

Management Discussion and Analysis

For the year ended 31 December 2006, the Group achieved satisfactory results with increased contributions from the sale of intelligent electronic products. The Group recorded a turnover of approximately RMB670 million, representing an increase of 20.2% as compared with the relevant period last year. Gross profit increased to approximately RMB276 million, 19.2% higher than in the previous year. Profit attributable to shareholders increased to approximately RMB184 million, an increase of 25.5% against last year. Earnings per share were RMB19.54 cents.

Sales of Communication Terminal Equipment

Public telephone booths, public telephones and wireless business telephones in the communication terminal equipment category are the principal products of the Group. For the year ended 31 December 2006, turnover derived from Communication terminal equipment sales increased by 7.5% to approximately RMB390 million, accounting for approximately 58.2% of the Group's total turnover. Of the segmental total, turnover derived from the sales of public telephone booths increased by 13.4% to approximately RMB224 million, accounting for approximately 33.4% of the Group's total turnover. As for the turnover derived from the sales of public telephones and wireless business telephones, it increased by 0.4% to approximately RMB166 million and accounted for approximately 24.8% of the Group's total turnover. Persistent economic growth and urbanization in the PRC driving up demand for telecommunication equipment and the Group's tireless efforts to improve product quality were the contributing factors to the turnover growth.

Sales of Intelligent Electronic Products

The Group's intelligent electronic products comprise of smart card vending machines, which provide self-service purchase of smart cards to the public. For the year ended 31 December 2006, turnover derived from the sales of intelligent electronic products increased by 53.8% to approximately RMB223 million, accounting for approximately 33.2% of the Group's total turnover. The increase in turnover was mainly attributable to the growing in popularity of smart card telephone cards for making telephone calls and the Group's introduction of new models of smart card vending machines during the year.

Sales of Communication Transmission Connection Products

The Group's communication transmission connection products include devices such as optical distribution frames ("ODFs") and optical passive devices that organize and connect different components in telecommunication channels. For the year ended 31 December 2006, the segment's turnover increased by 14.1% to approximately RMB57 million, accounting for approximately 8.6% of the Group's total turnover. The increase in turnover was mainly attributable to the Group's efforts in improving the quality of the products and maintaining the products at a competitive price to its customers for its existing products and new products launched.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group had capital commitments in respect of the acquisition of properties, plant and equipment amounting to approximately RMB35 million.

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CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2006.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2006, all charges on the assets of the Group had been released or discharged.

FINAL DIVIDEND

Subject to approval by shareholders at the forthcoming annual general meeting on 30 April 2007, the Board has proposed to pay a final dividend of HK 4.33 cents per ordinary share for the year ended 31 December 2006 payable on or about 28 June 2007 to shareholders whose names appear on the register of members of the Company on 26 April 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 26 April 2007 to 30 April 2007, both days inclusive, during which period no transfer of shares will be affected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 25 April 2007.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group employed approximately 630 employees for its principal activities. The Group recognizes the importance of having a high caliber and competent staff; hence it continues to provide remuneration packages to employees with reference to prevailing market practices and individuals performance. Other various benefits, such as medical coverage and retirement plans, are also provided. In addition, share option may be granted to eligible employees of the Group in accordance with the terms of the Group's approved share option scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2006.