group's performance for the year by business and geographical segment 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 25.

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 20 to the accounts.

DONATIONS

There were no charitable and other donations made by the Group during the year.

FIXED ASSETS

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

PRINCIPAL PROPERTIES

During the year, the Group had no principal properties held for development and/or sale and for investment purposes.

BORROWINGS

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

FIVE YEAR FINANCIAL SUMMARY

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

SHARE CAPITAL

There were no movements in share capital of the Company during the year.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem 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.

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law of the Cayman Islands and the articles of association of the Company, the share premium of the Company is distributable to the shareholders under certain circumstances. At 31st March 2004, in the opinion of the directors, the Company's reserves available for distribution to shareholders, comprising share premium account offset by accumulated losses, amounted in total to approximately HK$33.4 million.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's memorandum and articles of association and there is no restriction against such rights under the laws of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SHARE OPTIONS

(i) The Company

In view of the amendments in September, 2001 for Chapter 23 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("GEM Listing Rules") regarding the share option schemes of the listed issuers, the old share option scheme of the Group which was approved on 18th November 1999 was terminated and a new share option scheme ("Share Option Scheme") was approved on 2nd August 2002 at the annual general meeting of the Company as an incentive to eligible persons under which the Board may, at its discretion, invite (i) any director (whether executive or non-executive, including any independent non-executive director), employee (whether full time or part time) of, or any individual for the time being seconded to work for the Company and/or any of its subsidiaries and/or any entity ("Invested Entity") in which the Company and/or any of its subsidiaries holds any equity interest either directly or indirectly; (ii) any holder of legal and/ or beneficial title of any securities issued by the Company and/or any subsidiary and/or any Invested Entity; (iii) any business or joint venture partner, contractor, subcontractor, agent, sub-agent of, any person or entity providing research, development and/or other technological support and/or advisory, consultancy, professional services to, any supplier of goods and/or services, customer or distributor of, the Company and/or any subsidiary and/or any Invested Entity either directly or indirectly, to take up options to subscribe for shares in the Company at a price to be determined by the Board which will be at least the higher of (a) the closing price of the shares on the GEM in the Stock Exchange daily quotations sheet on the grant date, or (b) the average of the closing prices of the shares on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date, 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 shares issued pursuant to options exercised and shares in respect of which any options remain outstanding) under the 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 Share Option Scheme.

No option may be granted under the Share Option Scheme which would result in the aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company exceeding 30% of the shares in issue from time to time.

No option may be granted to any eligible person which would cause the aggregate number of shares already issued and to be issued upon exercise of options granted to such eligible person under the Share Option Scheme and any other share option schemes of the Company (including cancelled, exercised and outstanding options) in any 12-month period up to the date on which the option is granted exceeding 1% of the shares in issue for the time being. Any further grant of options in excess of the individual limit may be made only with the separate approval of the shareholders in general meeting with the eligible person and his associates abstaining from voting. The number and terms of the options to be granted (including the option price) shall be fixed before shareholders' approval and the Company shall send a circular to the Shareholders which shall contain the information required by the GEM Listing Rules.

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 ten-year period commencing on the date on which the options is granted, and shall expire at the end of the ten-year period or 2nd August 2012, whichever is earlier. The share options granted are not recognised in the accounts until they are exercised.

As at 31st March 2004, no option had been granted under the Share Option Scheme.

(ii) The ultimate holding company

On 17th January 2003, the old share option plan which was approved on 26th September 1997 was terminated and a new 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 minimum exercise price of the Share Option Plan cannot be lower than 25% of the last daily closing price of the shares of the ultimate holding company on the TSX Venture Exchange and subject to a minimum of CAD0.1.

The maximum number of shares in respect of which options may be granted (together with shares 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 4,398,000 common shares (20% of the issued share capital, as at the date of approval of the Share Option Plan) of the ultimate holding company from time to time. If any option granted hereunder may expire or terminate for any reason in accordance with the term of the Share Option Plan without being exercised, the un-purchased shares subject thereto may again be available for the purpose of the Share Option Plan.

Share options may be exercised during the ten-year period commencing on the date on which the option is granted, and shall expire at the end of the ten-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 2004, there were no outstanding options under the Share Option Plan.

REPORT OF THE DIRECTORS

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors
Mr. Lau See Hoi
Mr. Wong Weng *(resigned on 3rd April 2004)*
Mr. Hung, Randy King Kuen
Mr. Wong Kai Tat

Independent non-executive directors
Mr. Sze, Tsai Ping Michael
Mr. Tan, Ye Kai Byron *(resigned on 29th March 2004)*
Ms. Yip, Lam Christine *(appointed on 15th June 2004)*

Each of the independent non-executive directors of the Company is appointed for a term of one year but will retire by rotation and will be eligible for re-appointment in accordance with the Article of Association of the Company.

The Company has received written confirmations from all independent non-executive directors pursuant to GEM Listing Rule 5.09 and therefore considers all independent non-executive directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' SERVICE CONTRACTS

On 13th November 2002, the current executive directors, except one, renewed their respective service agreements with the Company under which they are to act as executive directors for a term of two years and eleven months commencing from 1st December 2002 and shall continue thereafter until terminated by either party for the relevant contract giving to the other not less than six calendar months' notice in writing. No other material amendments have been made in comparison with the previous agreements, of which the initial service term was three years commencing from 1st December 1999. The remaining executive director not covered above 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 the agreement is 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 for each financial year to all the executive directors of the Company shall not exceed 10% of such profit.

REPORT OF THE DIRECTORS

None of the directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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 office premises 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, 2002, T S International entered into a licence agreement, which will expire on 31st March 2005, 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$121,000. For the year ended 31st March 2004, a licence fee of HK$1.4 million was paid to T S Holdings.

In addition, for the year ended 31st March 2004, administrative service fees totalling HK$960,000 were paid to T S Holdings.

T S International entered into an agreement on 27th November 2002 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 fees payable shall in total not exceed HK$4.0 million. For the year ended 31st March 2004, research and development service fees amounting to HK$2.7 million were paid to T S Telecom.

On 19th January, 2004, T S International entered into a supply agreement with the Company's ultimate holding company of which the directors are, among others, Mr. Lau See Hoi, Mr. Wong Weng and Mr. Randy King Kuen Hung. Pursuant to the agreement, T S Telecom will be entitled to purchase BSMS products from T S International. For the year ended 31st March, 2004, approximately HK$2.5 million of BSMS products were supplied to T S Telecom.

Save as disclosed above, no other 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 renewed an agreement dated 27th November 2002 entered into with T S Telecom Ltd. ("T S Telecom"), T S Telecom will continue to provide research and development services to T S International for the period between 27th November 2002 and 31st March 2005. The terms and conditions of the agreement are the same in all material respects with the previous research and development services agreement dated 15th November 1999 entered into between T S Telecom and T S International, except for the scope of the research and development services provided thereunder by

T S Telecom to T S International which is expanded from the Group's fiber optic products for monitoring purposes (formerly known as Fibersmart) to cover its related equipment as well. The annual research and development fees payable by T S Telecom to T S International under the agreement shall not exceed HK$4.0 million. For the year ended 31st March 2004, research and development service fees amounting to approximately HK$2.7 million were paid to T S Telecom.

(ii) The renewed license agreement dated 27th November 2002 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 will continue to be licensed to use 50% of the premises at Suite 4002-4, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong at a monthly licence fee of approximately HK$121,000, subject to a rent-free period of 15 days between 1st December 2002 and 15th December 2002, for the period between 16th December 2002 and 31st March 2005. The terms and conditions of the existing Licence Agreement are the same in all material respects with the previous licence agreement dated 19th November 1999 entered into between T S Holdings and T S International, except for the downward adjustment in the monthly licence fee payable by T S International to T S Holdings from approximately HK$127,000 to HK$121,000 due to the decrease in the aggregate monthly rental and management fee payable by T S Holdings to the independent third party from approximately HK$254,000 to HK$242,000. The license fee is calculated based on 50% of the total of monthly rental and related estate management fee payable to the independent third party.

(iii) On 19th January 2004, T S International, an indirect wholly-owned subsidiary of the Company, entered into a supply agreement ("the Agreement") with the Company's substantial shareholder, T S Telecom Ltd. ("T S Telecom"). Pursuant to the Agreement, T S Telecom is entitled to purchase BSMS products from T S International for sale of such products to its customers in North America, and T S International will, at the request of T S Telecom, supply the BSMS products to T S Telecom for an aggregate value of not more than HK$16,000,000 for the financial year of the Company ending on 31st March 2004 and HK$30,000,000 for each of the two financial years of the Company ending on 31st March 2006. The price payable by T S Telecom to T S International under each purchase order for the Products shall be agreed between T S Telecom and T S International from time to time, provided that the price shall fall within the range of 2.5% above or below the average price of the BSMS products applicable to all independent customers of the Group at the material time and in any event no less favourable than the average price offered to independent third parties in the same financial year of the Group. Such price will be exclusive of the costs of packaging, carriage and insurance of the Products. For the year ended 31st March 2004, approximately HK$2.5 million of BSMS products were supplied to T S Telecom.

The independent non-executive directors have confirmed that the above transactions were conducted (1) in the ordinary and usual course of business of the Company; (2) on normal commercial terms, (3) in accordance with the relevant agreement governing them that terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole, and that the research and development service fees paid to T S Telecom and the value of the goods supplied to T S Telecom by T S International in fiscal year 2003/2004 have not exceeded the caps as set out in the relevant agreements.

The Company confirms that it has received written confirmation from its auditors confirming the matters stated in the GEM Listing Rules 20.38.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31st March 2004, the interests and short positions of the Directors and chief executive of the Company in the shares, the underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as in Rule 5.46 of the GEM Listing Rules, were as follows:

Long position in shares of the Company

	Number of ordinary shares of HK$0.1 each					
Directors	Personal interest	Family interest	Corporate interest	Other interest	Total number of shares	Approximate percentage holding of shares
						%
Mr. Lau See Hoi *(Note 1)*	–	–	168,960,000	–	168,960,000	59.87
Mr. Hung, Randy King Kuen	360,000	–	–	–	360,000	0.13

Note:

1. These shares are held by TST, the ultimate holding company of the Company, in which Mr. Lau holds 7,239,250 shares (representing approximately 32.92% of the issued share capital of TST).

Long position in shares of associated corporation

Directors	Associated corporation	Nature of interests	Total number of shares	Approximate percentage holding of shares
				%
Mr. Lau See Hoi	T S Telecom Ltd.	Personal	7,239,250	32.92
Mr. Wong Weng	T S Telecom Ltd.	Personal	2,885,500	13.12

As at 31st March 2004 and save as disclosed above, none of the Directors and the chief executive of the Company or their associates had any interests or short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

INTEREST DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31st March 2004, the interest of the shareholders in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

Long position in shares of the Company

Name of shareholder	Capacity	Total number of shares of HK$0.1 each	Approximate percentage holding of shares
			%
T S Telecom Ltd. ("TST") *(Note 1)*	Beneficial owner	168,960,000	59.87
Lau See Hoi *(Note 1)*	Interest of a controlled corporation	168,960,000	59.87

Note:

1. These shares are held by TST, the ultimate holding company of the Company, in which Mr. Lau See Hoi, a Director of the Company, holds 7,239,250 shares (representing approximately 32.92% of the issued share capital of TST). Ms. Cheung Yun Wah is the spouse of Mr. Lau See Hoi and by virtue of the SFO, Ms. Cheung Yun Wah is deemed to have interest of 168,960,000 shares in the Company.

Save as disclosed above, as at 31st March 2004, the Directors are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or, who was expected, directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

COMPETING INTEREST

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has, at any material time, an interest in a business that competed with or might compete with the business of the Group.

MANAGEMENT CONTRACTS

There exist 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.

REPORT OF THE DIRECTORS

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	15%
– five largest customers combined	38%

Purchases

– the largest supplier	9%
– five largest suppliers combined	16%

Save as disclosed under connected transactions involving sales to the Group's substantial shareholder of HK$2.5 million which accounts for about 5% of sales for the year and included as one of the five largest customers above, 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 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Audit Committee comprised of two independent non-executive directors, namely Mr. Sze Tsai Ping, Michael and Mr. Tan Ye Kai, Byron who resigned on 29th March 2004. A new Audit Committee member, Ms. Yip Lam Christine, was appointed on 15th June 2004. Four meetings were held during the current financial year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers.

On behalf of the Board
Lau See Hoi
Chairman

Hong Kong, 28th June 2004

AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

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 25 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2004 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, 28th June 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March 2004

	Note	2004 HK$'000	2003 HK$'000
Turnover	2	**49,263**	72,807
Cost of sales		**(30,583)**	(45,987)
Gross profit		**18,680**	26,820
Other revenues	2	**284**	998
Selling and distribution costs		**(1,822)**	(4,407)
Administrative expenses		**(47,730)**	(54,690)
Other operating expenses		**(7,558)**	(9,527)
Operating loss	3	**(38,146)**	(40,806)
Finance costs	4	**(1,211)**	(879)
Share of profits less losses of associated companies		**104**	884
Loss before taxation		**(39,253)**	(40,801)
Taxation charge	5	**(98)**	(370)
Loss after taxation		**(39,351)**	(41,171)
Minority interests		**462**	432
Loss attributable to shareholders	6 and 20	**(38,889)**	(40,739)
Basic loss per share	7	**HK(13.78 cents)**	HK(14.44 cents)

CONSOLIDATED BALANCE SHEET

As at 31st March 2004

	Note	2004 HK$'000	2003 HK$'000
Non-current assets			
Fixed assets	11	**15,590**	30,758
Interests in associated companies	13	**13,717**	13,670
		29,307	44,428
Current assets			
Inventories	14	**14,982**	15,978
Trade receivables	15	**41,193**	60,182
Other receivables, prepayments and deposits		**4,320**	5,772
Pledged bank deposits		**1,971**	12,000
Bank balances and cash	16	**12,579**	30,407
		75,045	124,339
Current liabilities			
Trade payables	17	**6,387**	14,896
Trade payables due to an associated company	18	**9,814**	9,814
Other payables and accrued expenses		**17,949**	19,410
Current portion of obligations under finance leases	21	**44**	510
Short-term bank loan, secured	25	**5,607**	20,191
		39,801	64,821
Net current assets		**35,244**	59,518
Total assets less current liabilities		**64,551**	103,946
Financed by:			
Share capital	19	**28,220**	28,220
Reserves	20	**36,274**	75,163
Shareholders' funds		**64,494**	103,383
Minority interests		**57**	519
Long-term portion of obligations under finance leases	21	**–**	44
		64,551	103,946

LAU See Hoi
Director

HUNG Randy King Kuen
Director

BALANCE SHEET

As at 31st March 2004

	Note	2004 HK$'000	2003 HK$'000
Non-current assets			
Investments in subsidiaries	12	**61,848**	177,421
Current assets			
Other receivables		**31**	18
Bank balances and cash		**89**	2,194
		120	2,212
Current liabilities			
Other payables		**367**	38
Due to subsidiaries	18	**–**	7,057
		367	7,095
Net current liabilities		**(247)**	(4,883)
Total assets less current liabilities		**61,601**	172,538
Financed by:			
Share capital	19	**28,220**	28,220
Reserves	20	**33,381**	144,318
		61,601	172,538

LAU See Hoi
Director

HUNG Randy King Kuen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2004

	Note	**2004** **HK$'000**	2003 HK$'000
Total equity as at 1st April		**103,383**	140,223
Reversal of goodwill previously charged to reserves, upon the changes in interests in a subsidiary	20	**–**	3,899
Net gains not recognised in the profit and loss account		**103,383**	144,122
Loss for the year	20	**(38,889)**	(40,739)
Total equity as at 31st March		**64,494**	103,383

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2004

	Note	**2004** **HK$'000**	2003 HK$'000
Net cash used in operations	*23(a)*	**(10,355)**	(27,775)
Interest expenses		**(1,190)**	(784)
Interest element of finance lease rental payments		**(21)**	(95)
Hong Kong profits tax (paid)/refunded		**–**	(267)
Overseas taxation paid		**(41)**	(198)
Net cash used in operating activities		**(11,607)**	(29,119)
Investing activities			
Purchase of fixed assets		**(1,369)**	(4,446)
Sale of investment securities		**–**	228
Interest received		**213**	483
Net cash used in investing activities		**(1,156)**	(3,735)
Net cash outflow before financing		**(12,763)**	(32,854)
Financing	*23(b)*		
Net (decrease)/increase in short-term bank loans		**(14,584)**	8,976
Capital element of finance lease payments		**(510)**	(652)
Net changes in bank deposits pledged		**10,029**	2,363
Net cash (used in)/inflow from financing		**(5,065)**	10,687
Decrease in cash and cash equivalents		**(17,828)**	(22,167)
Cash and cash equivalents at 1st April		**30,407**	52,574
Cash and cash equivalents at 31st March		**12,579**	30,407
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		**12,579**	30,407

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.

In the current year, the Group adopted Statement of Standard Accounting Practice ("SSAPs") Number 12 (revised) "Income Taxes" issued by the HKSA which is applicable to the Group and is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policy are set out below in note 1 (h) to the accounts. The adoption of the revised SSAP12 does not have material impact on the financial results of the Group.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31st March. Subsidiaries are those entities which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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.

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.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting (continued)

(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.

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.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(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%

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Fixed assets (continued)

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.

(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 current or long-term liabilities, as appropriate.

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) 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.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(f) 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.

(g) 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.

(h) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior years, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively. The adoption of revised SSAP12 has no significant effect on the Group's results for the prior accounting periods.

(i) Revenue recognition

(i) Revenue from the sales 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 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.

(j) 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.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(k) 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.

(l) 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.

(m) 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 segment 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 bank balances and cash. 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, turnover is based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

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:

	2004	2003
	HK$'000	*HK$'000*
Turnover		
Sales of goods, net of discounts and value-added tax	**49,263**	72,807
Other revenues		
Interest income	**214**	483
Others	**70**	515
	284	998
Total revenues	**49,547**	73,805

Primary reporting format – business segments

The Group is organized 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 operates in three main geographical areas:

Mainland China

Hong Kong

Other Asia Pacific countries

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments

	Telecommunications products 2004 *HK$'000*	Gas turbine generators 2004 *HK$'000*	Unallocated 2004 *HK$'000*	Group 2004 *HK$'000*
Turnover	48,936	327	–	49,263
Segment results	(17,878)	(13,429)	–	(31,307)
Interest income	–	–	214	214
Unallocated corporate expenses	–	–	(7,053)	(7,053)
Operating loss				(38,146)
Finance costs				(1,211)
Share of profits less losses of associated companies	270	(166)	–	104
Loss before taxation				(39,253)
Taxation charge				(98)
Loss after taxation				(39,351)
Minority interests				462
Loss attributable to shareholders				(38,889)
Segment assets	48,450	8,948	–	57,398
Interests in associated companies	13,102	616	–	13,718
Unallocated assets	–	–	33,236	33,236
Total assets				104,352
Segment liabilities	23,720	9,814	–	33,534
Unallocated liabilities	–	–	6,267	6,267
Total liabilities				39,801
Capital expenditure	324	–	1,046	1,370
Depreciation	626	4,500	2,861	7,987
Impairment of fixed assets	–	9,000	–	9,000

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

	Telecommunications products 2003 *HK$'000*	Gas turbine generators 2003 *HK$'000*	Unallocated 2003 *HK$'000*	Group 2003 *HK$'000*
Turnover	68,387	4,420	–	72,807
Segment results	(7,657)	(5,252)	–	(12,909)
Interest income	–	–	483	483
Unallocated corporate expenses	–	–	(28,380)	(28,380)
Operating loss				(40,806)
Finance costs				(879)
Share of profit less losses of associated companies	1,104	(220)	–	884
Loss before taxation				(40,801)
Taxation charge				(370)
Loss after taxation				(41,171)
Minority interests				432
Loss attributable to shareholders				(40,739)
Segment assets	71,703	21,492	–	93,195
Interests in associated companies	12,889	781	–	13,670
Unallocated assets	–	–	61,902	61,902
Total assets				168,767
Segment liabilities	31,329	11,752	–	43,081
Unallocated liabilities	–	–	21,784	21,784
Total liabilities				64,865
Capital expenditure	1,705	–	2,741	4,446
Depreciation	665	4,500	2,219	7,384

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

	Turnover		Segment profit/(loss)	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Mainland China	**39,186**	67,824	**(12,371)**	(8,065)
Hong Kong	**3,758**	765	**(6,973)**	(1,272)
Other Asia Pacific countries	**6,319**	4,218	**573**	1,563
	49,263	72,807	**(18,771)**	(7,774)
Unallocated costs	**–**	–	**(20,118)**	(33,032)
Total	**49,263**	72,807	**(38,889)**	(40,806)

	Total assets		Capital expenditure	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Mainland China	**38,877**	128,366	**1,274**	3,766
Hong Kong	**51,020**	24,545	**72**	643
Other Asia Pacific countries	**738**	2,186	**24**	37
	90,635	155,097	**1,370**	4,446
Interests in associated companies	**13,717**	13,670	**–**	–
Total	**104,352**	168,767	**1,370**	4,446

3 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

Crediting	**2004** **HK$'000**	2003 HK$'000
Recovery of bad debts previously written off	**2,603**	–

Charging	**2004** **HK$'000**	2003 HK$'000
Staff costs (including directors' remuneration) *(Note 9)*		
Included in selling and distribution costs	**863**	1,959
Included in administrative expenses	**18,881**	21,939
Research and development costs	**4,096**	7,505
Depreciation:		
Owned fixed assets	**7,055**	6,811
Leased fixed assets	**482**	573
Operating leases in respect of land and buildings	**4,488**	4,571
Auditors' remuneration	**655**	658
Loss on disposal of fixed assets	**–**	454
Included in other operating expenses:		
Provision for other receivables	**1,161**	–
Provision for doubtful debts	**–**	5,964
Provision for inventories	**–**	3,213
Loss on disposal of investment securities	**–**	350
Impairment of fixed assets	**9,000**	–

4 FINANCE COSTS

	2004 **HK$'000**	2003 HK$'000
Interest on short-term bank loans and overdrafts	**1,190**	784
Interest element of finance leases	**21**	95
	1,211	879

NOTES TO THE ACCOUNTS

5 TAXATION CHARGE

The amount of taxation charged to the consolidated profit and loss account represents:

	2004	2003
	HK$'000	*HK$'000*
Overseas taxation		
– Current year	**41**	–
– Under provision in prior years	**–**	198
	41	198
Share of taxation attributable to an associated company	**57**	172
	98	370

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004	2003
	HK$'000	*HK$'000*
Loss before taxation	**(39,253)**	(40,801)
Calculated at a taxation rate of 17.5% (2003: 16%)	**(6,869)**	(6,528)
Income not subject to taxation	**(520)**	(408)
Expenses not deductible for taxation purposes	**7,146**	5,228
Net deferred tax assets not recognised	**341**	2,078
Taxation charge	**98**	370

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 (2003: Nil). In 2003, the Hong Kong government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

Overseas taxation has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries which the Group operates.

5 TAXATION CHARGE (continued)

The Group's subsidiaries in the People's Republic of China ("PRC"), 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.

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 ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK$110,937,000 (2003: HK$1,198,000).

7 LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of HK$38,889,000 (2003: HK$40,739,000) and 282,196,000 (2003: 282,196,000) 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 "MPF fund") for its employees in Hong Kong. Contributions to the MPF 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 MPF fund. The assets of the MPF 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 relevant local municipal governments. Contributions are made by the relevant subsidiaries to these schemes based on certain percentages of the applicable payroll costs.

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

Total contributions made by the Group during the year ended 31st March 2004 amounted to HK$1,188,000 (2003: HK$641,000).

9 STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2004	2003
	HK$'000	*HK$'000*
Wages and salaries	**17,209**	21,111
Termination benefits	**–**	169
Pension costs – defined contribution plans including the MPF fund	**1,188**	641
Provision for long service payment	**52**	375
Other staff welfare	**1,295**	1,602
	19,744	23,898

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2004	2003
	HK$'000	*HK$'000*
Fees	**520**	449
Other emoluments:		
Basic salaries, housing allowances and other allowances	**5,200**	5,200
Contributions to pension schemes	**72**	54
	5,792	5,703

The two independent non-executive directors received director's fees for the year ended 31st March 2004 of approximately HK$260,000 (2003: HK$260,000) and HK$260,000 (2003: HK$189,000). They did not receive any other emoluments.

The executive directors received individual emoluments, excluding pensions and compensation for loss of office as director, for the year ended 31st March 2004 of approximately HK$1,560,000 (2003: HK$1,560,000), HK$1,560,000 (2003: HK$1,560,000), HK$1,430,000 (2003: HK$1,430,000) and HK$650,000 (2003: HK$650,000), respectively.

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2003: four) directors and their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2003: one) individual during the year are as follows:

	2004	2003
	HK$'000	*HK$'000*
Basic salaries, housing allowances and other allowances	**614**	590
Contributions to pension scheme	**12**	12
	626	602

11 FIXED ASSETS

Group	**Buildings**	**Leasehold improvements**	**Furniture and equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At 1st April 2003	11,080	2,710	28,706	3,662	46,158
Additions	–	324	290	755	1,369
At 31st March 2004	11,080	3,034	28,996	4,417	47,527
Accumulated depreciation:					
At 1st April 2003	235	1,709	11,672	1,784	15,400
Charge for the year	222	404	6,006	905	7,537
Impairment charge	–	–	9,000	–	9,000
At 31st March 2004	457	2,113	26,678	2,689	31,937
Net book value:					
At 31st March 2004	10,623	921	2,318	1,728	15,590
At 31st March 2003	10,845	1,001	17,034	1,878	30,758

11 FIXED ASSETS (continued)

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

	2004	2003
	HK$'000	*HK$'000*
In the PRC, held on:		
Leases of over 50 years	**1,771**	1,810
Leases of between 10 to 50 years	**8,852**	9,035
	10,623	10,845

At 31st March 2004, the net book value of fixed assets held by the Group under finance leases amounted to approximately HK$438,000 (2003: HK$869,000).

12 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2004	2003
	HK$'000	*HK$'000*
Investments at cost:		
Unlisted shares/investments	**40,922**	48,921
Amounts due from subsidiaries	**130,926**	128,500
	171,848	177,421
Less: provision	**(110,000)**	–
	61,848	177,421

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

The following is a list of the principal subsidiaries at 31st March 2004:

Name	**Country/place of incorporation/ establishment and kind of legal entity**	**Principal activities and place of operation**	**Particulars of issued share capital/ registered capital**	**Effective interest held**
Directly held by the Company				
T S Telecom (B.V.I) Limited*	British Virgin Islands, limited liability company	Investment holding in Hong Kong	2 ordinary shares of US$1 each	100%

12 INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

The following is a list of the principal subsidiaries at 31st March 2004 (continued):

Name	Country/place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
Indirectly held by the Company				
T S International Company Limited ("T S International")	Hong Kong, limited liability company	Investment holding in Hong Kong	100,000 ordinary shares of HK$1 each	100%
T S International Limited*	New Zealand, limited liability company	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, wholly owned foreign enterprise	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, wholly owned foreign enterprise	Assembling and distribution of cable pressurization equipment and power monitoring equipment in the PRC	Registered capital US$1,250,000	100%
TSTT (Canada) Ltd*	Canada, limited liability company	Investment holding in Canada	100 common shares of CAD 1 each	100%
Beijing Kong Da Net Telecommunications Equipment Ltd. ("KD Net")*	PRC, wholly owned foreign enterprise	Manufacturing of telecommunications equipment and software in the PRC	Registered capital RMB4,000,000	75%

* *statutory accounts not audited by PricewaterhouseCoopers*

12 INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

Ying Zhi Xun, T S Shenzhen and KD Net have adopted 31st December as their financial year end date for local statutory reporting purposes. For the preparation of the consolidated accounts, management accounts of these subsidiaries for each of the 12 months ended 31st March 2003 and 2004 have been used after making adjustments, as appropriate, for compliance with accounting principles generally accepted in Hong Kong.

13 INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	**13,717**	13,670
Unlisted investments, at cost	**4,755**	4,755

The following is a list of associated companies at 31st March 2004:

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 local 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 2003 and 2004 have been used after making adjustments, as appropriate, for compliance with accounting principles generally accepted in Hong Kong.

14 INVENTORIES

	Group 2004 HK$'000	2003 HK$'000
Raw materials	**1,776**	2,135
Work in progress	**929**	1,130
Finished goods	**12,277**	12,713
	14,982	15,978

The balances were stated after making a provision for loss of HK$4,713,000 (2003: HK$4,713,000).

15 TRADE RECEIVABLES

Included in the balance are retention monies arising from sales of goods totalling approximately HK$18,110,000 (2003: HK$19,842,000) which are expected to be settled more than twelve months from the balance sheet date.

Sales proceeds are payable according to the terms of sales contracts. Majority of sales contracts include retention monies.

At 31st March 2004, the ageing analysis of the trade receivables was as follows:

	Group 2004 HK$'000	2003 HK$'000
Within 6 months	**16,684**	40,886
6 months-1 year	**4,310**	7,757
1-2 years	**17,001**	5,821
Overs 2 years	**3,198**	5,718
	41,193	60,182

16 BANK BALANCES AND CASH

Included in the balance is an amount of HK$4,398,000 (2003: HK$18,640,000) which is denominated in Renminbi. Renminbi is not a freely convertible currency.

NOTES TO THE ACCOUNTS

17 TRADE PAYABLES

At 31st March 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 30 days	**2,417**	2,593
31-60 days	**436**	226
61-90 days	**552**	1,802
91-180 days	**1,353**	7,821
Over 180 days	**1,629**	2,454
	6,387	14,896

18 DUE TO SUBSIDIARIES/TRADE PAYABLES DUE TO AN ASSOCIATED COMPANY

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

At 31st March 2004, the ageing analysis of the trade payables due to an associated company was as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 60 days	**–**	7
61-90 days	**–**	–
91-180 days	**–**	1,079
Over 180 days	**9,814**	8,728
	9,814	9,814

19 SHARE CAPITAL

	Company	
	2004	2003
	HK$'000	*HK$'000*
Authorised:		
800,000,000 ordinary shares of HK$0.1 each	**80,000**	80,000
Issued and fully paid:		
282,196,000 ordinary shares of HK$0.1 each	**28,220**	28,220

20 RESERVES

Group	Share premium	PRC statutory reserves	Merger difference	Retained earnings/ (Accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note (a))	*(Note (b))*		
At 1st April 2002	96,616	6,099	(250)	9,538	112,003
Impairment loss on investment securities	–	–	–	3,899	3,899
Loss for the year	–	–	–	(40,739)	(40,739)
Transfer between reserves	–	1,013	–	(1,013)	–
At 31st March 2003	96,616	7,112	(250)	(28,315)	75,163
Company and subsidiaries	96,616	3,304	(250)	(34,531)	65,139
Associated companies	–	3,808	–	6,216	10,024
At 31st March 2003	96,616	7,112	(250)	(28,315)	75,163
At 1st April 2003	96,616	7,112	(250)	(28,315)	75,163
Loss for the year	–	–	–	(38,889)	(38,889)
Transfer between reserves	–	360	–	(360)	–
At 31st March 2004	96,616	7,472	(250)	(67,564)	36,274
Company and subsidiaries	96,616	3,664	(250)	(73,827)	26,203
Associated companies	–	3,808	–	6,263	10,071
At 31st March 2004	96,616	7,472	(250)	(67,564)	36,274

(a) The PRC statutory reserves represent 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.

20 RESERVES (continued)

(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.

Company	**Share premium** *HK$'000*	**Retained earnings/ (accumulated losses)** *HK$'000*	**Total** *HK$'000*
Company			
At 1st April 2002	137,187	8,329	145,516
Loss for the year	–	(1,198)	(1,198)
At 31st March 2003	137,187	7,131	144,318
At 1st April 2003	137,187	7,131	144,318
Loss for the year	–	(110,937)	(110,937)
At 31st March 2004	137,187	(103,806)	33,381

Note: Share premium is distributable which is calculated under the Companies Law of the Cayman Islands and the Articles of Association of the Company under certain circumstances.

21 OBLIGATIONS UNDER FINANCE LEASES

	Group	
	2004 *HK$'000*	2003 *HK$'000*
Obligations under finance leases wholly repayable within five years	**44**	554
Current portion included in current liabilities	**(44)**	(510)
	–	44

21 OBLIGATIONS UNDER FINANCE LEASES (continued)

At 31st March 2004, the Group's finance lease liabilities were repayable as follows:

	Group 2004 HK$'000	2003 HK$'000
Within one year	**44**	530
In the second year	**–**	44
	44	574
Future finance charges on finance leases	**–**	(20)
Present value of finance lease liabilities	**44**	554
The present value of finance leases liabilities are as follows:		
Within one year	**44**	510
In the second year	**–**	44
	44	554

22 DEFERRED TAXATION

At 31st March 2004, the Group has the following unprovided deferred taxation:

	Group 2004 HK$'000	2003 HK$'000
Deferred tax liabilities/(assets):		
Accelerated depreciation allowances	**873**	493
Tax losses	**(7,721)**	(7,000)
	(6,848)	(6,507)

NOTES TO THE ACCOUNTS

23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash used in operations

	2004 HK$'000	2003 HK$'000
Loss before taxation	**(39,253)**	(40,801)
Share of profits less losses of associated companies	**(104)**	(884)
Depreciation	**7,537**	7,384
Loss on disposal of fixed assets	**–**	454
Loss on disposal of investment securities	**–**	350
Impairment of fixed assets	**9,000**	–
Interest income	**(214)**	(483)
Interest expenses	**1,211**	879
Operating loss before working capital changes	**(21,823)**	(33,101)
Decrease in inventories	**996**	1,383
Decrease/(increase) in trade receivables, other receivables, prepayments and deposits	**20,442**	(12,643)
(Decrease)/increase in trade payables, other payables and accrued expenses	**(9,970)**	19,386
Decrease in trade payables due to an associated company	**–**	(2,800)
Net cash used in operations	**(10,355)**	(27,775)

(b) Analysis of changes in financing during the year

	Obligations under finance leases		Short-term bank loans	
	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000
At 1st April	**554**	1,206	**20,191**	11,215
Net changes in bank loans	**–**	–	**(14,584)**	8,976
Payment of capital element of finance leases	**(510)**	(652)	**–**	–
At 31st March	**44**	554	**5,607**	20,191

(c) Major non-cash transaction

Last 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.

24 COMMITMENTS

(a) Commitments under operating leases

(i) At 31st March 2004, the Group had future aggregate minimum lease payments under noncancellable operating leases as follows:

	2004	2003
	HK$'000	*HK$'000*
Not later than one year	**3,403**	2,223
Later than one year and not later than five years	**2,223**	1,454
	5,626	3,677

(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, 2002, T S International entered into a licence agreement, which will be expired on 31st March 2005, 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$121,000.

(b) The Company did not have any material capital commitments as at 31st March 2004 (2003: HK$Nil).

25 SHORT-TERM BANK LOANS, SECURED

(a) One of the bank loans is secured by a leasehold property amounting to HK$5,607,000 (2003; HK$Nil).

(b) One of the bank loans is secured by a fixed deposit of the Group amounting to HK$Nil (2003: HK$12,000,000).

(c) One of the bank loans is secured by the factoring of certain trade receivables amounting to HK$Nil (2003: HK$8,976,000).

26 RELATED PARTY TRANSACTIONS

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

		Group	
		2004	2003
	Note	***HK$'000***	*HK$'000*
Purchases from an associated company, D&T Engineering		**–**	4,206
Administrative service fees paid to T S Holdings	*(a)*	**960**	960
Research and development expenses charged by the ultimate holding company	*(b)*	**2,678**	2,967
Sales of goods to the ultimate holding company	*(c)*	**2,504**	–

(a) Mr. Lau See Hoi, a director of the Company, has a beneficial interest in this company.

(b) T S International entered into an agreement on 27th November 2002 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 fees payable shall in total not exceed HK$4,000,000.

(c) On 19th January 2004, T S International entered into a supply agreement (the "Agreement") with T S Telecom, which entitles the latter to purchase BSMS products from T S International for sale of such products to the customers of T S Telecom in North America. Pursuant to the Agreement, the price payable by T S Telecom to T S International shall fall within the range of 2.5% above or below the average price of the BSMS products applicable to all independent customers of the Group. For the year ended 31st March 2004, a total of HK$2,504,000 of BSMS products were supplied to T S Telecom by T S International.

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

27 ULTIMATE HOLDING COMPANY

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

28 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 28th June 2004.