Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2006 (the "Current Year") was HK$1,550,441,000, representing an increase of approximately 32.5% over the revenue for the year ended 31 December 2005 (the "Prior Year"). During the Current Year, the Group benefited from continued economic growth and urban and rural development in the PRC. This, together with strong subscriber growth achieved by the mobile operators, resulted in increased wireless enhancement capital expenditure. In addition, it recorded robust revenue growth in new businesses such as base transceiver station ("BTS") antennas and subsystems, and digital microwave systems ("DMS"). International market also delivered remarkable growth in revenue during the Current Year.

By customers

Revenue generated from the China Mobile Group increased remarkably by 67.1% and accounted for 68.2% of the Group's revenue in the Current Year. Such strong growth is primarily due to increased wireless enhancement capital expenditure by the China Mobile Group for network optimisation amid strong subscriber growth. The Group's broadened product and solution portfolio also contributed

to increased revenue generated from the China Mobile Group. During the Current Year, revenue generated from the China Unicom Group decreased by 26.2% and accounted for 18.8% of the Group's revenue in the Current Year.

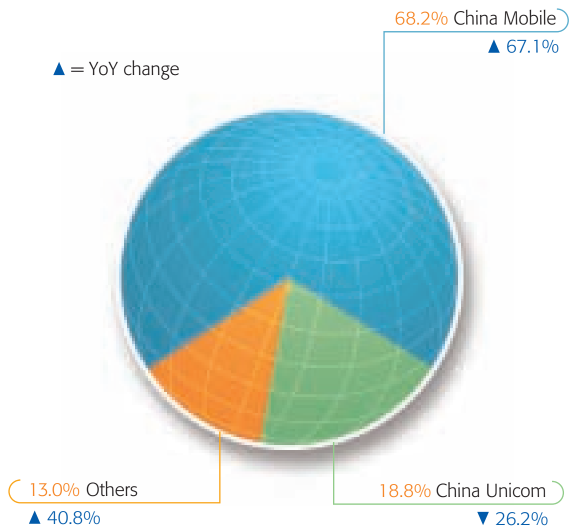
Revenue from other customers including agents in the PRC, core equipment manufacturers and international customers accounted for 13.0% of the Group's revenue in the Current Year. Out of which, international sales (including sales to core equipment manufacturers) more than doubled and accounted for 7.4% of the Group's revenue in the Current Year compared to 4.6% in the Prior Year. The Group's international expansion effort has achieved good progress as demonstrated by the strong growth, which is contributed by addition of new customers and repeat orders from existing customers.

By businesses

Revenue generated from wireless enhancement business in the Current Year increased by 16.5% over the Prior Year. It accounted for 69.0% of the Group's revenue in the Current Year, compared to 78.5% in the Prior Year. Products managed by this business unit include repeaters, boosters, tower mounted boosters, etc. Revenue reported under this business unit includes the service revenue associated with, and the cables used in, the related turnkey projects. In general, the Group continued to benefit from the steady wireless enhancement capital expenditure by the mobile operators in the PRC.

Revenue Breakdown by Customers

2006



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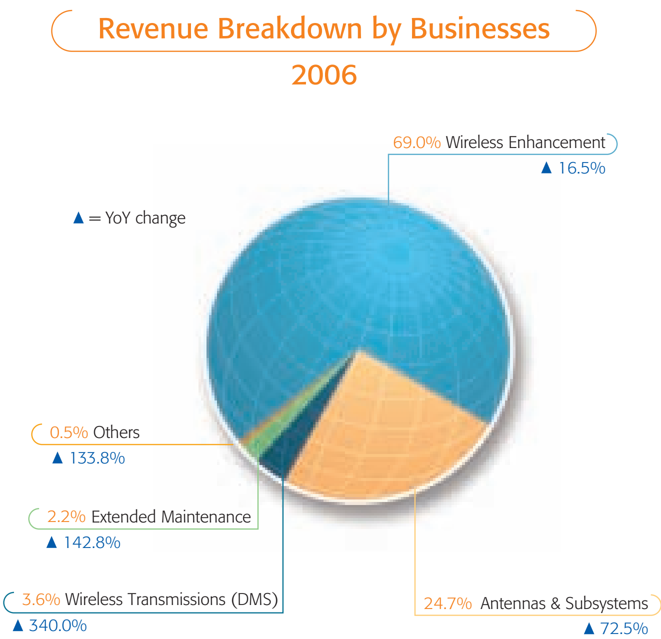

Revenue generated from antennas and subsystems business in the Current Year grew by 72.5% over the Prior Year. It accounted for 24.7% of the Group's revenue in the Current Year, compared to 19.0% in the Prior Year. Products managed by this business unit include antennas and passive accessories used in the wireless enhancement solutions, BTS antennas, camouflaged antennas, etc. Out of which, revenue from BTS antennas more than doubled in the Current Year.

Revenue generated from the wireless transmissions business increased more than threefold and accounted for 3.6% of the Group's revenue in the Current Year, compared to 1.1% in the Prior Year. The Group has developed a full range of digital microwave products which are well received in the PRC and the international markets.

In addition, revenue from extended maintenance services more than doubled and accounted for 2.2% of the Group's revenue in the Current Year, compared to 1.2% in the Prior Year. With a growing installed base, such growth momentum is expected to continue.

Gross profit

The Group has been 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, especially after the central procurement programme initiated by the China Mobile Group in mid 2005. In view of this, the Group has implemented various measures to mitigate this downward trend. It optimised its product portfolio by focusing on products with higher margin, optimised the product design, and continued to negotiate better pricing for materials. In addition, The Group improved its logistics management, thereby enhancing production efficiency and lowering costs. All of these efforts helped sustain the gross profit margin at a healthy level, being 37.8% in the Current Year, compared to 40.5% in the Prior Year. Gross profit of the Group for the Current Year was HK$586,540,000, representing an increase of 23.7% over the Prior Year.

Research and development costs

The Group has continued to allocate its resources appropriately in the research and development ("R&D") of its products and solutions including those related to 3G in order to enable it to meet current and future market demand. For instance, the Group continued to expand its R&D team in the PRC during the Current Year. On the other hand, the R&D centre in the West Coast of the United States was established in the third quarter of 2005 and full year expenses were therefore reflected in the Current Year. R&D expenses increased by 22.0% to HK$76,267,000 and accounted for 4.9% of revenue in the Current Year compared to 5.3% in the Prior Year. This demonstrates that the Group's R&D efforts are very focused and can cater to the market needs. With its continuous investment in R&D, the Group achieved significant accomplishment in intellectual property rights, having applied for over 160 patents as at the end of the Current Year.

Selling and distribution costs

Selling and distribution costs were HK$100,215,000 in the Current Year, representing an increase of 15.2% over the Prior Year. With more focused sales and marketing efforts on markets with high demand and a broader product portfolio supported by an established sales platform, the Group achieved better efficiency in selling and distribution costs which accounted for 6.5% of the Group's revenue in the Current Year, compared to 7.4% in the Prior Year. This proves that the Group's cautious expansion during the industry slowdown in 2005 was a right decision, setting a good foundation of sales network on which the Group is able to tap into business opportunities as and when they arise.

Administrative expenses

Administrative expenses were HK251,199,000 in the Current Year, representing an increase of 12.6% over the Prior Year, and accounted for 16.2% of the Group's revenue in the Current Year, compared to 19.1% in the Prior Year. This improvement was primarily a result of the Group's strengthened budgetary control. Secondly, economies of scale were also achieved amid strong revenue growth in the Current Year. Over the years, the Group has established an experienced and seasoned management team who is capable of managing the Group's resources effectively and efficiently.

Finance costs

Finance costs were HK$15,918,000 in the Current Year, representing a decrease of 25.9% over the Prior Year. In view of rising interest rates, the Group was successful in improving its cash cycle, thereby reducing the bank borrowing level for working capital purposes during the Current Year.

Tax

Effective tax rate was 11.2% in the Current Year, compared to 8.5% in the Prior Year.

Management Discussion and Analysis

Net profit

Profit attributable to shareholders ("Net Profit") for the Current Year was HK$131,140,000, representing an increase of 59.8% over the Prior Year. Net profit margin was 8.5% in the Current Year compared to 7.0% in the Prior Year. Such increase was a result of strong revenue growth, healthy gross profit margin, efficient utilization of the Group's resources and better economies of scale described above.

PROSPECT

Wireless enhancement solutions

The Directors believe that the recent 3G development in the PRC represents a good business opportunity for the Group in the near term. It has been widely reported that the parent company of the China Mobile Group will be rolling out TD-SCDMA capex in a number of cities including those where the Olympic Games will be held in 2008. While the timing of the 3G licence grant remains to be uncertain, this move has demonstrated the State Government's determination in promoting the home grown TD-SCDMA technology.

The Group has always taken a proactive role in its readiness for 3G. For instance, it has developed a number of 3G repeaters and boosters for WCDMA and TD-SCDMA standards according to market needs. During the Current Year, the Group became a member of the TD-SCDMA Industry Alliance which was established to perfect and promote the TD-SCDMA standard. In addition, the Group has participated in various 3G network trials and testing and is therefore well prepared for 3G in all aspects. Given the strong business relationship with the China Mobile Group, the Group is poised to benefit from its TD-SCDMA wireless enhancement investment in 2007 and beyond. The Directors believe that the other two 3G standards, namely, WCDMA and CDMA 2000 will be adopted in the PRC in due course and therefore the Group should monitor the development of 3G closely and take appropriate measures accordingly.

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, given a continued and strong growth in subscribers and an

extension in coverage to rural areas. Both the China Mobile Group and the China Unicom Group indicated recently that they would increase capital expenditure in their respective GSM networks in 2007 compared to 2006. 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 Directors therefore remain cautiously optimistic about the wireless enhancement solutions market in the PRC, regardless of the timing of 3G licence grant.

Mobile operators in the PRC have increasingly adopted the practice of central procurement in order to streamline their supply chain management as well as to save costs. 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.

The international market provides a lot of growth potential because of the continuous investment in wireless infrastructure around the world. The 2G network built in developing countries and the 3G network upgrade in the developed world offer a lot of opportunities. The global market landscape has also changed quite drastically following the mergers of the Group's competitors which provide a lot of entry room for the Group as operators

around the world are looking for established suppliers. For instance, the Group has recently signed a supply agreement with a European mobile operator in respect of its multi-carrier tower mounted boosters. This is a major step forward, demonstrating the Group's capabilities in developing top quality products and expanding its customer base to renowned global mobile operators.

Antennas and Subsystems

The Group has actively expanded its capabilities on antennas and subsystems. 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 to address the PRC market as well as the global operators market.

The Group's production capacity for BTS antennas has more than tripled since 2005 in order to cope with the anticipated demand. The Group also participates in international technical and standards forum like the AISG Forum to maintain its technical excellence. The technical leadership that the Group has established in the PRC has enabled it to be the sole supplier for certain high performance antennas in the PRC. In addition to using its own sales network, the Group is also selling its BTS antennas in the overseas market through a leading Chinese core equipment manufacturer. This once again demonstrates the Group's technical leadership in this market segment which, the Directors believe, is going to provide strong growth momentum for the Group.

On top of BTS antennas and subsystems, products classified under this business unit include antennas and passive accessories used in wireless enhancement solutions. The demand for these products will grow with the increase in demand for repeaters and boosters as described above.

Wireless Transmissions – Digital Microwave Systems ("DMS")

The Group has now completed the portfolio of Point-to-Point DMS solutions. Its products cover most frequency bands and provide wireless transmissions from two E1s (2Mbps) to up to STM-1 (155Mbps). DMS is currently the core product line for the Group's wireless transmissions business and its products have been well received by its PRC and international customers. The Directors believe that the continuous investment in the global wireless and wireline telecom infrastructure will provide good growth potential for the Group's DMS products. Its products provide a quick and cost effective solution for operators in their high speed data and backhaul services especially in the developing countries like South East Asia, India, Caribbean and Latin America ("CALA") and Africa. In addition, the forthcoming launch of 3G services in the PRC is another growth opportunity for DMS as there will be a huge demand in BTS backhaul services.

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.

Operations

In order to facilitate continuous growth of its existing businesses while providing growth and support for new products and global expansion strategy, the Group has implemented a corporate wide resources realignment exercise thereby creating three separate business units. The Wireless Enhancement Business Unit focuses on wireless enhancement market for both indoor and outdoor environments; the Antennas & Subsystems Business Unit primarily provides BTS antennas and subsystems products; and the Wireless Transmissions Business Unit offers DMS and other new transmission products. Each of these business units is responsible for its own product management including product development and marketing. This has resulted in a well coordinated and focused effort in promoting different product lines within each of these business units. The Directors are confident that the resources realignment will allow the Group to provide an excellent overall support platform for its global customers and allow the Group to grow and become a leading player in the global telecom market.

The Group has recently relocated its sales and marketing and R&D departments, among others, to the new headquarters in Guangzhou Science City, Guangzhou, the PRC. The existing plant in the Guangzhou Economic and Technology Development District is mainly used for production. The increase in production floor space will enable the Group to meet business demand flexibly in the next few years.

After implementing a new SAP ERP system in the PRC in 2005, a high level of integration of logistics management has been achieved. Efficiency and control have been improved in the areas of materials procurement, inventory control, overall production management, project coordination management and working capital management. The ERP system is being launched in other entities within the Group.

CONCLUSION

The Directors believe that the demand for 2G products in the PRC continues to be strong given the increasing number of mobile subscribers and infrastructure projects as well as the extension of coverage to the rural areas, regardless of 3G network licensing in the PRC. This is also evidenced by the capex plan of the PRC mobile operators for the next three years. In addition, the Directors remain cautiously optimistic about the opportunities arising from the future development of the 3G mobile market in the PRC in the medium term as the State government is determined to open up the mobile market, thereby allowing more operators to provide mobile services. This will drive the demand for wireless enhancement solutions as mobile subscribers demand better services. The forthcoming TD-SCDMA capex rollout in a number of cities in the PRC is expected to bring new revenue stream to the Group.

The Group believes that overall diversification of markets and products while maintaining its core technical competency is essential for long term success. The international market expansion and the development of BTS antennas and subsystems and DMS products for wireless transmissions are all important diversification strategies to fuel its long term growth.

Following the expansion to CALA market, the Group will continue to expand it geographical coverage to serve more customers. The Group has also realigned its resources at the headquarters level by forming three separate business units to guarantee good resources allocation and support for growth in these new product areas.

The Directors believe that the wireless industry is still at high growth rate and technologies are evolving daily. The Group needs to follow diligently the industry trend and new technology development, and analyse market risks and threats to maintain its leadership position as new disruptive technologies can appear any day. To cope with the ever changing market needs, the Group will continue to invest in products and technology based R&D. With the opening of the new headquarters in the PRC in 2006, the Group provides an inspiring working environment and state of the art equipment for new ideas and products. In addition, the Group has an expanded production platform that allows it to meet the future demand for its products and solutions. 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 and consolidate its leading market position, while pursuing a balanced and carefully planned growth strategy in order to maximize 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 2006, the Group had net current assets of HK$1,072,888,000. Current assets comprised inventories of HK$617,789,000, trade receivables of HK$840,426,000, notes receivable of HK$33,754,000, prepayments, deposits and other receivables of HK$97,395,000, restricted bank deposits, short term time deposits and pledged time deposits of HK$480,000 and cash and cash equivalents of HK$492,737,000. Current liabilities comprised trade and bills payables of HK$500,776,000, other payables and accruals of HK$307,756,000, interest-bearing bank loans of HK$152,908,000, tax payable of HK$22,214,000 and provision for product warranties of HK$26,039,000.

The average receivable turnover for the Current Year was 172 days compared to 174 days for the Prior Year. 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 Current Year was 162 days compared to 170 days for the Prior Year. The average inventory turnover for the Current Year was 225 days compared to 286 days for the Prior Year.

As at 31 December 2006, 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$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. Since the exchange fluctuations among these currencies are low, the Directors consider 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 6.3% as at 31 December 2006 (31 December 2005: 14.0%).

CHARGE ON ASSETS

A charge on a time deposit, amounted to HK$63,000,000 as at 31 December 2005, previously to secure the Group's bank loans was released as at 31 December 2006. The Group's bank loans were totally unsecured as at 31 December 2006.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had contingent liabilities of HK$2,109,000 (31 December 2005: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group had approximately 3,800 staff. The total staff costs for the Current Year was HK$300,478,000. 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. The Group also provides training to staff to improve their skills and develop their respective expertise.