Management Discussion

Business and Financial Review

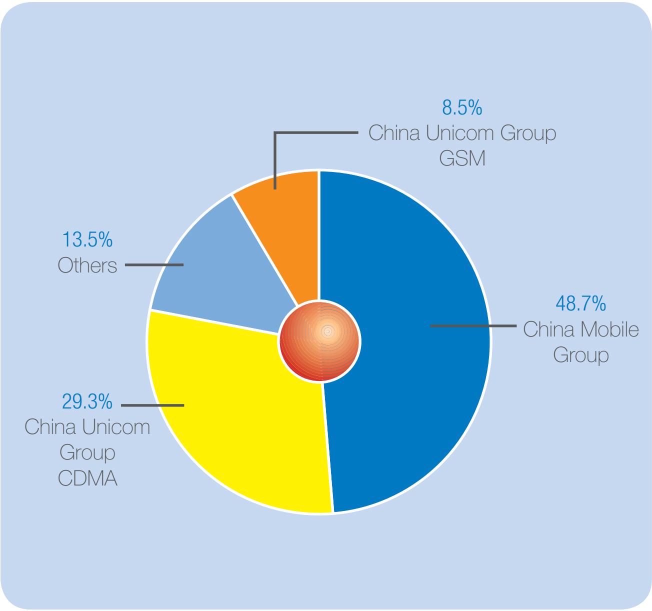
Turnover

The Group's turnover for the year ended 31 December 2004 was HK$1,092,761,000, representing an increase of approximately 35.5% from the previous year. Following the trend in the last few years, the Group has been benefiting from the continued wireless coverage capital expenditure by the mobile operators in the PRC in improving the quality of mobile networks for providing better services to mobile subscribers. Being a leading provider of wireless coverage solutions to the mobile operators in the PRC, the Group experienced continued and steady growth in its business. In particular, demand for the Group's wireless coverage solutions from the CDMA network of China United Telecommunications Corporation and its subsidiaries ("China Unicom Group") increased significantly during the year.

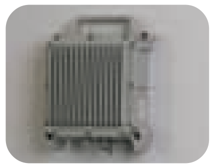
By the end of 2004, the Group operated over 30 offices in the PRC providing sales, project survey and design, project management, installation and maintenance services to its customers locally. During the year, the number of provincial level mobile operators whom the Group serves increased by 11 to 58. The Group expanded steadily to strengthen its position as a leading wireless coverage solutions provider in the PRC.

Revenue generated from China Mobile Communications Corporation and its subsidiaries ("China Mobile Group") increased steadily by 8.8% and accounted for 48.7% of the Group's total turnover in 2004. During the year, revenue of the Group generated from China Unicom Group's CDMA network increased tremendously by 135.4% while revenue of the Group generated from its GSM network decreased by 24.7%. Revenue from China Unicom Group accounted for 37.8% of the Group's total turnover in 2004, with CDMA and GSM accounting for 29.3% and 8.5% respectively. Others including sales to agents in the PRC accounted for 13.5% of the Group's turnover in 2004.

Breakdown by customers



and Analysis

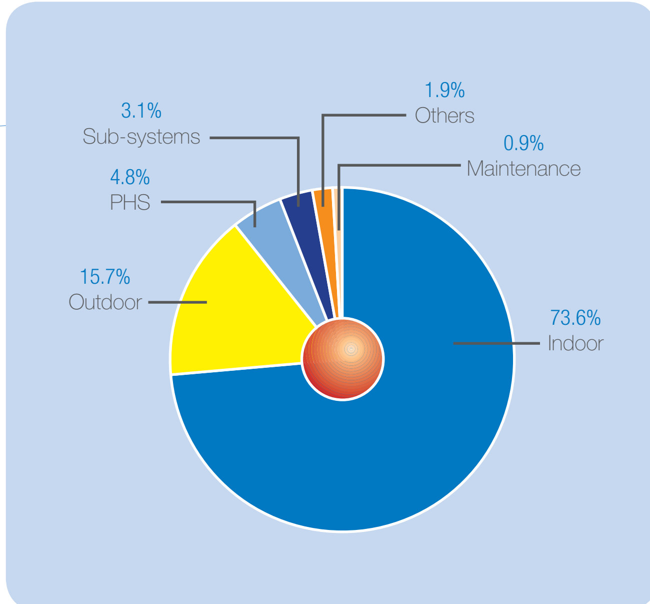


Completion of infrastructure projects led to continued demand for indoor wireless coverage solutions in the PRC. Revenue generated from indoor wireless coverage solutions accounted for 73.6% of the Group's turnover in 2004, as compared to 71.7% in 2003. Revenue generated from outdoor wireless coverage solutions accounted for 15.7% of the Group's turnover in 2004, compared to 22.7% in 2003.

Apart from providing turnkey solutions in wireless coverage to mobile operators, the Group also sold base station ("BTS") sub-systems, including tower top solutions and BTS antennas. These accounted for 3.1% of the Group's turnover in 2004, compared to 2.6% in 2003.

Revenue generated from the wireless coverage equipment for the PHS network, which represents one of the Group's new businesses during the year, accounted for 4.8% of the Group's turnover. In addition, revenue from extended maintenance contracts accounted for 0.9% of the Group's turnover.

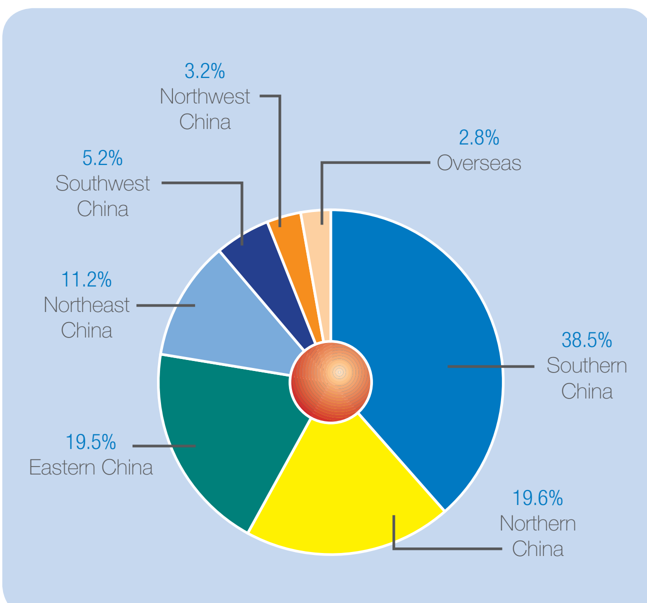
Breakdown by solutions



In respect of the PRC market, over 80% of the Group's revenue was generated from the coastal regions. Southern region (covering mainly Guangdong) remained as the major revenue contributor, accounting for 38.5% of the Group's turnover in 2004. The Northern region (covering mainly Beijing, Tianjin, Shangdong), Eastern region (covering mainly Jiangsu, Zhejiang and Shanghai) and the Northeast region (covering Liaoning, Jilin and Heilongjiang) accounted for 19.6%, 19.5% and 11.2% respectively of the Group's turnover in 2004.

Export sales accounted for 2.8% of the Group's turnover in 2004, representing an increase of 120.1% over 2003.

Breakdown by regions



Gross profit

Gross profit of the Group for the year ended 31 December 2004 was HK$469,449,000, representing an increase of 25.4% over 2003. Gross profit margin was 43.0% compared to 46.4% in 2003. In order to capture the business opportunities faced by the Group, it strategically priced its products to strengthen its leading position, capture new markets and provide better value to its customers. Although the Group managed to negotiate better pricing in material costs and implemented other cost saving measures, these were not sufficient to compensate the effect brought by the pricing strategy during the year. The Group also increased its resources in the provision of project management and technical services nationwide in the PRC for the substantial increase in the number of projects handled by the Group.

In addition, sales of equipment to agents in the PRC tend to command lower gross profit margins as technical services are usually provided to the operators by them rather than by the Group.

Operating expenses

Selling, general and administrative ("SG&A") expenses were HK$206,038,000, representing an increase of 46.4% over 2003. It accounted for 18.9% of the turnover in 2004 compared to 17.5% in 2003. To strengthen its leading position and penetrate new markets in the PRC, the Group expanded its sales and technical support teams. The headcount of the Group's regional offices in the PRC increased by more than 30% in 2004.

To strengthen its international presence, the Group established two offices in Sweden and Thailand respectively during 2004.

Concerning the DMS business, the Group has been carrying out trials with its customers in the PRC and overseas. Since the Group was in its initial phase of market development in international markets and its DMS business during 2004, contribution from these businesses were not sufficient enough to cover the market development costs involved. This, together with the expansion in the PRC, contributed to the increase in SG&A expenses.

Net profit

Net profit for the year ended 31 December 2004 was HK$255,105,000, representing an increase of 20.8% over 2003. Net profit margin was 23.3% in 2004 compared to 26.2% in 2003. The decrease was mainly due to the lowering of gross profit margin and increases in SG&A expenses described above. Such impact was mitigated by the decrease in effective tax rate as one of the Group's subsidiaries in the PRC was still under full tax exemption in 2004.

Prospect

Wireless coverage solutions

Wireless coverage solutions business in the PRC remains to be the Group's principal business in 2005. The Group expects to continue to benefit from the increasing capital expenditure by mobile operators for enhancing the quality of the mobile networks in the PRC. The capacity routing solutions newly developed by the Group help mobile operators to use their capacity resources more cost-effectively and are well received by its customers. It is expected that this capacity routing solutions will be in great demand during 2005.

The granting of 3G licences in the PRC is foreseeable in the near future. Once the licences are granted, the Group anticipates the demand for wireless solutions for 3G networks to be strong. This will bring tremendous business opportunities to the Group, which will leverage its leading position in the wireless sub-system market in the PRC. In addition, the development of some PHS products has helped the Group to establish relationships with the fixed line operators in the PRC which are potential candidates for the 3G licences.

DMS

The Group increased its equity interest in WaveLab Holdings Limited ("WaveLab") to 60% in October 2004. WaveLab successfully developed ODUs in the frequencies ranging from 7GHz to 26GHz. The Group has obtained CE approvals for some of its products. Trials have been conducted with mobile operators and OEM vendors in the PRC and abroad with satisfactory results. DMS business will be a good contribution to the Group's revenue in 2005.

BTS sub-systems

The Group expanded into the BTS sub-systems market by developing products and solutions including tower top solutions and BTS antennas. The Group's BTS antennas have been qualified with 15 provincial level mobile operators by the end of 2004. A significant growth in revenue is expected in this business segment.

Extended maintenance services

The Group has over the years completed a large number of both indoor and outdoor wireless coverage solutions projects for its customers. Once the warranty period expires, the Group is in a position to negotiate extended maintenance services contracts with its customers. Given a growing installed base, the Group expects a steady growth in recurring income from this business segment.

Export market

The Group currently has four export sales offices, located in Hong Kong, Singapore, Sweden and Thailand respectively. The Asia Pacific markets are covered by the Hong Kong, Singapore and Thailand offices, whereas the EMEA markets are covered from Sweden. The Group has established a strong international team with seasoned personnel in the wireless market and it anticipates the growth momentum in the past years to continue in 2005.

OEM vendor market

The Group has successfully established business relationships with two major OEM vendors in the PRC. This has broadened the Group's customer base and conducting business with these OEM vendors will be a new revenue stream for the Group.

In short, the Group is well positioned to capture the tremendous business opportunities expected in the mobile markets in 2005 and beyond. The issuance of 3G licences in the PRC is likely to double the number of mobile networks, and bring new entrants to the mobile market. This will enable the Group to develop a broader customer base and result in a greater demand for its products and solutions. The Group will also take advantage of the opportunities in the global wireless equipment market, especially in the Asia Pacific and EMEA regions. The Group's experienced international team will endeavour to replicate the Group's success in the PRC in international markets.

The Group successfully explored the OEM vendor market which further broadened its customer base. Over the years, it has built an R&D and manufacturing platform, capable of developing and producing quality products and handling huge production volume. With a low cost structure in the PRC, the Group anticipates to develop further business cooperation with both domestic and international OEM vendors.

The Group remains very focused in the wireless sub-system, and coverage and capacity enhancement solutions markets. With its core competencies in RF and related areas, the Group envisages to grow with the promising growth of the mobile markets around the world.

Liquidity, Financial Resources and Capital Structure

The Group generally finances its operations from cashflow generated internally and bank loans. As at 31 December 2004, the Group had net current assets of HK$937,405,000. Current assets comprised inventories of HK$516,650,000, trade receivables of HK$495,176,000, notes and other receivables of HK$125,484,000, and cash and bank balances of HK$516,299,000. Current liabilities comprised trade and notes payables of HK$292,409,000, tax payable of HK$2,495,000, other payables and accruals of HK$249,138,000, current portion of finance lease payables of HK$180,000, short-term bank loans of HK$157,782,000, and provision for product warranties of HK$14,200,000.

The average receivable turnover for the year ended 31 December 2004 was 137 days compared to 116 days for the year ended 31 December 2003. The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three to six months. The average payable turnover for the year ended 31 December 2004 was 130 days compared to 103 days for the year ended 31 December 2003. The average inventory turnover for the year ended 31 December 2004 was 221 days compared to 173 days for the year ended 31 December 2003.

As at 31 December 2004, the Group's cash and bank balances were mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$") while the Group's bank borrowings were mainly denominated in RMB and HK$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, US$ and HK$. Since the exchange fluctuations amongst these currencies are low, the board of directors (the "Board") considers that there is no significant exchange risk.

The Group's gearing ratio, calculated as total debts (including short-term bank loans and finance lease payables) over total assets, was 8.6% as at 31 December 2004. (2003: 5.5%)

Charge on Assets

The Group's bank borrowings were secured by a charge on time deposits amounted to HK$102,000,000 (2003: HK$102,000,000).

Contingent Liabilities

As at 31 December 2004, the Group had contingent liabilities of HK$13,603,000 as detailed in the financial statements (2003: HK$84,155,000).

Employees and Remuneration Policies

As at 31 December 2004, the Group had around 3,000 staff. The total staff costs for the year under review was HK$191,740,000. The Group offers competitive remuneration schemes to its employees based on industry practices as well as the employees' and the Group's performance. In addition, share options and discretionary bonuses are also granted to eligible staff based on the performance of each such employee as well as the Group.