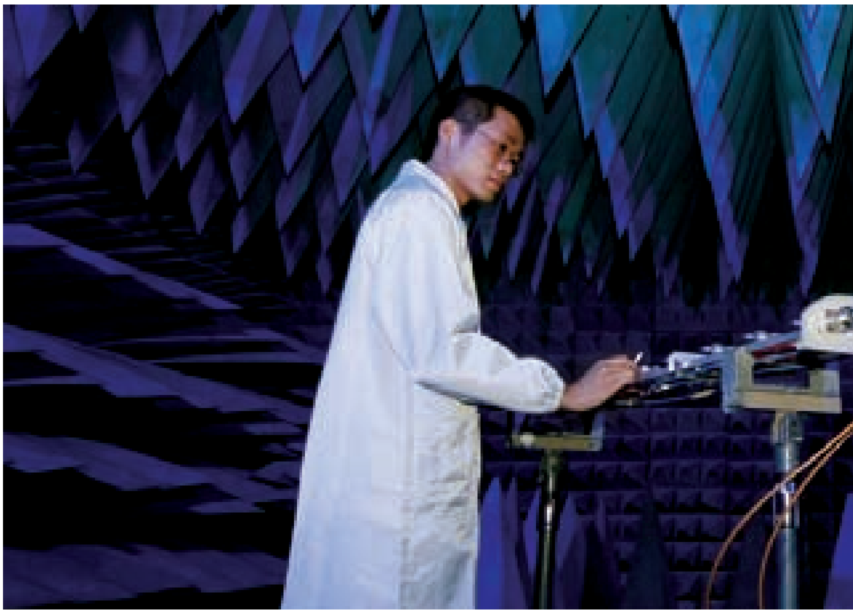
MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS AND FINANCIAL REVIEW

Revenue

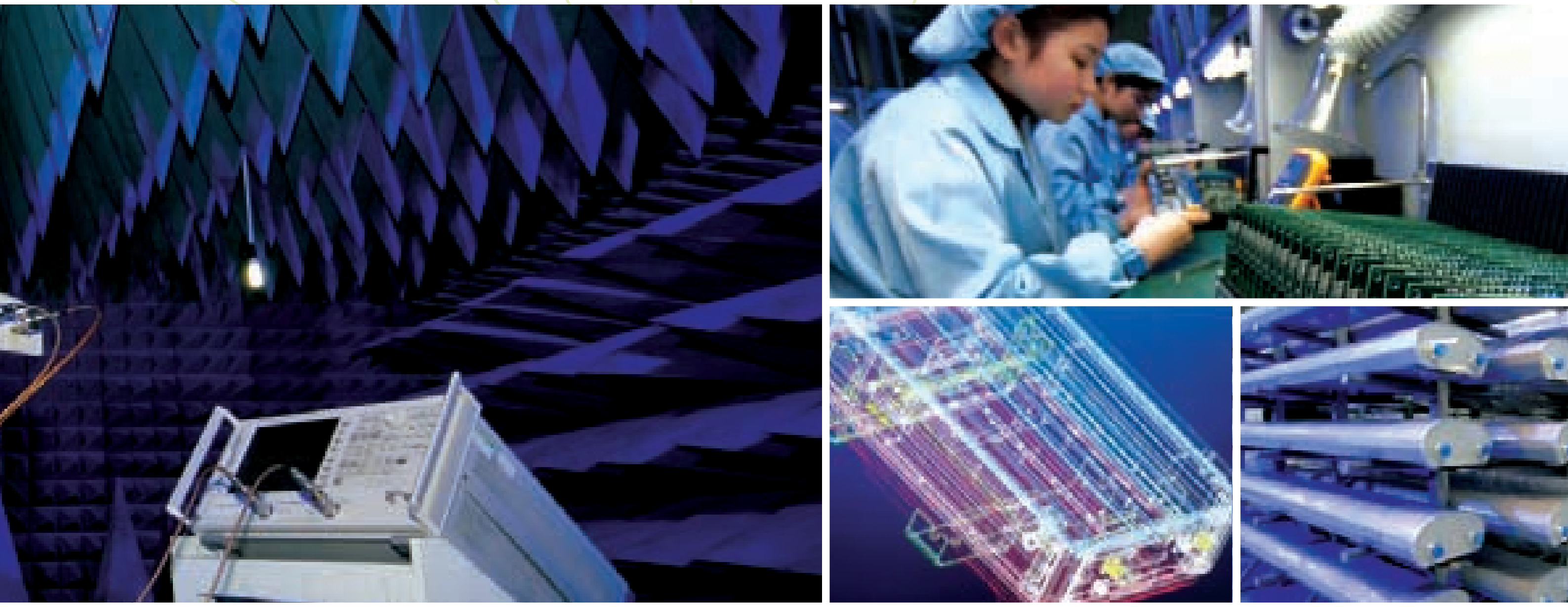
The Group's revenue for the year ended 31 December 2005 was HK$1,170,515,000, representing an increase of approximately 7.1% from the previous year. While the Group experienced continued wireless enhancement capital expenditure by the GSM mobile operators in the PRC in improving the quality of mobile networks, such increase was offset by the slowdown in the implementation of capital expenditure plans on wireless enhancement solutions in CDMA network in the PRC in 2005. On the other hand, the Group recorded remarkable revenue growth in the international market in 2005.

By the end of 2005, 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, covering almost every single province and municipality in the PRC. The Group expanded steadily to strengthen its position as a leading wireless enhancement solutions provider in the PRC.

By customers

Revenue generated from the China Mobile Group increased steadily by 19.0% and accounted for 54.1% of the Group's revenue in 2005. During the year, revenue generated from the GSM network of the China Unicom Group increased by 132.6% while revenue generated from its CDMA network decreased by 43.8%. Revenue generated from China Unicom Group accounted for 33.7% of the Group's revenue in 2005, with GSM and CDMA accounting for 18.3% and 15.4% respectively.

The Group has strategically broadened its customer base by developing businesses with customers other than the mobile operators in the PRC. Revenue from other customers including agents in the PRC and international customers accounted for 12.2% of the Group's revenue in 2005.

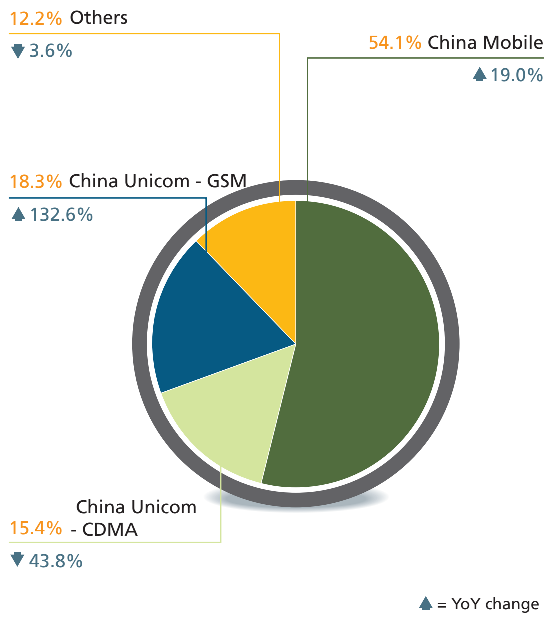


By solutions/products

Revenue generated from indoor wireless enhancement solutions accounted for 67.2% of the Group's revenue in 2005, as compared to 73.7% in 2004. Revenue generated from outdoor wireless enhancement solutions accounted for 19.2% of the Group's revenue in 2005, compared to 15.7% in 2004. Outdoor solutions revenue increased as more outdoor solutions were deployed in areas like Guangdong province and Beijing. In general, the Group continued to benefit from the steady wireless enhancement capital expenditure by the mobile operators.

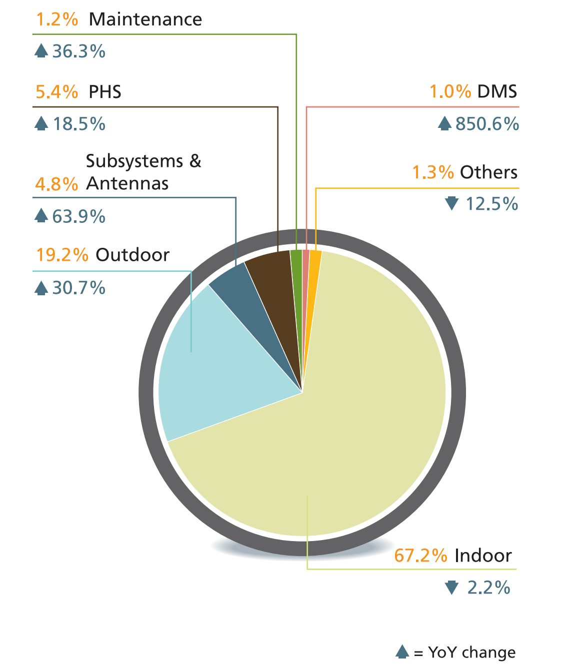
Apart from providing turnkey solutions in wireless enhancement to mobile operators, the Group also sold base transceiver station ("BTS") subsystems, including tower top solutions and BTS antennas. Revenue from subsystems and antennas grew by 63.9% and accounted for 4.8% of the Group's revenue in 2005, compared to 3.1% in 2004.

Revenue Breakdown by Customers (2005)

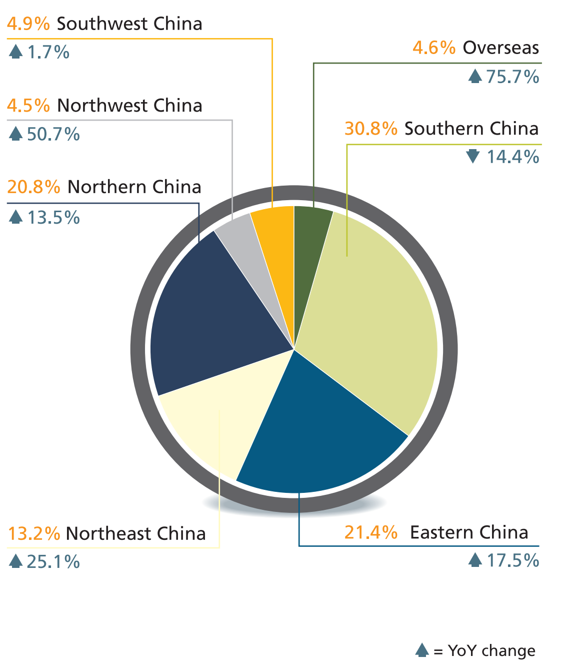


MANAGEMENT DISCUSSION AND ANALYSIS

Revenue Breakdown by Solutions (2005)



Revenue Breakdown by Regions (2005)



Revenue generated from the wireless enhancement equipment for the PHS network grew by 18.5% and accounted for 5.4% of the Group's revenue in 2005, compared to 4.8% in 2004. The Group considers that such penetration into the fixed line operators serves as a good foundation on which the Group can develop more businesses with them especially in 3G network rollout . In addition, revenue from extended maintenance services grew by 36.3% and accounted for 1.2% of the Group's revenue in 2005, compared to 0.9% in 2004. Revenue from DMS increased more than eightfold and accounted for 1.0% of the Group's revenue in 2005, compared to 0.1% in 2004. The Group's diversification strategy in products and solutions gradually started contributing to its revenue.

By regions

In respect of the PRC market, over 85% of the Group's revenue was generated from various coastal and developed regions. Southern region remained as the major revenue contributor, accounting for 30.8% of the Group's revenue in 2005. Eastern region, Northern region and Northeast region accounted for 21.4%, 20.8% and 13.2% respectively of the Group's revenue in 2005.

Export sales (including sales to core equipment manufacturers) accounted for 4.6% of the Group's revenue in 2005, representing an increase of 75.7% over 2004. Since the first half of 2004, the Group has continued to expand its business in the international market by setting up sales offices in Sweden, Thailand and India.

Gross profit

In order to maintain its leadership position and capture new markets, the Group has adjusted its pricing strategy to ensure its products and solutions are cost effective and of better price-performance. On the other hand, the Group is also facing continued pressure on the average selling price and hence gross profit margin of its products and solutions for the maturing 2G mobile communications market in the PRC. In 2005, although the Group managed to negotiate better pricing in materials and implemented various cost saving measures such as improvements in production technology and product redesign, the impact of these measures generally lagged behind and were not sufficient to compensate the effect brought by the downward trend in selling prices in the short term. As a result of the downward price trend, the Group also increased its resources in the provision of project management and technical support services nationwide in the PRC for the increase in number of projects undertaken. Gross profit margin was 40.5% in 2005 compared to 51.6% in 2004, due to the reasons mentioned above. Gross profit of the Group for the year ended 31 December 2005 was HK$474,326,000, representing a decrease of 15.8% over 2004.

Research and development costs

The Group has increased its resources considerably in the research and development ("R&D") of its products and solutions including those related to 3G. For instance, the Group expanded its R&D team in the PRC substantially during 2005. In addition, the Group purchased more R&D equipment and incurred more expenses in broadening its product portfolio. On the other hand, in order to accelerate its R&D capabilities in power amplifiers, the Group set up an R&D centre in Silicon Valley, the US in the third quarter of 2005. R&D costs therefore increased substantially to HK$62,509,000 and accounted for 5.3% of revenue in 2005 compared to 3.4% in 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution costs

Selling and distribution costs were HK$86,955,000 in 2005, representing an increase of 25.3% over 2004. This was largely due to the increase in headcount in the Group's nationwide network in the PRC to strengthen its presence and increase its market share. Nevertheless, in the second half of 2005, the Group already streamlined certain of its operations in the nationwide network amid slow down in CDMA capital expenditure. This has since helped reduce the impact on its operating results from such nationwide expansion in anticipation of 3G opportunities. International expansion also contributed to the increase in selling and distribution costs.

Administrative expenses

Administrative expenses were HK$223,000,000 in 2005, representing an increase of 5.6% over 2004. Around two-fifths of administrative expenses were payroll and related expenses for both 2004 and 2005. Others included office rental and expenses, travelling and depreciation charges. As a result of the recent changes to the Hong Kong Financial Reporting Standards, the cost of share options granted by the Company to the Group's employees has to be accounted for by the Company as an expense in its income statement starting from accounting periods commencing after 1 January 2005. As such, option expense amounting to HK$16,896,000 was charged to the income statement in 2005, compared to HK$17,627,000 in 2004 as restated.

Finance costs

Finance costs were HK$21,480,000 in 2005, representing an increase of 125.4% over 2004. This was mainly due to the increase in bank loans to finance the Group's working capital and the increase in interest rates during the year. In addition, finance costs on factored trade receivables also increased by HK$6,540,000 over 2004.

Tax

Effective tax rate was 8.5% in 2005, compared to 2.5% in 2004. Such increase was due to the fact that one of the Group's subsidiaries in the PRC enjoyed full tax exemption in 2004 but is currently subject to corporate income tax at half the standard rate.

Net profit

Profit attributable to shareholders ("Net Profit") for the year ended 31 December 2005 was HK$82,089,000, representing a decrease of 65.4% over 2004. Net profit margin was 7.0% in 2005 compared to 21.7% in 2004 as restated. The decrease was mainly due to the decrease in gross profit and increases in costs and expenses described above.

PROSPECT

Businesses – solutions/products

Wireless enhancement solutions

The Directors believe that the future development of the Group's 3G operations represents an excellent business opportunity to the Company in the medium term. The Group has continously invested in R&D to enhance its product portfolio and capabilities for the WCDMA and TD-SCDMA standards. Having set up an R&D centre in Silicon Valley, the US, the Group has expanded its R&D capabilities especially in multi-carrier power amplifiers ("MCPA"). The Group is well prepared for 3G in all aspects and a number of 3G solutions have been deployed. This enables the Group to understand the need, and meet the demand, of operators immediately upon the granting of 3G licences.

MII officials indicated that the 3G policy would be finalised in 2006. The State government has been actively promoting the development of the TD-SCDMA standard. For instance, three telecom operators in the PRC are building a commercial trial network separately for the TD-SCDMA standard. The granting of 3G licences in the PRC is therefore foreseeable in the near future. Once the licences are granted, the Group anticipates the demand for wireless enhancement solutions for 3G networks to be strong and possibly outstrip supply. This will bring tremendous business opportunities to the Group, which can leverage its leading position in the wireless enhancement solutions market in the PRC. In addition, the development of some PHS products has helped the Group to establish relationships with fixed line operators in the PRC which are involved in the above-mentioned trial networks for TD-SCDMA standard.

The Directors also believe that 2G and 3G networks will coexist for a long period of time, operators will still need to invest in the construction of 2G network. Both the China Mobile Group and the China Unicom Group indicated recently that they would increase capital expenditure in their respective GSM networks in 2006 compared to 2005. Apart from investing in core network equipment to provide a larger capacity, mobile operators would invest in the optimisation of network quality and resources in order to improve the breadth and depth of the network, the former is to increase the coverage areas to rural areas and second tier cities while the latter is to improve the signal strength inside an area like basements and elevators. The Directors therefore remain cautiously optimistic about the wireless enhancement solutions market in the PRC, no matter when the 3G licences are granted.

The Group has launched various new solutions and products to meet the needs of the market. For instance, in 2005, the Group developed various new solutions including Dynamic Traffic Routing solutions. The continued investment made by the Group has made its products even more cost effective and competitive in the industry. For instance, the Group was ranked first by the China Mobile Group in its central procurement programme for outdoor repeaters in July 2005. This has strengthened the Group's leading position in the industry.

Mobile operators have increasingly adopted the practice of central procurement in order to streamline their supply chain management. The Directors believe that it is good for the market as a whole because fewer players will be selected and the Group may capture a larger market share. Nevertheless, inevitably, the average selling price of the wireless enhancement products is expected to be trending downwards and gross profit margin is expected to be under pressure.

Subsystems and Antennas

The Group has actively expanded its capabilities on subsystems and antennas. This rapid expansion aligns with its consolidated effort in international and core equipment manufacturer market expansion. The Group's continuous investment in R&D has enabled it to develop a complete product portfolio including smart antennas, multi-band antennas with 3G capabilities, camouflaged antennas and a full range of tower top solutions. This effort drastically increases its core competency in BTS antennas, enabling the Group to be ranked first by the China Mobile Group in its central procurement programme for BTS antennas in July 2005. Revenue from BTS antennas has since been growing rapidly in the PRC. With respect to the international market, the Group has started gaining traction. In addition, the Group is in the process of qualifying its subsystems and antennas with international operators and core equipment manufacturers. The Directors believe that this market segment is going to provide strong growth momentum for the Group.

Digital Microwave Systems ("DMS")

The Group has launched its MASELink DMS solutions in the international market. It currently has a complete portfolio of DMS solutions that is capable of operating across all frequency bands from 6GHz to 26GHz and ranges from the traditional PDH based microwave solution with capacities of up to 16 E-1 (32Mbps) to SDH microwave solution at an STM-1 (155Mbps) capacity. With the MASELink Super PDH solution, the Group is one of the few companies that is able to offer a true 100Mbps IP radio solution. With feature-rich and competitively positioned DMS solutions, the Group believes that its DMS revenue will continue its growth momentum, especially after 3G licences are granted in the PRC.

Extended maintenance services

The Group has accumulated a growing installed base over the years which serve as a solid base for recurring income. Upon expiry of the free warranty period of the wireless enhancement solutions projects undertaken by the Group in previous years, the Group is in a position to negotiate extended maintenance services contracts with its customers and it expects to generate more revenue from this business segment.

Businesses — markets

International market

The Directors view the international market expansion as one of the most important strategies for the Group's future growth. The Group has been focusing on the PRC market and concurrently building up its core technical and manufacturing competencies to get ready for this expansion. The Group has established the EMEA (Europe, Middle East & Africa) regional headquarters in Stockholm, Sweden and has also established direct presence in the Thailand, Singapore and India markets which are coordinated from the corporate headquarters located in Hong Kong. The Group has broadened its international customer base to increase its global brand recognition and to allow more effective business development.

In addition to the expansion of its network, the Group has established dedicated marketing organisation with employees around the world. Coupled with a Global Service & Support Team ("GSST") in Singapore, the Group is now in a position to address different market requirements as well as to offer a complete solution from consultation to post-sales support and maintenance. The Directors are committed to the international expansion and believe that it will provide substantial growth for the Group in 2006 and beyond. In order to meet and adapt to customer and market needs, the Group is continually restructuring and adding to the technical and human resources required to address the international market effectively.

Core equipment manufacturer market

The Directors also view the core equipment manufacturer market as an important strategy for expansion. With established R&D and manufacturing capabilities, the Group has developed products catering to the needs of core equipment manufacturers both inside and outside of the PRC. The core equipment manufacturer market is synergistic to the Group's overall product expansion plan. Its products will be integrated to BTS equipment and this effectively expands the Group's addressable market.

The Group has made a concerted move into the core equipment manufacturer market over the past year and has already gained traction with certain key domestic core equipment manufacturers. The global core equipment manufacturer outsourcing market is expected to grow with equipment manufacturers increasingly outsourcing some of the components. The PRC itself is expected to be a powerful contributor to the core equipment manufacturer outsourcing market over the next 3 years driven by 3G licence issuance and the subsequent network upgrades and installations. Given the Group's capabilities, the Directors believe that it will be able to leverage its production base and international network to gain share in the core equipment manufacturer market.

Operations

In an attempt to improve its operating efficiency and internal control, the Group implemented a new SAP ERP system in the PRC in 2005. A high level of integration of logistics management has been achieved. The Group also expects to improve efficiency and control in the areas of materials procurement, inventory control, overall production management, project coordination management and working capital management. The new ERP system will be implemented throughout the Group in 2006.

The construction of the new PRC headquarters of the Group in Guangzhou Science City, Guangzhou, the PRC has been completed. The Group expects to relocate the sales and marketing and the R&D departments to the new headquarters by June 2006. After that, the existing plant in the Guangzhou Economic and Technology Development District will mainly be used for production. The increase in production floor space will enable the Group to meet business demand flexibly in the next few years.

Conclusion

The Group remains cautiously optimistic about the opportunities that the future development of the 3G mobile market in the PRC will bring in the medium term. As and when the 3G licences are granted to telecommunications operators in the PRC, the Group expects significant business opportunities from both existing and new customers. Based on its preparation so far, the Group believes that it will be ready to face the challenges and benefit from the opportunities in the 3G mobile market. On the other hand, in order to fuel its long term growth, the Group is committed to developing international and core equipment manufacturer markets, which are its strategic areas of expansion. Being the market leader in the PRC in terms of market share, R&D and production capabilities, the Group is well positioned to provide quality products and services in these markets. The Group is also committed to allocating resources to pursue this growth strategy to achieve a more balanced customer base.

The Group continues to focus on its core competency in radio frequency technology. To cope with the changes in market needs, it will continue to invest in products and technology based research and development and to enlarge its production platform to meet expected growth in demand for its products and solutions. Such capital expenditure of the Group is expected to be funded by various means of financing. Finally, the Group will endeavour to maintain a solid and healthy financial position, consolidate its leading market position, and pursue a balanced and carefully planned growth strategy, in order to maximise the shareholders' value.

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances its operations from cashflow generated internally and bank loans. As at 31 December 2005, the Group had net current assets of HK$960,419,000. Current assets comprised inventories of HK$572,948,000, trade receivables of HK$618,290,000, notes receivables of HK$35,585,000, factored trade receivables of HK$115,296,000, prepayments, deposits and other receivables of HK$112,807,000, short term time deposits of HK$178,296,000 and cash and cash equivalents of HK$314,118,000. Current liabilities comprised trade and bills payables of HK$356,753,000, tax payable of HK$18,867,000, other payables and accruals of HK$284,036,000, current portion of finance lease payables of HK$180,000, interest-bearing bank and other borrowings of HK$190,723,000, bank advances on factored trade receivables of HK$115,296,000, and provision for product warranties of HK$21,066,000.

The average receivable turnover for the year ended 31 December 2005 was 174 days compared to 137 days for the year ended 31 December 2004. The Group's trading terms with its customers are mainly on credit. The contractual credit period is generally for a period of three to six months except for those retention money receivables with payment ranging from six to twenty-four months. The average payable turnover for the year ended 31 December 2005 was 170 days compared to 153 days for the year ended 31 December 2004. The average inventory turnover for the year ended 31 December 2005 was 286 days compared to 260 days for the year ended 31 December 2004.

As at 31 December 2005, 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, HK$ and US$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, US$ and HK$. Since the exchange fluctuations among these currencies are low, the Board considers that there is no significant exchange risk.

The Group's gearing ratio, calculated as total interest-bearing debts (including bank loans and advances, and finance lease payables) over total assets, was 14.0% as at 31 December 2005. (2004: 8.6%)

CHARGE ON ASSETS

The Group's bank borrowings were secured by a charge on a time deposit amounted to HK$63,000,000 (2004: HK$102,000,000).

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no contingent liability as detailed in the financial statements (2004: HK$13,603,000).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group had around 3,200 staff. The total staff costs for the year under review was HK$248,931,000. 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.