



***T S Telecom Technologies Limited***

**大誠電訊科技有限公司**

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

# Contents

<b>2</b>	Corporate Profile
<b>3</b>	Financial Highlights
<b>4</b>	Chairman's Statement
<b>5</b>	Management Discussion and Analysis
<b>9</b>	Biographical Details of Directors and Senior Management
<b>11</b>	Corporate Information
<b>12</b>	Report of the Directors
<b>24</b>	Auditors' Report
<b>25</b>	Consolidated Income Statement
<b>26</b>	Consolidated Statement of Changes in Equity
<b>27</b>	Consolidated Balance Sheet
<b>28</b>	Balance Sheet
<b>29</b>	Consolidated Cash Flow Statement
<b>30</b>	Notes to the Financial Statements

## 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 and Wuhan. We also have investments in joint venture operations in Beijing, Shanghai and Harbin to manufacture advanced telecommunications equipment and gas turbine generators.

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

## FINANCIAL HIGHLIGHTS

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	<b>54,998</b>	49,263	72,807	62,153	78,818
Gross profit	<b>14,219</b>	18,680	26,820	22,114	47,616
(Loss)/profit before taxation	<b>(35,326)</b>	(39,253)	(40,801)	(56,634)	1,086
(Loss)/profit attributable to shareholders	<b>(35,725)</b>	(38,889)	(40,739)	(56,942)	2,096
Total assets	<b>63,450</b>	104,352	168,767	185,294	231,821
Total liabilities	<b>34,681</b>	39,801	64,865	39,145	30,602
Minority interests	–	57	519	5,926	5,876
Net assets	<b>28,769</b>	64,494	103,383	140,223	195,343

## 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 continued restructuring of the telecommunication bureau and policies had adversely affected the Group's business momentum in the market place.

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. 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 with a slight increase 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. We are developing a digital surveillance system and 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.

### 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 2005

# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS OF OPERATIONS

For the fiscal year ended 31st March 2005, the Group reported a total turnover of HK\$54,998,000 and loss attributable to shareholders of HK\$35,725,000 as compared to a turnover of HK\$49,263,000 and a loss of HK\$38,889,000 in the previous year.

The increase in turnover was mainly due to one major contract of Fibersmart products worth approximately HK\$17,383,000 (equivalent to approximately RMB18,600,000), 100% of which were delivered to customers.

Our gross margin was 25.9% for the current fiscal year as compared to a gross margin of 37.9% for the last fiscal year. The decrease in gross margin was because the majority of cost of sales is related to Fibersmart products.

The decrease in other revenue is primarily due to the reduction in bank interest income.

During the current fiscal year, the Group continued to control selling and distribution costs and administrative expenses tightly. Selling and distribution costs declined by 56.6% and administrative expenses declined by 23.9%, as compared with the last fiscal year.

Other operating expenses mainly consisted of bad debt written off of HK\$8,798,000, provision of slow moving inventories of HK\$6,963,000 and loss on disposal of fixed assets of HK\$916,000.

The decrease in finance costs is because of the repayment of the short term bank loan approximately HK\$5.6 million denominated in Renminbi on 13th August 2004.

The Group posted a net loss attributable to shareholders of approximately HK\$35,725,000 for the current year, which was 8.1% lower from the net loss attributable to shareholders incurred for the last fiscal year. The reduction of the net loss was mainly attributable to the increase in other income, together with the decrease in selling and distribution costs, administrative expenses and finance costs.

## SEGMENT INFORMATION

Business from telecommunications products accounted for 97.7% and business from gas turbine generators accounted for 2.3% of the turnover of the Group for the year ended 31st March 2005.

The turnover and the operating loss of telecommunications products for the current year was HK\$53.7 million and HK\$35.2 million, respectively, as compared to the turnover and operating loss of HK\$48.9 million and HK\$17.9 million respectively for the preceding year.

Approximately HK\$135,000 of turnover of telecommunications products was generated from New Zealand for the year ended 31st March 2005.

# MANAGEMENT DISCUSSION AND ANALYSIS

## TELECOMMUNICATION PRODUCTS

### Mainland China Market

Business of telecommunications products from the Mainland China accounted for approximately 95% of the Group's turnover for the year ended 31st March 2005.

During the year, the Group continued to encounter pressure from customers demanding for concession of contract terms including lower pricing and longer payment period, causing the Group to take a longer time required to close and sign contracts. It was quite clear that the business environment of the telecom monitoring equipment industry of China has become unfavorable and competitive. The Group has been addressing this challenge by broadening its product base and exploring opportunities in the international market.

### Other Asia Pacific Countries and Other Markets

Business from outside of China now accounted for approximately 5% of the total turnover. In order to enhance the sales opportunities, the Group would consider setting up a sales office in Canada in the coming months.

## GAS TURBINE GENERATORS

During the year, the sales of gas turbine generators have increased by nearly four times as compared to these of last year. The Group would continue to implement aggressive marketing strategies to promote the sale of gas turbine generators in the telecom, petroleum and other industries.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st March 2005, the Group's cash balance of approximately HK\$8,757,000 has declined when compared with the cash balance of approximately HK\$14,550,000 (including pledged bank deposits of HK\$1,971,000) of last year. The cash reduction was due to the purchase of fixed assets of approximately HK\$1.8 million and the repayment of approximately HK\$5.6 million of short-term bank loan and HK\$1.3 million of short-term borrowings during the year.

As at 31st March 2005, the Group's net current assets were approximately HK\$2,098,000. The short term bank loan of HK\$5,600,000 denominated in Renminbi which was primarily used to obtain a letter of credit facility to purchase inventory and which was secured by the Group's real estate property in Shenzhen was repaid on 13th August 2004.

After the repayment of the short-term bank loans disclosed above, the Group had no bank loan as at 31st March 2005. The Group financed its operations and investing activities primarily by operating revenue, internal resources and short term borrowings. The Group would make further effort to collect the trade receivables to finance its current operations.



## MANAGEMENT DISCUSSION AND ANALYSIS

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 2005, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

There had been no change in the capital structure and issued capital of the Group for the year ended 31st March 2005.

### GEARING RATIO

The Group's gearing ratio, which was defined as the ratio of total borrowings to shareholders' equity, decreased to 2.4% from 8.7% of the previous year.

### FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31st March 2005, the Group had not authorized or contracted for any capital expenditure commitments and had no future plans for material investments in capital assets.

### MATERIAL ACQUISITION AND DISPOSALS

The Group did not have any material acquisitions or disposals of major subsidiaries and affiliated companies for the year ended 31st March 2005.

### CONTINGENT LIABILITIES

As at 31st March 2005, the Group did not have any material contingent liabilities.

### SUBSEQUENT EVENTS

No subsequent events had occurred after 31st March 2005, which might 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 were denominated in Renminbi or Hong Kong dollars, the Group did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year under review.

## MANAGEMENT DISCUSSION AND ANALYSIS

### EMPLOYEES AND REMUNERATION POLICY

As at 31st March 2005, the Group employed 175 staff in the PRC and Hong Kong, representing a decrease of 55 staff from 31st March 2004. Accordingly, the Group's remuneration to employees, including directors' emoluments, decreased by approximately HK\$4.0 million to approximately HK\$16.0 million for the current fiscal year.

The Group reviewed employee's remuneration from time to time and salary adjustment was normally made on an annual basis. Special adjustment based on length of service and good performance could be made at any time when warranted. In addition to salaries, the Group provided employee's benefits such as medical insurance and provident fund. Share options and bonuses were also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

### 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.

# 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 Kai Tat**, aged 52, has been the chief financial officer and qualified accountant of the Group since July 2004. He is also the director and chief financial officer of T S Telecom Ltd. Mr. Wong is primarily responsible for development and implementation of the Group's financial strategies. He also develops and supervises the Group's accounting and financial reporting procedures and internal controls. Mr. Wong joined the Group as an independent non-executive director of the Company in November 1999 and was re-designated as an executive director of the Company in July 2000.

Mr. Wong is an associate member of the Hong Kong Institute of Certified Public Accountants. 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 degree from Hong Kong Polytechnic University and an honorary doctor of law degree from Armstrong University in the U.S.A.

### Independent Non-executive Directors

**Mr. SZE Tsai Ping, Michael**, aged 60, was appointed as an independent non-executive director of the Company on 24th July 2000. Mr. Sze has over thirty years of experience in the financial and securities field. He was a Council Member of The Stock Exchange of Hong Kong Limited and a former Member of the Main Board Listing Committee. 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 also a non-executive director of Burwill Holdings Limited and an independent non-executive director of GOME Electrical Appliances Holding Limited, each of these companies are companies listed on The Stock Exchange of Hong Kong Limited.

Mr. Sze is a qualified Chartered Accountant, being a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow of the Hong Kong Institute of Certified Public Accountants, a Fellow of the Association of Chartered Certified Accountants and a Fellow of the Hong Kong Institute of Directors.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. HUI Sin Man, Alice**, aged 43, was appointed as an independent non-executive director of the Company since 30th September 2004. Ms. Hui has many years of experience in handling administration and company secretarial matters.

**Mr. KWAN Kai Cheong**, aged 55, was appointed as an independent non-executive director of the Company since 30th March 2005. Mr. Kwan holds a Bachelor of Accountancy (Honours) degree from the University of Singapore and is member of the Institute of Chartered Accountants in Australia. He completed the Stanford Executive Program in 1992. Mr. Kwan had worked in Merrill Lynch & Co. Inc. as president for its Asia Pacific region and he had been the Joint Managing Director of Pacific Concord Holding Limited. Currently, Mr. Kwan is the president of Morrison & Company Limited, which is a business consultancy firm, and a director of China Medical Science Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Mr. Kwan is also an independent non-executive director of Hutchison Telecommunications International Limited, Hutchison Harbour Ring Limited and Soundwill Holdings Limited, each of these companies are companies listed on The Stock Exchange of Hong Kong Limited.

### SENIOR MANAGEMENT

**Mr. LI Tao**, aged 36, 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 26, 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.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Lau See Hoi,  
*Chairman and Chief Executive Officer*  
Mr. Wong Kai Tat,  
*Chief Financial Officer*

#### Independent Non-Executive Directors

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

### COMPANY SECRETARY

Ms. Lam Tung Ming, Eileen

### AUTHORISED REPRESENTATIVES

Mr. Lau See Hoi  
Ms. Lam Tung Ming, Eileen

### COMPLIANCE OFFICER

Mr. Wong Kai Tat

### QUALIFIED ACCOUNTANT

Mr. Wong Kai Tat

### AUDIT COMMITTEE

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

### 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 2802, Two Exchange Square  
8 Connaught Place  
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  
46th Floor, Hopewell Centre  
183 Queen's Road East, Hong Kong.

### AUDITORS

HLB Hodgson Impey Cheng  
*Chartered Accountants*  
*Certified Public Accountants*  
31/F, Gloucester Tower, The Landmark  
11 Pedder Street  
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 2005.

### **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 14 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segment is set out in note 4 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated income statement 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 22 to the financial statements.

### **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 13 to the financial statements.

### **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 27 to the financial statements.

### **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.

## REPORT OF THE DIRECTORS

### SHARE CAPITAL

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

### 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

At 31st March 2005, the Company did not have any reserves available for distribution to shareholders of the Company.

### 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.

## REPORT OF THE DIRECTORS

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 2005, 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.



## REPORT OF THE DIRECTORS

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 2005, there were no outstanding options under the Share Option Plan.

### 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 (*resigned on 2nd July 2004*)

Mr. Wong Kai Tat

#### Independent non-executive directors

Mr. Sze, Tsai Ping Michael

Ms. Yip, Lam Christine (*appointed on 15th June 2004 and resigned on 10th December 2004*)

Ms. Hui, Sin Man, Alice (*appointed on 30th September 2004*)

Mr. Kwan, Kai Cheong (*appointed on 10th March 2005*)

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 9 and 10.

## REPORT OF THE DIRECTORS

### DIRECTORS' SERVICE CONTRACTS

Mr. Lau See Hoi has entered into a service agreement with the Company for a term of two years and six months commencing from 1st July 2004 and shall continue thereafter until the agreement is terminated by either party giving to the other not less than six months' written notice. Mr. Wong Kai Tat has entered into a service agreement with the Company for a term of one year commencing from 1st July 2000 and shall continue thereafter until the agreement is terminated by either party giving the other not less than three months' written notice.

Each of the three independent non-executive directors have entered into appointment letters with the Company. The appointment of Mr. Sze Tsai Ping, Michael is for a term of one year commencing from 3rd August 2004, the appointment of Ms. Hui Sin Man, Alice is for a term of two years commencing from 30th September 2004 and the appointment of Mr. Kwan Kai Cheong is for a term of one year commencing from 10th March 2005.

Save as disclosed, 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 Company Limited ("T S International") entered into a licence agreement, which 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. For the year ended 31st March 2005, a licence fee of approximately HK\$1.4 million was paid to T S Holdings.

In addition, for the year ended 31st March 2005, administrative service fees totalling HK\$240,000 were paid to T S Holdings.

T S International entered into an agreement on 27th November 2002 for a term of three years, which expired on 31st March 2005, with T S Telecom Ltd. ("T S Telecom"), the ultimate holding company of which the directors are, among others, Mr. Lau See Hoi and Mr. Wong Kai Tat. Under the agreement, T S Telecom 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 2005, research and development service fees amounting to approximately HK\$1.9 million were paid to T S Telecom.

On 19th January, 2004, T S International entered into a supply agreement, which will expire on 31st March 2006, with T S Telecom. Pursuant to the agreement, T S Telecom will be entitled to purchase BSMS products from T S International. For the year ended 31st March, 2005, T S Telecom did not purchase any BSMS products from T S International.

## REPORT OF THE DIRECTORS

On 3rd April 2004, T S Telecom Technologies Limited (the "Company") entered into a consultancy agreement with Wayfield Limited ("Wayfield") which was controlled by Mr. Wong Weng, a former director of the Company who resigned on 3rd April 2004. Pursuant to the consultancy agreement, Wayfield would provide, at a fixed fee of HK\$999,000, consultancy services for a period of six months from 3rd April 2004 to the Company in relation to advising strategies for bidding pending sales contract proposal in PRC and consultation upon other matters reasonably requested by the Company relating to the Company's business in PRC.

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 International to T S Telecom under the agreement shall not exceed HK\$4.0 million. For the year ended 31st March 2005, research and development service fees amounting to approximately HK\$1.9 million were paid to T S Telecom.
- (ii) The renewed licence agreement dated 27th November 2002 was 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. Under the renewed licence agreement, T S International 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.

## REPORT OF THE DIRECTORS

- (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 2005, T S Telecom did not purchase any BSMS products from T S International.

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 2004/2005 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.

### **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 2005, 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

## REPORT OF THE DIRECTORS

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

Directors	Number of ordinary shares of HK\$0.1 each				Total number of shares	Approximate percentage holding of shares %
	Personal interest	Family interest	Corporate interest	Other interest		
Mr. Lau See Hoi (Note 1)	–	–	168,960,000	–	168,960,000	59.87
Mr. Hung, Randy King Kuen (Note 2)	360,000	–	–	–	360,000	0.13

Note:

- These shares are held by T S Telecom, 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 T S Telecom).
- To the best knowledge of the Company up to 30th June 2004, these shares were held by Mr. Hung, Randy King Kuen on 30th June 2004. Mr. Hung resigned as director of the Company on 2nd July 2004.

### 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 (Note 1)	T S Telecom Ltd.	Personal	2,885,500	13.12

Note:

- To the best knowledge of the Company up to 30th June 2004, these shares were held by Mr. Wong Weng on 30th June 2004. Mr. Wong resigned as director of the Company on 3rd April 2004.

As at 31st March 2005 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.

## REPORT OF THE DIRECTORS

### 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 2005, 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. ("T S Telecom") (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 T S Telecom, 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 T S Telecom). 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 2005, 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.

### DISCLOSURE OF TRADE RECEIVABLES PURSUANT TO RULE 17.15 OF GEM LISTING RULES

Pursuant to rules 17.15 and 17.17 of the Rules Governing the Listing of Securities (the "GEM Listing Rules") on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), a disclosure obligation arises where a relevant advance to an entity from T S Telecom Technologies Limited (the "Company") and its subsidiaries (collectively the "Group") exceeds 8% of the Company's total market capitalisation.

As at 31st March 2005, there were 282,196,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.064 per share as stated in the Stock Exchange's daily quotation sheets for the trading days from 22nd March 2005 to 30th March 2005 (both days inclusive), being the five business days immediately preceding 31st March 2005, the total market capitalisation of the Company was approximately HK\$18.0 million as at 31st March 2005.

## REPORT OF THE DIRECTORS

As at 31st March 2005, each of the following trade receivables from customers of the Group (the "Trade Receivables") exceeded 8% of the Company's total market capitalisation as at 31st March 2005:

	<i>HK\$</i>	<b>% of Total Market Capitalisation</b>
Wubei Mobile Communication Company Limited	9,086,737.38	50%
China Netcom Beijing Communication Corporation	2,955,030.50	17%
Unicom Horizon Mobile Telecommunications Company Limited Zhejiang Branch	2,327,337.38	13%
Heilongjiang Province Communication Corporation Harbin Shi Branch	1,738,317.76	10%
China Unicom Corporation Limited Zhejiang Branch	1,887,243.93	10%

All of the above customers are independent of, and not connected with, the Company, management shareholders, the Directors, chief executive or substantial shareholders of the Company and its subsidiaries or their respective associates (as defined in the GEM Listing Rules), as at 31st March 2005.

Each of the Trade Receivables resulted from sales by the Group in its ordinary course of business and on normal commercial terms. They are all unsecured and interest free, and have normal terms of settlement.

### 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 exists an agreement 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 commencing from 1st April 1998. Mr. Lau See Hoi has a beneficial interest in T S Holdings. The administrative service agreement was terminated effective 1st July 2004.

## 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            | 27% |
| – five largest customers combined | 40% |

#### Purchases

- |                                   |     |
|-----------------------------------|-----|
| – the largest supplier            | 16% |
| – five largest suppliers combined | 23% |

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, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 March 2006.

### CODE OF SECURITIES FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by Directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct regarding securities transactions by Directors. The Company confirms that, having made special enquiry from all Directors, the Directors have complied with the required standard of dealings and its code of conduct regarding securities transactions by Directors for the year ended 2005.

### AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. As at 31st March 2005, the audit committee comprised of three independent non-executive directors, namely Mr. Sze Tsai Ping, Michael, Ms. Hui Sin Man, Alice and Mr. Kwan Kai Cheong. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to review the Company's annual reports and financial statements, and interim and quarterly reports and the connected transactions. The audit committee has met four times for the financial year ended 31st March 2005.



## REPORT OF THE DIRECTORS

### AUDITORS

PricewaterhouseCoopers were auditors of the Company for the years ended 31st March 2003 and 2004. The financial statements of the Company for those years were audited by PricewaterhouseCoopers.

HLB Hodgson Impey Cheng were appointed as auditors of the Company by the shareholders of the Company at the annual general meeting held on 11th October 2004 to fill the causal vacancy arising from the retirement of PricewaterhouseCoopers at the said annual general meeting. The financial statements of the Company for the year ended 31st March 2005 were audited by HLB Hodgson Impey Cheng, who will retire at the forthcoming annual general meeting. A resolution to re-appoint HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Lau See Hoi**

*Chairman*

Hong Kong, 28th June 2005

## AUDITORS' REPORT



Chartered Accountants  
Certified Public Accountants

31/F, Gloucester Tower,  
The Landmark, 11 Pedder Street,  
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 financial statements on pages 25 to 56 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

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

#### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2005 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.

#### HLB Hodgson Impey Cheng

Chartered Accountants  
Certified Public Accountants

Hong Kong, 28 June 2005

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

	Note	2005 HK\$'000	2004 HK\$'000
<b>Turnover</b>	4	<b>54,998</b>	49,263
<b>Cost of sales</b>		<b>(40,779)</b>	(30,583)
<b>Gross profit</b>		<b>14,219</b>	18,680
<b>Other revenue</b>	4	<b>247</b>	284
<b>Other income</b>	4	<b>1,224</b>	–
<b>Selling and distribution costs</b>		<b>(791)</b>	(1,822)
<b>Administrative expenses</b>		<b>(36,339)</b>	(47,730)
<b>Other operating expenses</b>		<b>(13,683)</b>	(7,558)
<b>Operating loss</b>	5	<b>(35,123)</b>	(38,146)
<b>Finance costs</b>	6	<b>(179)</b>	(1,211)
<b>Share of profits less losses of associates</b>		<b>(24)</b>	104
<b>Loss before taxation</b>		<b>(35,326)</b>	(39,253)
<b>Income tax charge</b>	7	<b>(456)</b>	(98)
<b>Loss after taxation</b>		<b>(35,782)</b>	(39,351)
<b>Minority interests</b>		<b>57</b>	462
<b>Loss attributable to shareholders</b>	8, 22	<b>(35,725)</b>	(38,889)
<b>Dividends</b>		<b>–</b>	–
<b>Loss per share</b>			
Basic	9	<b>(12.66) cents</b>	(13.78) cents
Diluted	9	<b>N/A</b>	N/A

The accompanying notes form an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

	Note	2005 HK\$'000	2004 HK\$'000
<b>Total equity as at 1 April</b>		<b>64,494</b>	103,383
<b>Loss attributable to shareholders</b>	22	<b>(35,725)</b>	(38,889)
<b>Total equity as at 31 March</b>		<b>28,769</b>	64,494

The accompanying notes form an integral part of these financial statements.

## CONSOLIDATED BALANCE SHEET

As at 31 March 2005  
(Expressed in Hong Kong dollars)

	Note	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Fixed assets	13	13,366	15,590
Interests in associates	15	13,305	13,717
		<b>26,671</b>	29,307
<b>Current assets</b>			
Inventories	16	4,228	14,982
Trade receivables	17	21,850	41,193
Other receivables, prepayments and deposits		1,944	4,320
Pledged bank deposits		–	1,971
Bank balances and cash		8,757	12,579
		<b>36,779</b>	75,045
<b>Less: Current liabilities</b>			
Trade payables	18	5,332	6,387
Trade payables due to an associate	19	9,814	9,814
Other payables and accrued expenses		17,967	17,949
Provision for taxation		65	–
Amounts due to directors	20	589	–
Amount due to a related company	20	222	–
Current-portion of obligations under finance leases	23	–	44
Short-term borrowings	27	692	5,607
		<b>34,681</b>	39,801
<b>Net current assets</b>		<b>2,098</b>	35,244
<b>Total assets less current liabilities</b>		<b>28,769</b>	64,551
<b>Less: Minority interests</b>		–	57
<b>Net assets</b>		<b>28,769</b>	64,494
<i>Representing:</i>			
<b>Share capital</b>	21	28,220	28,220
<b>Reserves</b>	22	549	36,274
<b>Shareholders' equity</b>		<b>28,769</b>	64,494

Approved by the Board of Directors on 28 June 2005 and signed on behalf of the Board by:

**Lau See Hoi**  
Director

**Wong Kai Tat**  
Director

The accompanying notes form an integral part of these financial statements.

## BALANCE SHEET

As at 31 March 2005  
(Expressed in Hong Kong dollars)

	Note	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	14	418	61,848
<b>Current assets</b>			
Other receivables		25	31
Bank balances and cash		4	89
		29	120
<b>Less: Current liabilities</b>			
Other payables		376	367
<b>Net current liabilities</b>		(347)	(247)
<b>Net assets</b>		71	61,601
<i>Representing:</i>			
<b>Share capital</b>	21	28,220	28,220
<b>Reserves</b>	22	(28,149)	33,381
<b>Shareholders' equity</b>		71	61,601

Approved by the Board of Directors on 28 June 2005 and signed on behalf of the Board by:

**Lau See Hoi**  
Director

**Wong Kai Tat**  
Director

The accompanying notes form an integral part of these financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

	Note	2005 HK\$'000	2004 HK\$'000
<b>Net cash generated from/ (used in) operations</b>	25	<b>1,052</b>	(10,355)
Interest expenses		<b>(179)</b>	(1,190)
Interest element of finance lease rental payments		–	(21)
Overseas tax paid		<b>(72)</b>	(41)
<b>Net cash generated from/ (used in) operating activities</b>		<b>801</b>	(11,607)
<b>Cash flows from investing activities</b>			
Purchase of fixed assets		<b>(1,772)</b>	(1,369)
Proceeds from sales of fixed assets		<b>79</b>	–
Interest received		<b>58</b>	213
Net cash used in investing activities		<b>(1,635)</b>	(1,156)
<b>Cash flows from financing activities</b>			
Repayment of short-term bank loans		<b>(5,607)</b>	(14,584)
New short-term borrowings raised		<b>2,009</b>	–
Repayment of short-term borrowings		<b>(1,317)</b>	–
Capital element of finance lease payments		<b>(44)</b>	(510)
Net changes in pledged bank deposits		<b>1,971</b>	10,029
Net cash used in financing activities		<b>(2,988)</b>	(5,065)
Net decrease in cash and cash equivalents		<b>(3,822)</b>	(17,828)
<b>Cash and cash equivalents as at 1 April</b>		<b>12,579</b>	30,407
<b>Cash and cash equivalents as at 31 March</b>		<b>8,757</b>	12,579
<b>Analysis of balances of cash and cash equivalents</b>			
Bank balances and cash		<b>8,757</b>	12,579

As at 31 March 2005, the Group had cash and bank balances of approximately HK\$8,075,000 which were denominated in Renminbi. The remittance of these funds out of the People's Republic of China (the "PRC") is subject to the exchange control restrictions imposed by the PRC government.

The accompanying notes form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

## 1. CORPORATE INFORMATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

T S Telecom Technologies Limited (the "Company") was incorporated with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company on 24 August 1999. The Group is principally engaged in the assembly, distribution and integration of telecommunications products and gas turbine generators. The principal activities and other particulars of its subsidiaries are set out in Note 14 to the financial statements.

The directors of the Company (the "Directors") consider the ultimate holding company as at 31 March 2005 to be T S Telecom Ltd. ("T S Telecom"), a company incorporated in Canada and listed on the TSX Venture Exchange.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The financial statements have been prepared under the historical cost convention.

## 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the "new HKFRSs"), which are effective for accounting periods commencing on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The new HKFRSs may result in changes in the future as to how the Company's financial performance and financial position are prepared and presented.

## 3. PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies followed by the Company in the preparation of the financial statements is set out below:

### a. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 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 income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### a. Basis of consolidation (continued)

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.

### b. Associates

An associate 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 income statement includes the Group's share of the results of associates for the year, and the consolidated balance sheet includes the Groups' share of the net assets of the associates.

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

### c. Fixed assets

Fixed assets are stated at cost less accumulated depreciation and 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% to 2.7%
Leasehold improvements	:	25%
Furniture and equipment	:	20% to 25%
Motor vehicles	:	25%

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### d. Assets under leases

##### (i) Finance leases

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

The finance charges are charged to the income statement 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 income statement 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 realisable value. Cost, calculated on the first-in, first out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### 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 financial statements. Taxation rate enacted or substantively enacted at 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.

#### i. Revenue recognition

- i. Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- ii. Interest income is recognised on a time proportioned 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.

#### k. 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 income statement.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### **i. Research and development costs**

Research costs are expensed as incurred. Cost 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, cost 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.

#### **m. Borrowing costs**

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

#### **n. 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 associates 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.

#### **o. Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### p. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

#### q. Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow of economic resources occurs so that outflow is probable, a provision is recognised.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 4. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2005 HK\$'000	2004 HK\$'000
Turnover:		
Sales of goods, net of discounts and value-added tax	<b>54,998</b>	49,263
Other revenue:		
Interest income	<b>58</b>	214
Others	<b>189</b>	70
	<b>247</b>	284
Other income:		
Overprovision for sales commission written back	<b>1,207</b>	–
Exchange gain	<b>17</b>	–
	<b>1,224</b>	–
Total revenue	<b>56,469</b>	49,547

#### Primary reporting format – business segments

The Group is organised into two main business segments:

- Telecommunications products
- Gas turbine generators

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

#### Secondary reporting format – geographical segments

The Group operates in three main geographical areas:

- Mainland China
- Hong Kong
- Other Asia Pacific countries

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 4. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### Primary reporting format – business segments

	Telecommunications products 2005 HK\$'000	Gas turbine generators 2005 HK\$'000	Unallocated 2005 HK\$'000	Group 2005 HK\$'000
Turnover	53,714	1,284	–	54,998
Segment results	(35,157)	378	–	(34,779)
Interest income	–	–	58	58
Unallocated corporate expenses	–	–	(402)	(402)
Operating loss				(35,123)
Finance costs				(179)
Share of profits less losses of associates	522	(546)	–	(24)
Loss before taxation				(35,326)
Income tax charge				(456)
Loss after taxation				(35,782)
Minority interests				57
Loss attributable to shareholders				(35,725)
Segment assets	40,621	594	–	41,215
Interests in associates	13,305	–	–	13,305
Unallocated assets	–	–	8,930	8,930
Total assets				63,450
Segment liabilities	23,279	9,834	–	33,113
Unallocated liabilities	–	–	1,568	1,568
Total liabilities				34,681
Capital expenditure	1,759	–	13	1,772
Depreciation	2,471	4	6	2,481
Impairment of fixed assets	520	–	–	520

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 4. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### Primary reporting format – business segments (continued)

	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 associates	270	(166)	–	104
Loss before taxation				(39,253)
Income tax 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 associates	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



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 4. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

#### Secondary reporting format – geographical segments

	Turnover		Segment profit/(loss)	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Mainland China	52,275	39,186	(6,654)	(12,371)
Hong Kong	2,588	3,758	(20,568)	(6,973)
Other Asia Pacific countries	135	6,319	(816)	573
	54,998	49,263	(28,038)	(18,771)
Unallocated cost	–	–	(7,687)	(20,118)
Total	54,998	49,263	(35,725)	(38,889)

	Total assets		Capital expenditure	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Mainland China	41,151	38,877	1,528	1,274
Hong Kong	8,992	51,020	243	72
Other Asia Pacific countries	2	738	1	24
	50,145	90,635	1,772	1,370
Interests in associates	13,305	13,717	–	–
Total	63,450	104,352	1,772	1,370

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 5. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2005 HK\$'000	2004 HK\$'000
<b>Crediting</b>		
Exchange gain	17	–
Recovery of bad debts previously written off	467	2,603
Reversal of provision for doubtful debts	4,250	–
<b>Charging</b>		
Staff costs including directors' remuneration (Note 11)		
– Included in selling and distribution costs	140	863
– Included in administrative expenses	15,674	18,881
Research and development costs	2,080	4,096
Depreciation		
– owned fixed assets	2,481	7,055
– leased fixed assets	–	482
Operating leases in respect of land and buildings	3,338	4,488
Auditors' remuneration	300	655
Included in other operating expenses:		
– Provision for other receivables, prepayments and deposits	364	1,161
– Provision for slow moving inventories	6,963	–
– Other receivables, prepayments and deposits written off	198	–
– Bad debts written off	8,798	–
– Inventories written off	571	–
– Impairment loss on interests in associates	69	–
– Impairment of fixed assets	520	9,000
– Loss on disposal of fixed assets	916	–

### 6. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on short-term bank loans and overdrafts		
– wholly repayable within five years	117	1,190
Interest on other borrowings		
– wholly repayable within five years	62	–
Interest element of finance leases	–	21
	179	1,211

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 7. INCOME TAX CHARGE

The amount of taxation charged to the consolidated income statement represents:

	2005 HK\$'000	2004 HK\$'000
<b>Company and subsidiaries</b>		
Hong Kong profits tax	65	–
Overseas tax	72	41
	<b>137</b>	41
<b>Share of taxation</b>		
Associates	319	57
Income tax charge	<b>456</b>	98

The following is a reconciliation of income taxes calculated at the applicable tax rate with income tax expenses:

	2005 HK\$'000	2004 HK\$'000
Loss before taxation	<b>(35,326)</b>	(39,253)
Income tax calculated at applicable tax rate	<b>(5,863)</b>	(6,869)
Net tax effect of non-taxable items	<b>6,319</b>	6,967
Income tax charge	<b>456</b>	98

Hong Kong profits tax has been provided at a rate of 17.5% on the assessable profits for the year.

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

The Group's subsidiaries in the 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 31 December 2000 and a 50% reduction of income tax rate for the following three years.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of loss of approximately HK\$61,530,000 (2004: HK\$110,937,000).

### 9. LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of approximately HK\$35,725,000 (2004: HK\$38,889,000) and 282,196,000 (2004: 282,196,000) ordinary shares in issue during the year.

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

### 10. 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 employee's basic salaries. The retirement benefit costs charged to income statement 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 31 March 2005 amounted to approximately HK\$634,000 (2004: HK\$1,188,000).

### 11. STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2005 HK\$'000	2004 HK\$'000
Wages and salaries	13,609	17,209
Compensation to past directors for loss of office	1,431	–
Pension costs – defined contribution plans including the MPF fund	634	1,188
Provision for long service payment	–	52
Other staff welfare	140	1,295
	<b>15,814</b>	19,744

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

#### (a) Directors' remuneration

Details of directors' remuneration disclosed pursuant to the requirements of the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Number of directors	
	2005	2004
Executive directors	4	4
Independent non-executive directors	4	2
	<b>8</b>	<b>6</b>

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

	2005 HK\$'000	2004 HK\$'000
Fees	616	520
Other emoluments:		
Basic salaries, housing allowances and other allowances	2,570	5,200
Compensation to past directors for loss of office	1,431	–
Contributions to pension schemes	51	72
	<b>4,668</b>	<b>5,792</b>

The four independent non-executive directors received director's fees for the year ended 31 March 2005 of approximately HK\$330,000 (2004: HK\$260,000), HK\$147,000 (2004: Nil), HK\$125,000 (2004: Nil), and HK\$14,000 (2004: Nil). In addition, there was an independent non-executive director, whose director's fee was HK\$260,000, has resigned during the year ended 31 March 2004. 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 31 March 2005 of approximately HK\$1,560,000 (2004: HK\$1,560,000), HK\$360,000 (2004: HK\$1,560,000), Nil (2004: HK\$1,430,000) and HK\$650,000 (2004: HK\$650,000) respectively.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 12. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)

#### (a) Directors' remuneration (continued)

The emoluments of the directors fall within the following bands:

	Number of directors	
	2005	2004
HK\$Nil-HK\$1,000,000	6	4
HK\$1,000,001-HK\$1,500,000	1	–
HK\$1,500,001-HK\$2,000,000	1	2
	8	6

There were no arrangements under which the directors have waived or agreed to waive any emoluments. During the year ended 31 March 2005, the emoluments paid to past directors for loss of office amounted to approximately HK\$1,431,000 (2004: Nil). No emoluments were paid to the directors as an inducement to join or upon joining the Group.

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: four) directors and their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: one) individual during the year are as follows:

	2005	2004
	HK\$'000	HK\$'000
Basic salaries, housing allowances and other allowances	613	614
Contributions to pension schemes	9	12
	622	626

The emoluments of the remaining one (2004: one) highest paid individual were within the band of nil to HK\$1,000,000.

Except for the emoluments paid to past directors for loss of office as disclosed in Note 12(a), no emoluments were paid by the Group to the respective five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 13. FIXED ASSETS

Group	Buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At cost:</b>					
As at 1 April 2004	11,080	3,034	28,996	4,417	47,527
Additions	–	449	864	459	1,772
Disposals	–	(2,726)	(2,878)	(581)	(6,185)
As at 31 March 2005	11,080	757	26,982	4,295	43,114
<b>Accumulated depreciation and impairment losses:</b>					
As at 1 April 2004	457	2,113	26,678	2,689	31,937
Charge for the year	222	356	996	907	2,481
Written back on disposal	–	(2,035)	(2,574)	(581)	(5,190)
Impairment charge	520	–	–	–	520
As at 31 March 2005	1,199	434	25,100	3,015	29,748
<b>Net book value:</b>					
As at 31 March 2005	<b>9,881</b>	<b>323</b>	<b>1,882</b>	<b>1,280</b>	<b>13,366</b>
As at 31 March 2004	10,623	921	2,318	1,728	15,590

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
In the PRC, held on:		
Leases of over 50 years	<b>1,212</b>	1,771
Leases of between 10 to 50 years	<b>8,669</b>	8,852
	<b>9,881</b>	10,623

At 31 March 2005, the net book value of fixed assets held by the Group under finance leases amounted to approximately HK\$Nil (2004: HK\$438,000).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 14. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2005 HK\$'000	2004 HK\$'000
Investments at cost:		
Unlisted shares/ investments	40,922	40,922
Amounts due from subsidiaries	123,793	130,926
	<b>164,715</b>	171,848
Less: Provision	<b>(164,297)</b>	(110,000)
	<b>418</b>	61,848

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 31 March 2005:

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
<b>Directly held by the Company</b>				
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%
<b>Indirectly held by the Company</b>				
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%



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 14. INVESTMENTS IN SUBSIDIARIES – COMPANY (continued)

The following is a list of the principal subsidiaries at 31 March 2005 (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
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 HLB Hodgson Impey Cheng.

Ying Zhi Xun, T S Shenzhen and KD Net have adopted 31 December as their financial year end date for local statutory reporting purposes. For the preparation of the consolidated financial statements, management accounts of these subsidiaries for each of the 12 months ended 31 March 2004 and 2005 have been used after making adjustments, as appropriate, for compliance with accounting principles generally accepted in Hong Kong.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 15. INTERESTS IN ASSOCIATES

	Group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	13,305	13,717
Unlisted investments, at cost	4,755	4,755

The following is a list of associates at 31 March 2005:

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 Telecommunication Equipment Co., Ltd. ("Shanghai Hua Cheng")	PRC	Manufacture of telecommunications equipment and accessories in the PRC	Registered capital USD1,500,000	30%

Shanghai Hua Cheng and D&T Engineering have adopted 31 December as their financial year end date for local statutory reporting purposes. For the preparation of the consolidated financial statements, management accounts of these associates for each of the 12 months ended 31 March 2004 and 2005 have been used after making adjustments, as appropriate, for compliance with accounting principles generally accepted in Hong Kong.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 16. INVENTORIES

	Group	
	2005 HK\$'000	2004 HK\$'000
Raw materials	1,217	1,776
Work in progress	779	929
Finished goods	13,908	16,990
Total inventories	15,904	19,695
Less: Provision for slow moving inventories	(11,676)	(4,713)
Total inventories, net of provision	4,228	14,982

### 17. TRADE RECEIVABLES

Included in the balance are retention monies arising from sales of goods totalling approximately HK\$15,980,000 (2004: HK\$18,110,000).

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

At 31 March 2005, the ageing analysis of the trade receivables was as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 6 months	619	16,684
6 months-1 year	6,198	4,310
1-2 years	5,152	17,001
Over 2 years	16,551	14,118
Total trade receivables	28,520	52,113
Less: Provision for doubtful receivables	(6,670)	(10,920)
Total trade receivables, net of provision	21,850	41,193

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 18. TRADE PAYABLES

At 31 March 2005, the ageing analysis of the trade payables was as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within 30 days	216	2,417
31-60 days	31	436
61-90 days	133	552
91-180 days	2,792	1,353
Over 180 days	2,160	1,629
	<b>5,332</b>	<b>6,387</b>

### 19. TRADE PAYABLES DUE TO AN ASSOCIATE

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

At 31 March 2005, the ageing analysis of the trade payables due to an associate was as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within 60 days	–	–
61-90 days	–	–
91-180 days	–	–
Over 180 days	9,814	9,814
	<b>9,814</b>	<b>9,814</b>

### 20. AMOUNTS DUE TO DIRECTORS/A RELATED COMPANY

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 21. SHARE CAPITAL

	Company	
	2005	2004
	HK\$'000	HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.1 each	<b>80,000</b>	80,000
Issued and fully paid:		
282,196,000 ordinary shares of HK\$0.1 each	<b>28,220</b>	28,220

### 22. RESERVES

Group	Share premium HK\$'000	PRC statutory reserves HK\$'000 (Note(a))	Merger difference HK\$'000 (Note(b))	Accumulated losses HK\$'000	Total HK\$'000
As at 1 April 2003	96,616	7,112	(250)	(28,315)	75,163
Loss for the year	–	–	–	(38,889)	(38,889)
Transfer between reserves	–	360	–	(360)	–
As at 31 March 2004	96,616	7,472	(250)	(67,564)	36,274
Company and subsidiaries	96,616	3,664	(250)	(73,827)	26,203
Associates	–	3,808	–	6,263	10,071
As at 31 March 2004	96,616	7,472	(250)	(67,564)	36,274
As at 1 April 2004	96,616	7,472	(250)	(67,564)	36,274
Loss for the year	–	–	–	(35,725)	(35,725)
Transfer between reserves	–	186	–	(186)	–
As at 31 March 2005	<b>96,616</b>	<b>7,658</b>	<b>(250)</b>	<b>(103,475)</b>	<b>549</b>
Company and subsidiaries	96,616	3,850	(250)	(109,394)	(9,178)
Associates	–	3,808	–	5,919	9,727
As at 31 March 2005	<b>96,616</b>	<b>7,658</b>	<b>(250)</b>	<b>(103,475)</b>	<b>549</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 22. RESERVES (continued)

- (a) The PRC statutory reserves represent transfers made to the general reserve fund and the enterprise development fund set up by certain subsidiaries and associates in the PRC, pursuant to the relevant regulations. According to the regulations, the general reserve fund may be used for making up losses, if any, and increasing capital while the enterprise development fund may be used for increasing capital.
- (b) The merger difference of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired pursuant to the Group's reorganisation which took place during the year ended 31 March 2000 over the nominal value of the share capital of the Company issued in exchange thereof.

Company	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company			
As at 1 April 2003	137,187	7,131	144,318
Loss for the year	–	(110,937)	(110,937)
As at 31 March 2004	137,187	(103,806)	33,381
As at 1 April 2004	137,187	(103,806)	33,381
Loss for the year	–	(61,530)	(61,530)
As at 31 March 2005	<b>137,187</b>	<b>(165,336)</b>	<b>(28,149)</b>

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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 23. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2005, the Group's finance lease liabilities were repayable as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	–	44
In the second year	–	–
Future finance charges on finance leases	–	44
Present value of finance lease liabilities	–	44
The present value of finance leases liabilities are as follows:		
Within one year	–	44
In the second year	–	–
	–	44

### 24. DEFERRED TAXATION

At 31 March 2005, the Group has the following unprovided deferred taxation:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Deferred tax liabilities/ (assets):		
Accelerated depreciation allowances	<b>1,214</b>	873
Tax losses	<b>(11,382)</b>	(7,721)
	<b>(10,168)</b>	(6,848)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before taxation to net cash generated from/ (used in) operations:

	2005 HK\$'000	2004 HK\$'000
Loss before taxation	<b>(35,326)</b>	(39,253)
Share of profits less losses of associates	<b>24</b>	(104)
Depreciation	<b>2,481</b>	7,537
Overprovision for sales commission written back	<b>(1,207)</b>	–
Loss on disposal of fixed assets	<b>916</b>	–
Provision for slow moving inventories	<b>6,963</b>	–
Reversal of provision for doubtful debts	<b>(4,250)</b>	–
Provision for other receivables, prepayments and deposits	<b>364</b>	–
Inventories written off	<b>571</b>	–
Bad debts written off	<b>8,798</b>	–
Other receivables, prepayments and deposits written off	<b>198</b>	–
Impairment of fixed assets	<b>520</b>	9,000
Impairment loss on interests in associates	<b>69</b>	–
Interest income	<b>(58)</b>	(214)
Interest expenses	<b>179</b>	1,211
Operating loss before working capital changes	<b>(19,758)</b>	(21,823)
Decrease in inventories	<b>3,220</b>	996
Decrease in trade receivables, other receivables, prepayments and deposits	<b>16,609</b>	20,442
Increase/ (decrease) in trade payables, other payables and accrued expenses	<b>170</b>	(9,970)
Increase in amounts due to directors and related companies	<b>811</b>	–
Net cash generated from/ (used in) operations	<b>1,052</b>	(10,355)



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 26. COMMITMENTS

#### (a) Commitments under operating leases

- (i) At 31 March 2005, the Group had future aggregate minimum lease payments under noncancellable operating leases as follows:

	2005 HK\$'000	2004 HK\$'000
Not later than one year	911	3,403
Later than one year and not later than five years	699	2,223
	<b>1,610</b>	5,626

- (ii) 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 Company Limited entered into a licence agreement, which expired on 31 March 2005, with T S Holdings under which the Group was 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 31 March 2005 (2004: Nil).

### 27. SHORT-TERM BORROWINGS

	Group	
	2005 HK\$'000	2004 HK\$'000
Short-term bank loan (Note a)	–	5,607
Other borrowings (Note b)	692	–
	<b>692</b>	5,607

- (a) The short-term bank loan was interest bearing at 5.04% per annum, secured by a leasehold property of the Company and was fully repaid during the year ended 31 March 2005.
- (b) The other borrowing was advanced from an independent third party and is unsecured, interest bearing at 5% per annum and due for repayment in October 2005.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005  
(Expressed in Hong Kong dollars)

### 28. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the following significant related party transactions have been entered into by the Group during the year:

	Note	Group	
		2005 HK\$'000	2004 HK\$'000
Administrative service fees paid to T S Holdings	(a)	240	960
Licence fee paid to T S Holdings	(b)	1,450	1,450
Research and development expenses charged by the ultimate holding company	(c)	1,897	2,678
Sales of goods to the ultimate holding company	(d)	–	2,504
Consultancy fee paid to Wayfield Limited	(e)	999	–

- (a) Mr. Lau See Hoi, a director of the Company, has a beneficial interest in this company.
- (b) 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 Company Limited entered into a licence agreement, which expired on 31 March 2005, with T S Holdings under which the Group was granted a right to use the above office premises at a monthly licence fee of approximately HK\$121,000.
- (c) T. S. International Company Limited entered into an agreement on 27 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.
- (d) On 19 January 2004, T. S. International Company Limited entered into a supply agreement (the "Agreement") with T S Telecom, which entitles the latter to purchase BSMS products from T. S. International Company Limited 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 Company Limited 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 31 March 2004, a total of HK\$2,504,000 of BSMS products were supplied to T S Telecom by T. S. International Company Limited. No such sales were conducted during the year ended 31 March 2005.
- (e) Mr. Wong Weng, a former director of the Company has a beneficial interest in this company.

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

### 29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 June 2005.