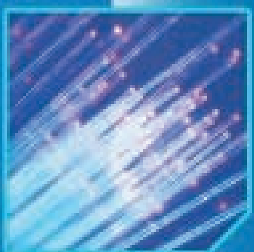
Stock Code: 8003



T S Telecom Technologies Limited

大誠電訊科技有限公司

ANNUAL REPORT 2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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

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

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

Contents

Corporate Profile

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

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

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

	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000
Turnover	**23,187**	54,998	49,263	72,807	62,153
Gross profit	**11,542**	14,219	18,680	26,820	22,114
(Loss) before taxation	**(13,592)**	(35,683)	(39,253)	(40,801)	(56,634)
(Loss) attributable to equity holder of the Company	**(13,620)**	(35,763)	(38,889)	(40,739)	(56,942)
Total assets	**38,498**	62,821	104,352	168,767	185,294
Total liabilities	**23,263**	34,681	39,801	64,865	39,145
Minority interests	**–**	–	57	519	5,926
Net assets	**15,235**	28,140	64,494	103,383	140,223

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.

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 new biotechnology products to be introduced for testing and sale in China.

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 biotechnology products related products and controlling our running costs. 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 2006

RESULTS OF OPERATIONS

For the fiscal year ended 31st March 2006, the Group reported a total turnover of HK$23,187,000 and loss attributable to equity holders of the Company of HK$13,620,000 as compared to a turnover of HK$54,998,000 and a loss of HK$35,763,000 in the previous year.

Our gross margin was 49.8% for the current fiscal year as compared to a gross margin of 25.9% for the last fiscal year.

The Group posted a loss attributable to equity holders of the Company of approximately HK$13,620,000 for the fiscal year, which was 61.9% lower from the net loss attributable to equity holders of the Company 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 administrative expenses and other operating expenses.

Other income mainly consisted of waiver of trade payable to an associate of approximately HK$9,814,000, reversal of overprovision for engineering services fee of approximately HK$1,747,000 and recovery of bad debts previously written off of approximately HK$282,000.

During the current fiscal year, the Group continued to control selling and distribution costs and administrative expenses tightly. Selling and distribution costs declined by 8.5% and administrative expenses declined by 25.0%, as compared with the last fiscal year.

SEGMENT INFORMATION

Sales from the telecommunications products, the gas turbine generators and the biotechnology products and others accounted for generators accounted for 95%, 3%, 1%, and 1% respectively of the turnover of the Group for the year ended 31st March 2006.

Mainland China Market

Business from the Mainland China accounted for approximately 98% of the Group's turnover for the year ended 31st March 2006.

Other Asia Pacific Countries and Other Markets

Business from outside of China now accounted for approximately 2% of the total turnover.

TELECOMMUNICATION PRODUCTS

The turnover and the operating loss of telecommunications products for the current year was HK$22,122,000 and HK$12,062,000, respectively, as compared to the turnover and operating loss of HK$53,714,000 and HK$35,195,000 respectively for the preceding year.

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.

GAS TURBINE GENERATORS

During the year, the sales of gas turbine generators have decreased by 55%, as compared to those 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.

BIOTECHNOLOGY PRODUCTS

The Group has generated increased sales in biotechnology products in the PRC and intends to introduce the products to the North American market.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st March 2006, the Group's cash balance of approximately HK$3,420,000 has declined when compared with the cash balance of approximately HK$8,757,000 of last year.

As at 31st March 2006, the Group's net current liabilities were approximately HK$8,531,000, including an instalment loan of HK$956,000 repayable within one year and a short-term bank loan of approximately HK$4,808,000 repayable on 9th November 2006. During the year ended 31 March 2006 and subsequently, the directors have taken active measures to improve the liquidity and financial position of the Group. On 31st May 2006, the Company entered into a placing agreement with a placing agent. The Placing Shares were allotted and issued on 12th June 2006. The net proceeds received by the Company amounted to approximately HK$5.3 million and would be used for (i) approximately HK$1 million for repayment of bank loans; (ii) approximately HK$2 million for settlement of various payables; and (iii) approximately HK$2.3 million as general working capital. Also, the directors have taken action to tighten cost controls over various operating and administrative expenses and kept the Group's capital commitment at a minimal level. Therefore, the directors are of the view that the Group will have sufficient working capital for the foreseeable future.

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 2006, 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 2006.

GEARING RATIO

The Group's gearing ratio, which was defined as the ratio of total borrowings to shareholders' equity, increased to 48.3% from 2.4% of the previous year. However, bank borrowing of HK$1 million has been repaid on 16th June 2006.

FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31st March 2006, 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 2006, except the Company disposed of its entire interests in D&T Engineering Co., Ltd., Harbin on 12th December 2005, at nil consideration and the trade payable of approximately HK$9,814,000 due to this associate had been waived.

CONTINGENT LIABILITIES

As at 31st March 2006, the Group did not have any material contingent liabilities.

SUBSEQUENT EVENTS

On 31st May 2006, the Company entered into a placing agreement with a placing agent. Pursuant to the placing agreement, the Company agreed to place, through the placing agent on a best effort basis, 56,400,000 new shares (the "Placing Shares") at a price of HK$0.105 each to not fewer that six independent investors. Details of the share placing were set out in the Company's announcement dated 1 June 2005. The Placing Shares were allotted and issued on 12th June 2006 pursuant to the general mandate granted to the Company's directors at the annual general meeting of the Company held on 31st August 2005. The Placing Shares issued rank pari passu in all respects with all other shares then in issue. The net proceeds received by the Company amounted to approximately HK$5.3 million and were used to (i) approximately HK$1 million for repayment of bank loans; (ii) approximately HK$2 million for settlement of various payables; and (iii) approximately HK$2.3 million as general working capital.

FOREIGN EXCHANGE EXPOSURE

Since most of the transactions of the Group were denominated in Renminbi or HK 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.

EMPLOYEES AND REMUNERATION POLICY

As at 31st March 2006, the Group employed 154 staff in the PRC and Hong Kong, representing a decrease of 21 staff from 31st March 2005. Accordingly, the Group's remuneration to employees, including directors' emoluments, decreased by approximately HK$2.6 million to approximately HK$13.0 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 its shares during the year.

DIRECTORS

Executive Directors

Mr. LAU See Hoi, aged 57, 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 53, 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 61, 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.

Ms. HUI Sin Man, Alice, aged 44, 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 56, 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 Chatered 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 37, 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.

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. Hong Lai Ping

AUTHORISED REPRESENTATIVES

Mr. Lau See Hoi
Ms. Hong Lai Ping

COMPLIANCE OFFICER

Mr. Wong Kai Tat

QUALIFIED ACCOUNTANT

Ms. Hong Lai Ping

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Kwan Kai Cheong
Mr. Sze Tsai Ping, Michael
Mr. Lau See Hoi (Mr. Wong Kai Tat as his alternate)

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

Butterfield Fund Services (Cayman) Limited
P.O. Box 705, Butterfield House
68 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

CORPORATE GOVERNANCE PRACTICES

For protecting and maximizing the interests of the shareholders of the Company, the Company applied the principles and complied with the code provisions of the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules during the period of under review, except for the following deviation:

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. There is no division of roles of chairman and chief executive officer of the Company that both offices are held by Mr. Lau See Hoi. The Company considers that the combination of the roles of chairman and chief executive officer can effectively formulate and implement the Company's strategies. The Company considers that under the supervision of its Board and its Independent Non-executive Directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

Under the code provision B.1.4 and C.3.4, the Company has not disclosed the terms of reference of the audit committee and the remuneration committee in the Company's website. Appropriate actions are being taken to update the website for the Company, whereat the written terms of reference of the audit committee and remuneration committee will be disclosed. These terms of reference are also available from the company secretary of the Company on request.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 March 2006.

BOARD OF DIRECTORS

The board of Directors comprises of two executive Directors, namely, Mr. Wong Kai Tat and Mr. Lau See Hoi acting as chairman of the Board, three independent non-executive Directors, namely, Mr. Sze Tsai Ping, Michael, Ms. Hui Sin Man, Alice and Mr. Kwan Kai Cheong.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Annual Report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members of the board of Directors.

The board of Directors is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specially delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirement and rules and regulations.

BOARD MEETING

The board of Directors held a board meeting for each quarter in every year. Apart from the regular board meeting of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors receive minutes of committee meetings in advance of each board meeting.

Details of the attendance of the board of Directors are as follows:

Directors	**Attendance**
Executive Directors	
Mr. Lau See Hoi *(Chairman and Chief Executive Officer)*	3/4
Mr. Wong Kai Tat	4/4
Independent non-executive Directors	
Mr. Sze Tsai Ping, Michael	4/4
Ms. Hui Sin Man, Alice	4/4
Mr. Kwan Kai Cheong	4/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under A.2.1 of the Code, "the roles of chairman and chief executive officer should be separate and should not be performed by the same individual". Mr. Lau See Hoi concurrently takes up the posts of chairman and chief executive officer of the Company.

NON-EXECUTIVE DIRECTORS

Mr. Sze Tsai Ping, Michael has been appointed for a term of one year commencing from 3 August 2006. Ms Hui Sin Man, Alice has been appointed for a term of two years commencing from 30 September 2004. Mr. Kwan Kai Cheong has been appointed for a term of one year commencing from 10 March 2006. All of them are subject to retirement and re-election in accordance with the articles of association of the Company.

REMUNERATION COMMITTEE

A remuneration committee was established on 11 November 2005 with written terms of reference in accordance with the code provision B.1.1 of the Code of Corporate Governance Practices. The remuneration committee comprises one executive director, namely, Mr. Lau See Hoi (Mr. Wong Kai Tat as his alternate) and the two independent non-executive directors, namely Mr. Sze Tsai Ping, Michael and Mr. Kwan Kai Cheong (chairman of the remuneration committee).

The principal responsibilities of Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Executive Director and members of the Senior Management.

As there were only short period of time since the establishment of the remuneration committee, there was no meeting held during the year. However, committee members met in May 2006 to discuss the supplemental service agreement of the directors regarding the terms, remuneration and other benefits.

AUDITORS' REMUNERATION

During the year, the remuneration payable to the Company's auditor, Messrs. HLB Hodgson Impey Cheng, is set out as follows:

Services rendered	HK$'000
Audit services	330
Non-audit services:	
Taxation services	2.5

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely Mr. Sze Tsai Ping, Michael (chairman of the audit committee), Ms. Hui Sin Man, Alice, and Mr. Kwan Kai Cheong. On 11th November 2005, the Company adopted new terms of reference for the audit committee to include such duties as are stipulated in code provision C.3.3 of the CG Code.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Attendance**
Mr. Sze Tsai Ping, Michael *(Chairman)*	4/4
Ms. Hui Sin Man, Alice	4/4
Mr. Kwan Kai Cheong	4/4

The primary duties of the audit committee are to review and supervise the financial report 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 reviewed the draft of this report and has provided advice and comments thereon.

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. The company has not set up any nomination committee during the year.

The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. The decision of appointing a director must be approved unanimously by the members of the Board and make recommendation to the shareholders' meeting for approval.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The statements of the external auditors of the Company, HLB Hodgson Impey Cheng, about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 24 of this report.

INTERNAL CONTROL

The Board is conducting a review of the Group's internal control system to ensure the effective and adequate internal control system.

INVESTOR RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with GEM listing Rules. The directors host the annual general meeting each year to meet the shareholder and answer their enquiries.

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 2006.

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 18 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segment is set out in note 7 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 28 to the financial statements.

DONATIONS

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 17 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.

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 its shares during the year.

DISTRIBUTABLE RESERVES

At 31st March 2006, 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 nonexecutive director), employee (whether full time or part time) of, or any individual for the time being seconded to work for the Company and/or any of its subsidiaries and/or any entity ("Invested Entity") in which the Company and/or any of its subsidiaries holds any equity interest either directly or indirectly; (ii) any holder of legal and/ or beneficial title of any securities issued by the Company and/or any subsidiary and/or any Invested Entity; (iii) any business or joint venture partner, contractor, subcontractor, agent, sub-agent of, any person or entity providing research, development and/or other technological support and/or advisory, consultancy, professional services to, any supplier of goods and/or services, customer or distributor of, the Company and/or any subsidiary and/or any Invested Entity either directly or indirectly, to take up options to subscribe for shares in the Company at a price to be determined by the Board which will be at least the higher of (a) the closing price of the shares on the GEM in the Stock Exchange daily quotations sheet on the grant date, or (b) the average of the closing prices of the shares on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date, provided that the subscription price shall not be lower than the par or nominal value of the shares.

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

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

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

The offer of a grant of share options may be accepted within 28 days from the date of the offer with payment of consideration of HK$10.00 by the grantee. Each option gives the holder the right to subscribe for one share at the relevant exercise price.

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

As at 31st March 2006, no option had been granted under the Share Option Scheme.

(ii) The ultimate holding company

On 17th January 2003, the old share option plan which was approved on 26th September 1997 was terminated and a new share option plan ("Share Option Plan") was approved at an extraordinary general meeting of the ultimate holding company as an incentive to the directors, officers, managements, consultants and employees of the ultimate holding company and its subsidiaries to take up options to subscribe for shares in the ultimate holding company at a price to be determined by the board of directors of the ultimate holding company. The minimum exercise price of the Share Option Plan cannot be lower than 25% of the last daily closing price of the shares of the ultimate holding company on the TSX Venture Exchange and subject to a minimum of CAD0.1.

The maximum number of shares in respect of which options may be granted (together with shares issued pursuant to options exercised and shares in respect of which any options remain outstanding) under the Share Option Plan of the ultimate holding company, may not exceed 4,398,000 common shares (20% of the issued share capital, as at the date of approval of the Share Option Plan) of the ultimate holding company from time to time. If any option granted hereunder may expire or terminate for any reason in accordance with the term of the Share Option Plan without being exercised, the un-purchased shares subject thereto may again be available for the purpose of the Share Option Plan.

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

No option had been granted or exercised during the year. As at 31st March 2006, 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 Kai Tat

Independent non-executive directors

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

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 8 and 9.

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 two years and eleven months commencing from 1st September 2005 for a fixed term of two years and eleven months and shall continue thereafter until the agreement is terminated by either party giving the other not less than six 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 2005, 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 2006.

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. Rental expense of the premises is borne and paid by the Group through T S Holdings. In July 2005, the Company entered into a licence agreement, which expired on 29th February 2008, 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$70,000. For the year ended 31st March 2006, a licence fee of approximately HK$700,000 was paid to T S Holdings.

T S Bio-Technology Limited ("T S Bio-Technology") entered into a Service Agreement on 29th November 2005 for a term of three years commencing from 1st December 2005, which expired on 30th November 2008, 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 shall be appointed as its Management' Marketing and Research agents to look after the North America market. T S Telecom shall assist it to set up a sales office in Canada, manage the operation of the sales office and report to it from time to time and provide it the marketing research information relating to its biotechnology products at an annual service fee not exceeding HK$1,600,000 payable monthly in arrear and the set up fee not exceeding CAD100,000 (equivalent to HK$699,100). For the year ended 31st March 2006, service fees amounting to approximately HK$933,000 were paid to T S Telecom.

On 19th January, 2004, T S International Company Limited ("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, 2006, T S Telecom did not purchase any BSMS products from T S International.

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) The licence agreement dated 12th July 2005 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 the Company. Under the licence agreement, the Company will be licensed to use the premises at Suite 2802, Two Exchange Square, 8 Connaught Place, Central, Hong Kong at a monthly licence fee of approximately HK$70,000, subject to a rent-free period of 92 days between 1st March 2005 and 31st May 2005, for the period between 1st June 2005 and 29th February 2008. The office premise were leased to T S Holdings under a leasing agreement dated 15th March 2005 entered into between T S Holdings and the landlord, an independent third party. The license fee is calculated based on the total of monthly rental and related estate management fee payable to the independent third party.

(ii) On 29th November 2005, T S Bio-Technology, a wholly-owned subsidiary of the Company, entered into the Services Agreement with a connected company, T S Telecom, to appoint T S Telecom as its Management Marketing and Research agents to look after the North America market. T S Telecom shall assist it to set up a sales office in Canada, manage the operation of the sales office and report to it from time to time and provide it the marketing research information relating to its biotechnology products for a term of three years commencing from 1st December 2005 at an annual service fee not exceeding HK$1,600,000 payable monthly in arrear and the set up fee not exceeding CAD100,000 (equivalent to HK$669,100). For the year ended 31st March 2006, service fees amounting to approximately HK$933,000 were paid to T S Telecom.

(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. 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 2006, 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 service fees paid to T S Telecom by the Company and the value of the goods supplied to T S Telecom by T S International in fiscal year 2005/2006 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 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, the underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as in Rule 5.46 of the GEM Listing Rules, were as follows:

Long position in shares of the Company

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

Note:

1. 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).

Long position in shares of associated corporation

Director	Associated corporation	Nature of interest	Total number of shares	Approximate percentage holding of shares
				%
Mr. Lau See Hoi	T S Telecom Ltd.	Personal	7,239,250	32.92

As at 31st March 2006 and save as disclosed above, none of the Directors and the chief executive of the Company or their associates had any interests or short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

INTEREST DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31st March 2006, 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 shareholder	Capacity	Total number of 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 2006, 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 2006, there were 282,196,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK$0.04 per share as stated in the Stock Exchange's daily quotation sheets for the trading days from 24th March 2006 to 30th March 2006 (both days inclusive), being the five business days immediately preceding 31st March 2006, the total market capitalisation of the Company was approximately HK$11.0 million as at 31st March 2006.

As at 31st March 2006, 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 2006:

	HK$	% of Total Market Capitalisation
Wubei Mobile Communication Company Limited	3,992,725.05	36%
Unicom Horizon Mobile Telecommunications Company Limited Zhejiang Branch	2,327,337.38	21%
China Netcom Beijing Communication Corporation	1,621,788.22	15%
China Unicom Corporation Limited Tianjian Branch	1,406,468.22	13%

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 2006.

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.

MAJOR CUSTOMERS AND SUPPLIERS

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

Sales

– the largest customer	11%
– five largest customers combined	33%

The Group's purchases attributable to the five largest suppliers accounted for less than 30% of the Group's purchase for the year (2005: less than 30%).

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.

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 2006.

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 2006, 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 2006.

AUDITORS

The accounts for the period from 1st April 2005 to 31st March 2006 have been audited by Messrs. HLB Hodgson Impey Cheng, which retired upon serving out its term of appointment. A resolution for the reappointment of Messrs. 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 2006

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower,
The Landmark, 11 Pedder Street,
Central, Hong Kong SAR

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 64 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 Hong Kong Standards on Auditing 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 2006 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 2006

Consolidated Income Statement

For the year ended 31 March 2006

	Note	**2006** **HK$'000**	2005 HK$'000 (As restated)
Turnover	7	**23,187**	54,998
Cost of sales		**(11,645)**	(40,779)
Gross profit		**11,542**	14,219
Other revenue	7	**40**	247
Other income	7	**12,115**	1,224
Selling and distribution costs		**(724)**	(791)
Administrative expenses		**(27,277)**	(36,371)
Other operating expenses		**(9,317)**	(13,689)
Operating loss	8	**(13,621)**	(35,161)
Finance costs	9	**(174)**	(179)
Share of profits less losses of associates		**203**	(343)
Loss before income tax		**(13,592)**	(35,683)
Income tax charge	10	**(28)**	(137)
Loss for the year		**(13,620)**	(35,820)
Attributable to:			
Equity holders of the Company		**(13,620)**	(35,763)
Minority interests		**–**	(57)
		(13,620)	(35,820)
Dividends		**–**	–
Loss per share, in cents			
Basic	12	**(4.83) cents**	(12.67) cents
Diluted	12	**N/A**	N/A

All of the Group's operations are classed as continuing.

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

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

		Attributable to equity holders of the Company							
	Note	Share capital HK$'000	Share premium HK$'000	PRC statutory reserves HK$'000	Merger difference HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Minority interests HK$'000	Total HK$'000
As at 1 April 2004:									
As previously reported		28,220	96,616	7,472	(250)	–	(67,564)	–	64,494
Effect of adopting HKAS 17	3(d)	–	–	–	–	–	(591)	–	(591)
Reclassification of minority interests arising from adopting HKAS 1		–	–	–	–	–	–	57	57
As restated		28,220	96,616	7,472	(250)	–	(68,155)	57	63,960
Loss for the year:									
As previously reported		–	–	–	–	–	(35,725)	–	(35,725)
Effect of adopting HKAS 17	3(d)	–	–	–	–	–	(38)	–	(38)
Reclassification of minority interests arising from adopting HKAS 1		–	–	–	–	–	–	(57)	(57)
As restated		–	–	–	–	–	(35,763)	(57)	(35,820)
Transfers between reserves		–	–	186	–	–	(186)	–	–
As at 31 March 2005 and as at 1 April 2005 (as restated)		28,220	96,616	7,658	(250)	–	(104,104)	–	28,140
Loss for the year		–	–	–	–	–	(13,620)	–	(13,620)
Net income recognised directly in equity									
Exchange difference on translation of foreign operations		–	–	–	–	715	–	–	715
Total income and expenses recognised for the year		–	–	–	–	715	(13,620)	–	(12,905)
Transfers between reserves		–	–	150	–	–	(150)	–	–
As at 31 March 2006		**28,220**	**96,616**	**7,808**	**(250)**	**715**	**(117,874)**	**–**	**15,235**

The People's Republic of China (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.

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.

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

Consolidated Balance Sheet

As at 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (As restated)
Non-current assets			
Leasehold interests in land	16	**4,008**	4,022
Property, plant and equipment	17	**7,912**	8,715
Interests in associates	19	**13,436**	13,305
		25,356	26,042
Current assets			
Inventories	20	**3,126**	4,228
Trade receivables	21	**5,757**	21,850
Other receivables, prepayments and deposits		**745**	1,944
Amount due from a related company	22	**94**	–
Bank balances and cash		**3,420**	8,757
		13,142	36,779
Less: Current liabilities			
Trade payables	23	**3,006**	5,332
Trade payable to an associate	24	**–**	9,814
Other payables and accrued expenses		**7,959**	11,177
Sales received in advance		**3,984**	6,790
Provision for taxation		**65**	65
Amounts due to directors	25	**895**	589
Amount due to a related company	25	**–**	222
Short-term borrowings	27	**5,764**	692
		21,673	34,681
Net current (liabilities)/assets		**(8,531)**	2,098
Total assets less current liabilities		**16,825**	28,140
Less: Non-current liabilities			
Long-term borrowings	27	**1,590**	–
Net assets		**15,235**	28,140
Capital and reserves			
Share capital	26	**28,220**	28,220
Reserves		**(12,985)**	(80)
Equity attributable to equity holders of the Company		**15,235**	28,140
Minority interests		**–**	–
Total equity		**15,235**	28,140

The financial statements were approved by the Board of Directors on 28 June 2006 and signed on its behalf 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 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Interests in subsidiaries	18	**111**	418
Current assets			
Other receivables		**19**	25
Amount due from a related company	22	**216**	–
Bank balances and cash		**3**	4
		238	29
Less: Current liabilities			
Amounts due to directors	25	**866**	–
Other payables		**201**	376
		1,067	376
Net current liabilities		**(829)**	(347)
Net (liabilities)/assets		**(718)**	71
Capital and reserve			
Share capital	26	**28,220**	28,220
Reserves	28	**(28,938)**	(28,149)
		(718)	71

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 2006

	Note	2006 HK$'000	2005 HK$'000
Net cash (used in)/generated from operations	29	**(11,758)**	1,052
Overseas tax paid		**(28)**	(72)
Net cash (used in)/generated from operating activities		**(11,786)**	980
Cash flows from investing activities			
Payments to acquire property, plant and equipment		**(864)**	(1,772)
Proceeds from sales of property, plant and equipment and leasehold interests in land		**346**	79
Interest received		**40**	58
Net cash used in investing activities		**(478)**	(1,635)
Cash flows from financing activities			
New secured bank loans raised		**7,808**	–
Repayment of secured bank loans		**(454)**	–
New short-term borrowings raised		**–**	2,009
Repayment of short-term borrowings		**(692)**	(6,924)
Capital element of finance lease payments		**–**	(44)
Interest paid		**(174)**	(179)
Net changes in pledged bank deposits		**–**	1,971
Net cash generated from/(used in) financing activities		**6,488**	(3,167)
Net decrease in bank balances and cash		**(5,776)**	(3,822)
Bank balances and cash at beginning of the year		**8,757**	12,579
Effect of foreign exchange rate changes		**439**	–
Bank balances and cash at end of the year		**3,420**	8,757

As at 31 March 2006, the Group had bank balances and cash of approximately HK$3,292,000 (2005: HK$8,075,000) which were denominated in Renminbi. The remittance of these funds out of 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.

1. CORPORATE INFORMATION

T S Telecom Technologies Limited (the "Company") was incorporated with limited liability in the Cayman Islands as an exempted company on 24 August 1999 under the Companies Law of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 December 1999.

The Company is an investment holding company. The Group is principally engaged in the assembly, distribution and integration of telecommunications products and gas turbine generators and biotechnology products.

The Company's registered office is situate at Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business is situate at Suite 2802, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

The directors consider the parent and ultimate holding company as at 31 March 2006 to be T S Telecom Ltd. ("T S Telecom"), a company incorporated in Canada and the shares of which are listed on the TSX Venture Exchange.

2. BASIS OF PREPARATION

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

Going concern

The Group has net current liabilities of approximately HK$8,531,000 as at 31 March 2006 and sustained a loss attributable to equity holders of approximately HK$13,620,000 for the year ended 31 March 2006. Notwithstanding that, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern for the foreseeable future.

During the year ended 31 March 2006 and subsequently, the directors have taken active measures to improve the liquidity and financial position of the Group as follows:

(a) Subsequent to the balance sheet date, on 31 May 2006, the Company entered into a placing agreement with a placing agent. Pursuant to the placing agreement, the Company agreed to place, through the placing agent on a best effort basis, 56,400,000 new shares (the "Placing Shares") at a price of HK$0.105 each to not fewer than six independent investors. The placing price of HK$0.105 represented: (i) a discount of approximately 19.23% to the closing price per share of HK$0.13 as quoted on the Stock Exchange on 30 May 2006, being the date immediately preceding the date of the placing agreement; (ii) a premium of approximately 32.24% to the average closing price per share of HK$0.0794 as quoted on the Stock Exchange for the last five consecutive trading days prior to 30 May 2006; and (iii) a premium of approximately 2.94% over the net asset value per share of approximately HK$0.102 as at 31 March 2005. Details of the share placing were set out in the Company's announcement dated 1 June 2006. The Placing Shares were allotted and issued on 12 June 2006 pursuant to the general mandate granted to the Company's directors at the annual general meeting of the Company held on 31 August 2005. The Placing Shares issued rank pari passu in all respects with all other shares then in issue. The net proceeds received by the Company amounted to approximately HK$5.3 million and would be used as to (i) approximately HK$1 million for repayment of bank loans; (ii) approximately HK$2 million for settlement of various payables; and (iii) approximately HK$2.3 million as general working capital.

2. BASIS OF PREPARATION (continued)

Going concern (continued)

(b) The directors have taken action to tighten cost controls over various operating and administrative expenses.

(c) The Group's capital commitment was kept at a minimal level.

The directors are of the view that the above measures will enable the Group to continue as a going concern and that the Group will have sufficient working capital for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the new HKFRSs below, which are relevant to its operations, in the preparation of the consolidated financial statements. The comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 3	Business Combinations

3. CHANGES IN ACCOUNTING POLICIES (continued)

Except for the following, the adoption of the HKFRSs did not result in substantial changes to the Group's accounting policies, financial statement disclosures or presentation as compared to that used in the preparation of the annual financial statements as of and for the year ended 31 March 2005. The accounting policies of the Group and the Company after the adoption of these HKFRSs have been summarised below:

(a) HKAS 1 has affected the share of net after-tax results of associates and other disclosures

In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1 April 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective shares of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before tax. These changes in presentation have been applied retrospectively with comparatives restated.

(b) HKAS 24 has affected the identification of related parties and some other related party disclosures.

(c) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interests in land and buildings are separated into leasehold land and leasehold buildings. Leasehold land is classified as operating leases, because the title of land is not expected to be passed to the Group by the end of the lease terms, and is reclassified from property, plant and equipment to prepaid land lease payments. Leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the respective lease terms. When the lease payment cannot be allocated between the land and buildings elements, the entire lease payment is included in the cost of land and building as a finance lease in property, plant and equipment.

This change in accounting policy has been applied retrospectively with comparatives restated.

3. CHANGES IN ACCOUNTING POLICIES (continued)

(d) Summary of the effects of the changes in accounting policies

The effects of the changes in the accounting policies described above on the results for the current year and prior year are as follows:

	Year ended 31 March 2006 HK$'000	Year ended 31 March 2005 HK$'000
HKAS 17 – Leases		
Decrease in property, plant and equipment	–	(4,865)
Increase in leasehold interests in land	–	4,865
Increase in accumulated amortisation	–	843
Decrease in accumulated depreciation	–	(214)
Increase in accumulated losses	–	591
Increase in administrative expenses	**32**	32
Increase in other operating expenses	–	6
Increase in loss for the year	**32**	38
Increase in basic loss per share (in cents)	**0.01**	0.01
HKAS 1 – Presentation of Financial statements		
Decrease in share of profits less losses of associates	**(215)**	(319)
Decrease in income tax charge	**(215)**	(319)

3. CHANGES IN ACCOUNTING POLICIES (continued)

The HKICPA has issued the following standards and interpretations that are not yet effective. The Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

		Notes
HKAS 1 (Amendment)	Capital Disclosures	1
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures	2
HKAS 21 (Amendment)	Net Investment in a Foreign Operation	2
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions	2
HKAS 39 (Amendment)	The Fair Value Option	2
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts	2
HKFRS 6	Exploration for and Evaluation of Mineral Resources	2
HKFRS 7	Financial Instruments: Disclosures	1
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease	2
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	2
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	3
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	4
HK(IFRIC)-Int 8	Scope of HKFRS 2	5
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	6

Notes:

1. Effective for annual periods beginning on or after 1 January 2007.
2. Effective for annual periods beginning on or after 1 January 2006.
3. Effective for annual periods beginning on or after 1 December 2005.
4. Effective for annual periods beginning on or after 1 March 2006.
5. Effective for annual periods beginning on or after 1 May 2006.
6. Effective for annual periods beginning on or after 1 June 2006

4. PRINCIPAL ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 March each year.

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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other member of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of original business combination and the minority's share of changes in equity since the date of the combination. Loss applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in subsidiaries

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

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.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses. Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

4. PRINCIPAL ACCOUNTING POLICIES (continued)

Goodwill (continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Groups' interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities, and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. PRINCIPAL ACCOUNTING POLICIES (continued)

Leasehold interests in land

The up-front prepayments made for the leasehold land and land use rights are expensed in the consolidated income statement on a straight line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Inventories

Inventories 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 appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less selling expenses.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables and borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. PRINCIPAL ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Equity settled share-based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are charged as expenses as they fall due. The Group's obligations under state-managed retirement benefits schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

4. PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 April 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term, highly liquid investments that are readily convertible to cash and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

4. PRINCIPAL ACCOUNTING POLICIES (continued)

Related party transactions

A party is related to the Group if:

a. directly, or indirectly through one or more intermediaries, the party:

   (i) controls, is controlled by, or is under common control with the Group;

   (ii) has an interest in the Group that gives it significant influence over the Group; or

   (iii) has joint control over the Group;

b. the party is a joint venture in which the Group is a venturer;

c. the party is an associate;

d. the party is a member of the key management personnel of the Group;

e. the party is a close member of the family of any individual referred to in (a) or (d);

f. the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

g. the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

5. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain trade and other receivables, bank balances and cash, trade and other payables and bank borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to cash flow and fair value interest-rate risk is mainly attributable to its borrowings issued at both fixed and variable rates. The Group has not hedged its exposure to cash flow and fair value interest-rate risk. However, the management considers the risk is insignificant to the Group.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of property, plant and equipment

The Group evaluates whether items of property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the stated accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Estimated useful lives of property, plant and equipment

Management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment loss of trade and other receivables

The Group's policy for doubtful receivables is based on the on-going evaluation of the collectability and aging analysis of the trade and other receivables and on management's judgements. Considerable judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor, and the present values of the estimated future cash flows discounted at the effective interest rates. If the financial conditions of the Group's debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss of trade and other receivables may be required.

7. TURNOVER, REVENUE AND SEGMENT INFORMATION

	2006 HK$'000	2005 HK$'000
Turnover:		
Sales of goods, net of discounts and value-added tax	**23,187**	54,998
Other revenue:		
Interest income	**40**	58
Others	**–**	189
	40	247
Total revenue	**23,227**	55,245
Other income:		
Gain on disposal of property, plant and equipment and leasehold interests in land	**116**	–
Reversal of impairment losses of other receivables	**4**	–
Recovery of bad debts previously written off	**282**	–
Over-provison for engineering service fee	**1,747**	–
Write-back of other payables	**152**	–
Waiver of trade payable to an associate	**9,814**	–
Over-provision for sales commission	**–**	1,207
Exchange gain	**–**	17
	12,115	1,224

Primary reporting format – business segments

The Group is organised into three main business segments:

- Telecommunications products
- Gas turbine generators
- Biotechnology products

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

Secondary reporting format – geographical segments

The Group operates in three main geographical areas:

- PRC
- Hong Kong
- Other Asia Pacific countries

7. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments

	Telecommunications products		Gas turbine generators		Biotechnology products		Unallocated		Total	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
TURNOVER	**22,122**	53,714	**579**	1,284	**272**	–	**214**	–	**23,187**	54,998
RESULTS										
Segment results	**(12,062)**	(35,195)	**(63)**	378	**(643)**	–	**–**	–	**(12,768)**	(34,817)
Interest income	**–**	–	**–**	–	**–**	–	**40**	58	**40**	58
Unallocated corporate income and expenses							**(893)**	(402)	**(893)**	(402)
Operating loss	**–**	–	**–**	–	**–**	–	**–**	–	**(13,621)**	(35,161)
Finance costs	**–**	–	**–**	–	**–**	–	**–**	–	**(174)**	(179)
Share of profits less losses of associates	**203**	203	**–**	(546)	**–**	–	**–**	–	**203**	(343)
Loss before income tax									**(13,592)**	(35,683)
Income tax charge									**(28)**	(137)
Loss for the year									**(13,620)**	(35,820)
Attributable to:										
Equity holders of the Company									**(13,620)**	(35,763)
Minority interests									**–**	(57)
									(13,620)	(35,820)
ASSETS										
Segment assets	**20,834**	39,992	**–**	594	**808**	–	**–**	–	**21,642**	40,586
Interests in associates	**13,436**	13,305	**–**	–	**–**	–	**–**	–	**13,436**	13,305
Unallocated assets							**3,420**	8,930	**3,420**	8,930
Total assets									**38,498**	62,821
LIABILITIES										
Segment liabilities	**13,690**	23,279	**–**	9,834	**2,154**	–	**–**	–	**15,844**	33,113
Unallocated liabilities							**7,419**	1,568	**7,419**	1,568
Total liabilities									**23,263**	34,681
OTHER INFORMATION										
Capital expenditure	**121**	1,759	**–**	–	**743**	–	**–**	13	**864**	1,772
Depreciation and amortisation	**1,753**	2,692	**2**	4	**–**	–	**44**	6	**1,799**	2,702
Provision for impairment losses of property, plant and equipment	**–**	337	**–**	–	**–**	–	**–**	–	**–**	337
Provision for impairment losses of trade and other receivables	**5,983**	2,577	**–**	–	**–**	–	**–**	–	**5,983**	2,577
Provision for impairment losses of inventories	**1,694**	6,873	**–**	90	**–**	–	**–**	–	**1,694**	6,963

7. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

	Turnover		Segment profit/(loss)	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
				(As restated)
PRC	**22,641**	52,275	**(8,852)**	(6,692)
Hong Kong	**546**	2,588	**(4,327)**	(20,568)
Other Asia Pacific countries	**–**	135	**131**	(816)
	23,187	54,998	**(13,048)**	(28,076)
Unallocated	**–**	–	**(572)**	(7,687)
Total	**23,187**	54,998	**(13,620)**	(35,763)

	Total assets		Capital expenditure	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(As restated)		
PRC	**24,485**	40,523	**825**	1,528
Hong Kong	**576**	8,992	**39**	243
Other Asia Pacific countries	**1**	1	**–**	1
	25,062	49,516	**864**	1,772
Interests in associates	**13,436**	13,305	**–**	–
Total	**38,498**	62,821	**864**	1,772

8. OPERATING LOSS

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

	2006 HK$'000	2005 HK$'000 (As restated)
Staff costs including directors' remuneration *(Note 14)*		
– Included in selling and distribution costs	192	140
– Included in administrative expenses	13,074	15,674
Total staff costs	13,266	15,814
Research and development costs	317	2,080
Depreciation and amortisation	1,799	2,702
Operating lease rentals in respect of land and buildings	1,205	3,338
Auditors' remuneration	330	300
Exchange losses	12	–
Included in other operating expenses:		
– Provision for impairment losses of interests in associates	–	69
– Provision for impairment losses of property, plant and equipment	–	337
– Provision for/(reversal of) impairment losses of trade receivables	5,770	(4,250)
– Provision for impairment losses of other receivables, prepayments and deposits	213	364
– Provision for impairment losses of inventories	1,694	6,963
– Bad debts written off	324	8,798
– Other receivables, prepayments and deposits written off	13	198
– Inventories written off	1,303	571
– Loss on disposal of property, plant and equipment and leasehold interests in land	–	916

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on secured bank loans wholly repayable within five years	174	117
Interest on other borrowings	–	62
	174	179

10. INCOME TAX CHARGE

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

	2006 HK$'000	2005 HK$'000
Company and subsidiaries		
Hong Kong profits tax	–	65
Overseas tax	28	72
	28	137

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

	2006 HK$'000	2005 HK$'000 (As restated)
Loss before income tax and before share of profits less losses of associates	(13,795)	(35,340)
Tax at Hong Kong profits tax rate of 17.5% (2005: 17.5%)	(2,414)	(6,185)
Net tax effect of non-deductible items	2,442	6,322
Income tax charge	28	137

No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profits arising in Hong Kong for the year ended 31 March 2006. Hong Kong profits tax has been provided at a rate of 17.5% on the assessable profits for the year ended 31 March 2005.

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

No deferred tax liabilities have been recognised in the financial statements as the Group and the Company did not have material temporary differences as at 31 March 2006 and 2005.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilised. As at 31 March 2006, the unprovided deferred tax assets of the Group is as follows:

	2006 HK$'000	2005 HK$'000
Tax effect of temporary difference attributable to unutilised tax losses	12,371	10,168

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 March 2006 dealt with in the financial statements of the Company was approximately HK$789,000 (2005: HK$61,530,000).

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company of approximately HK$13,620,000 (2005 (as restated): HK$35,763,000) and 282,196,000 (2005: 282,196,000) ordinary shares in issue during the year.

There is no diluted loss per share since the Company has no dilutive potential ordinary shares in issue for both the years ended 31 March 2005 and 2006.

13. RETIREMENT BENEFIT COSTS

The Group participates 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 the income statement represent 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 participate 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 2006 amounted to approximately HK$968,000 (2005: HK$634,000).

14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the Company's directors are as follows:

For the year ended 31 March 2006	Fees HK$'000	Salaries and housing HK$'000	Compensation to past directors for loss of office HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors					
Mr. Lau See Hoi	–	**1,590**	–	**12**	**1,602**
Mr. Wong Kai Tat	–	**1,240**	–	**12**	**1,252**
Independent non-executive directors					
Mr. Sze Tsai Ping, Michael	**265**	–	–	**12**	**277**
Ms. Hui Sin Man, Alice	**265**	–	–	**12**	**277**
Mr. Kwan Kai Cheong	**265**	–	–	**13**	**278**
Total	**795**	**2,830**	–	**61**	**3,686**

For the year ended 31 March 2005	Fees HK$'000	Salaries and housing HK$'000	Compensation to past directors for loss of office HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors					
Mr. Lau See Hoi	–	1,560	–	12	1,572
Mr. Wong Kai Tat	–	650	–	30	680
Mr. Hung, Randy King Kuen (resigned on 2 July 2004)	–	360	720	3	1,083
Mr. Wong Weng (resigned on 3 April 2004)	–	–	711	–	711
Independent non-executive directors					
Mr. Sze Tsai Ping, Michael	330	–	–	1	331
Ms. Yip Lam Christine (appointed on 15 June 2004 and resigned on 10 December 2004)	147	–	–	–	147
Ms. Hui Sin Man, Alice (appointed on 30 September 2004)	125	–	–	5	130
Mr. Kwan Kai Cheong (appointed on 10 March 2005)	14	–	–	–	14
Total	616	2,570	1,431	51	4,668

There were no arrangements under which the directors of the Company have waived or agreed to waive any remuneration.

15. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals of the Group for the year ended 31 March 2006 included two directors (2005: four directors) of the Company, whose remuneration have been disclosed above. The emoluments of the remaining three (2005: one) highest paid, non-director employees of the Group are set out below:

	2006	2005
	HK$'000	HK$'000
Salaries and housing	**955**	613
Retirement benefits schemes contributions	**36**	9
	991	622

The emoluments of each of the remaining three (2005: one) highest paid, non-director employees were within the band of nil to HK$1,000,000.

Except for the compensation paid to past directors for loss of office as disclosed in Note 14, 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.

Compensation to key management personnel

The directors of the Company consider that they are the only key management personnel of the Group and details of their compensation have been set out above.

16. LEASEHOLD INTERESTS IN LAND

The Group's leasehold interests in land represented prepaid operating lease payments and their net book values are analysed as follows:

	2006 HK$'000	2005 HK$'000
At cost:		
As at 1 April		
As previously reported	–	–
Effect of adopting HKAS 17	4,865	4,865
As restated	4,865	4,865
Disposals	(214)	–
Exchange difference	134	–
	4,785	4,865
Accumulated amortisation:		
As at 1 April		
As previously reported	–	–
Effect of adopting HKAS 17	843	525
As restated	843	525
Amortisation for the year	130	318
Eliminated on disposals	(214)	–
Exchange difference	18	–
As restated and as at 31 March	777	843
Net book value:		
As at 31 March 2006/2005	4,008	4,022

Carrying value of leasehold interests in land comprise:

	2006 HK$'000	2005 HK$'000
Leasehold land in PRC		
Medium-term lease	3,218	3,240
Long lease	790	782
As at 31 March 2006/2005	4,008	4,022

17. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings HK$'000	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost:					
As at 1 April 2004					
– as previously reported	11,080	3,034	28,996	4,417	47,527
– effect of adopting HKAS 17	(4,865)	–	–	–	(4,865)
As restated	6,215	3,034	28,996	4,417	42,662
Additions	–	449	864	459	1,772
Disposals	–	(2,726)	(2,878)	(581)	(6,185)
As at 31 March 2005 and as at 1 April 2005 (as restated)	6,215	757	26,982	4,295	38,249
Additions	–	153	711	–	864
Disposals	(403)	(296)	(134)	–	(833)
Exchange difference	168	5	248	58	479
As at 31 March 2006	5,980	619	27,807	4,353	38,759
Accumulated depreciation and impairment losses:					
As at 1 April 2004					
– as previously reported	457	2,113	26,678	2,689	31,937
– effect of adopting HKAS 17	66	–	–	–	66
As restated	523	2,113	26,678	2,689	32,003
Charge for the year	125	356	996	907	2,384
Written back on disposal	–	(2,035)	(2,574)	(581)	(5,190)
Provision for impairment loss	337	–	–	–	337
As at 31 March 2005 and as at 1 April 2005 (as restated)	985	434	25,100	3,015	29,534
Charge for the year	120	159	844	546	1,669
Written back on disposal	(401)	(130)	(72)	–	(603)
Exchange difference	15	7	202	23	247
As at 31 March 2006	719	470	26,074	3,584	30,847
Net book value:					
As at 31 March 2006	**5,261**	**149**	**1,733**	**769**	**7,912**
As at 31 March 2005 (as restated)	5,230	323	1,882	1,280	8,715

The Group has pledged leasehold land and buildings with a carrying amount of approximately HK$7,353,000 (2005: HK$ Nil) to secure banking facilities granted to the Group.

18. INTERESTS IN SUBSIDIARIES

	2006 HK$'000	2005 HK$'000
Unlisted shares / investments at cost	**40,922**	40,922
Amounts due from subsidiaries	**118,891**	123,793
	159,813	164,715
Less: Provision for impairment losses	**(159,702)**	(164,297)
	111	418

As at 31 March 2006, provision for impairment losses amounting to approximately HK$159,702,000 (2005: HK$164,297,000) have been made against the Company's investment costs of and the amounts due from certain subsidiaries as these subsidiaries were either loss-making or inactive.

The amounts due from subsidiaries are unsecured, interest-free and will not be demanded for repayment within the next twelve months. The directors consider that the carrying amounts approximate their fair values.

The following is a list of the principal subsidiaries of the Company as at 31 March 2006:

Name	Country/place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
Directly held by the Company				
T S Telecom (B.V.I.) Limited*	British Virgin Islands, limited liability company	Investment holding in Hong Kong	2 ordinary shares of US$1 each	100%
Indirectly held by the Company				
T. S. International Company Limited ("T S International")	Hong Kong, limited liability company	Investment holding in Hong Kong	100,000 ordinary shares of HK$1 each	100%
T S International Limited*	New Zealand, limited liability company	Trading of power monitoring equipment in Asia Pacific Region	100 ordinary shares of NZ$1 each	100%

18. INTERESTS IN SUBSIDIARIES (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	Interest held
Indirectly held by the Company (continued)				
Ying Zhi Xun Telecom Equipment (Shenzhen) Co., Ltd. ("Ying Zhi Xun")*	PRC, wholly owned foreign enterprise	Assembling of cable pressurisation 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 pressurisation 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 2005 and 2006 have been used after making adjustments, as appropriate, for compliance with accounting principles generally accepted in Hong Kong.

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors principally affected the results for the year or formed a substantial portion of the assets/(liabilities) of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars, of excessive length.

19. INTERESTS IN ASSOCIATES

	Group 2006 HK$'000	2005 HK$'000
Share of net assets	**13,436**	13,305

Particulars of the Group's associate as at 31 March 2006 are as follow:

Name	Place of establishment and business	Principal activities and place of operation	Particulars of registered capital	Interest held indirectly
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 has adopted 31 December as its financial year end date for local statutory reporting purposes. For the preparation of the consolidated financial statements, management accounts of the associate for each of the 12 months ended 31 March 2005 and 2006 have been used after making adjustments, as appropriate, for compliance with accounting principles generally accepted in Hong Kong.

During the year ended 31 March 2006, the Group disposed of its entire equity interests in D&T Engineering Co., Ltd., Harbin on 12 December 2005, at nil consideration. Details of the disposed associate are as follows:

Name	Place of establishment and business	Principal activities and place of operation	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%

19. INTERESTS IN ASSOCIATES (continued)

Summarised financial information in respect of the Group's associates is set out below:

	2006 HK$'000	2005 HK$'000
Post-acquisition results for the year		
Turnover for the year	22,412	20,801
Profit for the year	679	(537)
Group's share of profits less losses for the year	203	(343)
Financial position		
Total assets	57,449	59,217
Total liabilities	(12,662)	(16,837)
Net assets	44,787	42,380
Group's share of associates' net assets	13,436	13,305

20. INVENTORIES

	Group	
	2006 HK$'000	2005 HK$'000
Raw materials	2,265	1,217
Work in progress	1,026	779
Finished goods	13,205	13,908
	16,496	15,904
Less: Provision for impairment loss of inventories	(13,370)	(11,676)
Total inventories, net of provision	3,126	4,228

21. TRADE RECEIVABLES

Included in the balance are retention monies arising from sales of goods totalling approximately HK$Nil (2005: HK$15,980,000) which are expected to be settled more than twelve months from the balance sheet date.

Sales proceeds are payable according to the terms of sales contracts.

As at 31 March 2006, the ageing analysis of the trade receivables was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 6 months	**2,423**	619
6 months – 1 year	**125**	6,198
1 – 2 years	**3,589**	5,152
Over 2 years	**12,060**	16,551
	18,197	28,520
Less: Provision for impairment loss	**(12,440)**	(6,670)
	5,757	21,850

The directors consider the carrying amounts of the trade receivables approximate their fair values.

22. AMOUNT DUE FROM A RELATED COMPANY

Group

Name of company	**Name of director having interest**	**Highest balance outstanding during the year**	**2006**	2005
		HK$'000	**HK$'000**	HK$'000
T.S. (Holdings) Company Limited	Mr. Lau See Hoi	216	**94**	–

Company

Name of company	**Name of director having interest**	**Highest balance outstanding during the year**	**2006**	2005
		HK$'000	**HK$'000**	HK$'000
T.S. (Holdings) Company Limited	Mr. Lau See Hoi	216	**216**	–

The amount represents rental payment owed and rental deposit made to a related company.

23. TRADE PAYABLES

As at 31 March 2006, the ageing analysis of the trade payables was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 30 days	**302**	216
31 – 60 days	**497**	31
61 – 90 days	**264**	133
91 – 180 days	**15**	2,792
Over 180 days	**1,928**	2,160
	3,006	5,332

The directors consider the carrying amounts of the trade payables approximate their fair values.

24. TRADE PAYABLE TO AN ASSOCIATE

	Group	
	2006	2005
	HK$'000	HK$'000
Trade payable to an associate outstanding over 180 days	**–**	9,814

The balance was unsecured, interest-free and has been waived by the associate during the year.

25. AMOUNTS DUE TO DIRECTORS / A RELATED COMPANY

The amounts due are unsecured, interest-free and repayable on demand. The directors consider the carrying amounts approximate their fair values.

26. SHARE CAPITAL

	Company	
	2006	2005
	HK$'000	HK$'000
Authorised:		
800,000,000 ordinary shares of HK$0.1 each	**80,000**	80,000
Issued and fully paid:		
282,196,000 ordinary shares of HK$0.1 each	**28,220**	28,220

27. BORROWINGS

	Group 2006 HK$'000	Group 2005 HK$'000
Secured bank loans payable:		
Within one year	**5,764**	–
More than one year, but not exceeding two years	**1,038**	–
More than two years, but not exceeding five years	**552**	–
	7,354	–
Less: amounts due after one year as shown under non-current liabilities	**(1,590)**	–
Secured bank loans payable within one year	**5,764**	–
Other short-term borrowing	**–**	692
Total short-term borrowings	**5,764**	692

The secured bank loans comprise: (i) an installment loan of approximately HK$2,546,000 which is secured by legal charges over the leasehold land and buildings given by two related companies, T. S. (Holdings) Company Limited and Eastlucky Garment Limited, interest bearing at the prevailing market rates and due in September 2008 *(Note 31)*; (ii) a loan of RMB5,000,000 (equivalent to approximately HK$4,808,000) which is secured by the Group's leasehold land and buildings with an aggregate net book value of HK$7,353,000, interest bearing at 6.138% per annum and repayable on 9 November 2006 *(Note 17)*.

The other short-term borrowing was advanced from an independent third party and was unsecured, interest bearing at 5% per annum and has been fully repaid during the year.

The directors consider the carrying amounts of the borrowings approximate their fair values.

28. RESERVES

Company	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 April 2004	137,187	(103,806)	33,381
Loss for the year	–	(61,530)	(61,530)
As at 31 March 2005 and as at 1 April 2005	137,187	(165,336)	(28,149)
Loss for the year	–	(789)	(789)
At 31 March 2006	**137,187**	**(166,125)**	**(28,938)**

Under the Companies Law of the Cayman Islands and the Articles of Association of the Company, share premium is distributable to the equity holders of the Company under certain circumstances.

As at 31 March 2006, in the opinion of the directors, the Company had no distributable reserves (2005: Nil).

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2006 HK$'000	2005 HK$'000 (As restated)
Loss before income tax	**(13,592)**	(35,683)
Share of profits less losses of associates	**(203)**	343
Depreciation and amortisation	**1,799**	2,702
Over-provision for sales commission	**–**	(1,207)
Over-provision for engineering service fee	**(1,747)**	–
(Gain) / loss on disposal of property, plant and equipment and leasehold interests in land	**(116)**	916
Waiver of trade payable to an associate	**(9,814)**	–
Write-back of other payables	**(152)**	–
Provision for impairment loss of inventories	**1,694**	6,963
Provision for impairment losses of interests in associates	**–**	69
Provision for impairment losses of property, plant and equipment	**–**	337
Provision for / (reversal of) impairment losses of trade receivables	**5,770**	(4,250)
Provision for impairment losses of other receivables, prepayments and deposits	**213**	364
Inventories written off	**1,303**	571
Bad debts written off	**324**	8,798
Other receivables, prepayments and deposits written off	**13**	198
Recovery for bad debts previously written off	**(282)**	–
Reversal of impairment losses of other receivables, prepayments and deposits	**(4)**	–
Interest income	**(40)**	(58)
Interest expenses	**174**	179
Operating loss before working capital changes	**(14,660)**	(19,758)
(Increase) / decrease in inventories	**(1,895)**	3,220
Decrease in trade receivables, other receivables, prepayments and deposits	**11,258**	16,609
Increase in amount due from a related company	**(94)**	–
(Decrease) / increase in trade payables, sales received in advance, other payables and accrued expenses	**(6,451)**	170
Increase in amounts due to directors and related companies	**84**	811
Net cash (used in) / generated from operations	**(11,758)**	1,052

30. COMMITMENTS

(a) Commitments under operating leases

As at 31 March 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2006 **HK$'000**	2005 HK$'000
Not later than one year	**1,524**	911
Later than one year and not later than five years	**673**	699
	2,197	1,610

(b) Capital commitments

The Company did not have any material capital commitments as at 31 March 2006 (2005: Nil).

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Significant transactions with related parties

	Note	**Group** **2006** **HK$'000**	2005 HK$'000
Administrative service fees paid to T S Holdings	(i)	**–**	240
Licence fee paid to T S Holdings	(ii)	**700**	1,450
Service fees charged by the ultimate holding company	(iii)	**933**	240
Consultancy fee paid to Wayfield Limited	(iv)	**–**	999
Research and development expenses charged by the ultimate holding company	(v)	**–**	1,897

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

(ii) On 12 July 2005, the Company entered into a licence agreement with T. S. (Holdings) Company Limited ("T S Holdings"), a related company in which a director of the Company, Mr. Lau See Hoi, has a beneficial interest, to use certain office premises at a monthly licence fee of approximately HK$70,000 for the period from 1 June 2005 to 29 February 2008. The office premises were leased to T S Holdings under a leasing agreement dated 15 March 2005 entered into between T S Holdings and the landlord, an independent third party.

The previous licence agreement dated 27 November 2002 entered into between T. S. International, a wholly-owned subsidiary of the Company, and T S Holdings expired on 31 March 2005. Pursuant to the previous licence agreement, the Group was granted a right by T S Holdings to use certain office premises, at a monthly licence fee of approximately HK$121,000.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(iii) T S Bio-Technology Limited, a wholly-owned subsidiary of the Company, entered into an agreement on 29 November 2005 for a term of three years commencing from 1 December 2005 with T S Telecom, the ultimate holding company, under which the latter will provide management, marketing and research services to the Group at an annual service fee of not exceeding HK$1,600,000 and can be revised by the parties from time to time by mutual agreement as circumstances warranted, provided that the annual service fee shall in total not exceed HK$2,500,000.

(iv) Mr. Wong Weng, a former director of the Company, has a beneficial interest in this company.

(v) T. S. International entered into an agreement on 27 November 2002 for a term of three years with 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.

(vi) The Group's bank borrowings included an amount of approximately HK$2,546,000 (Note 27) is secured by legal charges over the leasehold land and buildings given by T S Holdings and Eastlucky Garment Limited, related companies in which a director of the Company, Mr. Lau See Hoi, has a beneficial interest.

Compensation of key management personnel

The directors of the Group considered that they are the only key management personnel of the Group and their remuneration are set out in Note 14.