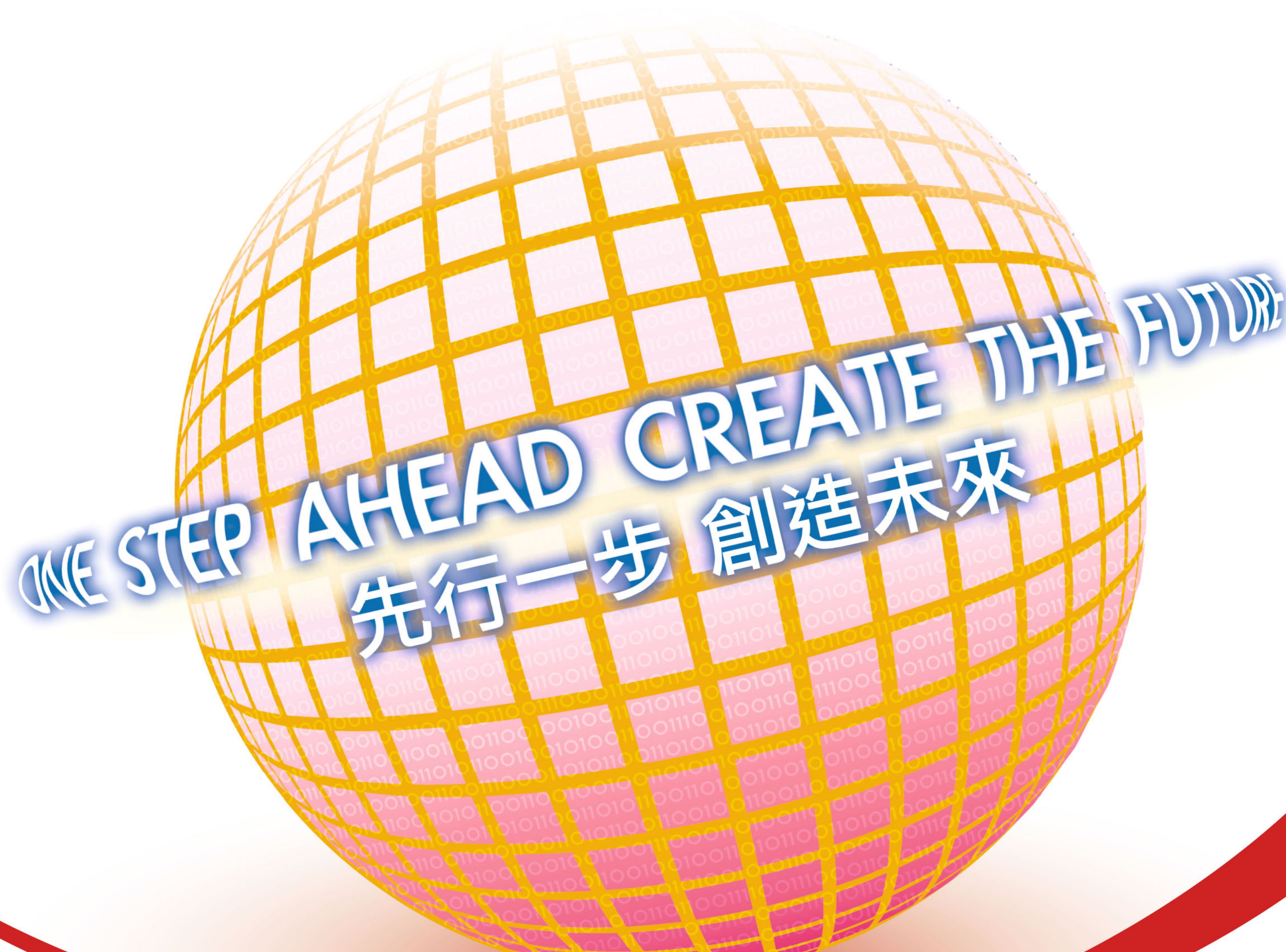
星辰通信国际控股有限公司
Centron Telecom International Holding Limited

(incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

(Stock Code: 1155)

(股份代號:1155)



Annual Report

2009年度報告

CONTENTS

BOARD OF DIRECTORS

Executive Directors

Dai Guoliang *(Chairman)*
Dai Guoyu
Yi Zhangtao
Guo Zeli

Non-executive Directors

Paul Steven Wolansky
Leung Ping-chung, Hermann

Independent non-executive Directors

Lin Yuanfang
Li Hongbin
Hung Ee Tek

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2001, 20/F,
Grandtech Centre
8 On Ping Street, Shatin
New Territories
Hong Kong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ng Wai Kee FHKICPA, FCCA

AUTHORIZED REPRESENTATIVES

Dai Guoliang
Ng Wai Kee FHKICPA, FCCA

MEMBERS OF AUDIT COMMITTEE

Hung Ee Tek *(Chairman)*
Lin Yuanfang
Li Hongbin

MEMBERS OF REMUNERATION COMMITTEE

Leung Ping-chung, Hermann *(Chairman)*
Yi Zhangtao
Hung Ee Tek
Lin Yuanfang
Li Hongbin

MEMBERS OF NOMINATION COMMITTEE

Lin Yuanfang *(Chairman)*
Dai Guoliang
Li Hongbin

LEGAL ADVISERS

As to Hong Kong Law
K&L Gates

AUDITORS

Ernst & Young
Certified Public Accountants

CORPORATE INFORMATION

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road, Central
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F,
Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

http://www.centron.com.hk

BUSINESS REVIEW

In 2009, Centron Telecom International Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has further consolidated its position in the mobile telecommunications markets in the People's Republic of China (the "PRC"). In 2009, the revenue of the Group amounted to RMB1.14 billion, representing an increase of RMB323 million or 39.5% as compared to last year. The profit attributable to shareholders amounted to RMB165 million, representing a significant increase of 39.6% as compared to last year.

The mobile telecommunications networks of the PRC has entered into the 3G era in 2009 though in the face of the global financial crisis. The 3G networks in the PRC are developing rapidly. The establishment of 3G mobile telecommunications networks can be divided into two major parts. The first part is the establishment of base stations while the second part is the establishment of relay systems. In 2009, the Group also invested most of its resources into the 2G and 3G mobile telecommunications networks upgrade to consolidate its position in the mobile telecommunications market in China.

The Group further enhanced its core competitiveness in 2009 through investment in product development. The Group was committed to providing quality products and services. On the other hand, the Group strictly controlled its costs through various effective measures.

Firstly, the Group increased its investment in product development to RMB33 million to meet telecom operators' demand for network upgrade.

Mature mobile telecommunications products are in general under price adjustment pressure. Hence, the Group put much effort in its product development in 2009 to introduce various innovative and customised products and solutions to telecom operators in the PRC. As such, the gross profit margin of the Group for 2009 remained the same of 2008.

Secondly, the Group has improved and expanded its domestic sales channels in 2009 and it successfully controlled the total costs of sale for 2009 compared to that of 2008.

BUSINESS OUTLOOK

At a meeting of the Standing Committee of the State Council in January 2010, it was decided to speed up the convergence of telecom network, television network and internet and promote the two-way access of the market by television and telecommunications operators. The convergence will speed up the upgrade and reformation of networks and development of information technology. It will also greatly enrich the contents of entertainment for the well-being of the general public. The convergence will also contribute to the economy and the community as a whole.

In March 2010, the Ministry of Industry and Information Technology, the Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Finance, the Department of Land and Natural Resources, the Ministry of Environmental Protection, the Ministry of Housing and Urban-Rural Development of PRC and the State Administration of Taxation jointly issued the "Memorandum on the Promotion of 3G Mobile Communication Network" (關於推進第三代移動通信網絡建設的意見). Telecom operators are required to formulate and implement their 3G network development plans in accordance with the relevant regulations and technical requirements. Existing 3G networks shall be expanded, upgraded and improved to ensure the security of communication. The legacy systems of 2G technology will also be improved before they are replaced by 3G networks to ensure the smooth migration from 2G to 3G. In order to speed up network construction, save costs and reduce duplicated constructions, joint-construction and sharing of infrastructures are encouraged. It is intended that 3G network will cover all cities above the prefectural level and most of the counties, towns, major highways and scenic spots by 2011. The total investment of 3G constructions will amount to RMB400 billion and 400,000 3G base stations will be built. It is expected that 3G users will exceed 150 million.

Leveraging its position and performance in mobile telecommunications market and wireless digital television network, the Group believes that it can compete effectively in the 3G projects and convergence projects by providing a full range of products, extensive service coverage and best technical solutions for the telecom operators.

In 2010, the Group will seek opportunities to cooperate with domestic and overseas mobile telecommunications providers in order to speed up its expansion in overseas markets.

In 2010, we will face changes and challenges, but we expect to see opportunities that can benefit the Group and create long term value for our shareholders and employees.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to extend our sincere gratitude to the shareholders, clients and suppliers for their long term support of the Group. I also express our gratitude to the management team and all staff for their dedication and contribution in the past year.

Dai Guoliang

Chairman

BUSINESS AND FINANCIAL REVIEW

1. Operating results

For the year ended 31 December 2009, the Group realised revenue of RMB1,141.6 million, representing an increase of RMB323.3 million or 39.5% as compared with RMB818.3 million in the previous year. The telecommunications industry of the PRC has entered into the 3G era where rapid network enhancement was expected in 2009. The telecommunications operators in the PRC made significant investment in the upgrade of 2G network and development of 3G network in 2009. The Group provided services for the telecommunications market in the PRC, the largest telecommunications market in the world. The Group actively participated in the development of 2G and 3G networks construction in 2009 and realised a growth of 39.5% in revenue.

By customers

During the year, revenue from China United Network Communications Group Company Limited and its subsidiaries ("China Unicom") was RMB453.8 million, accounting for 39.8% of the Group's total revenue. During the year, revenue from sales to China Mobile Communications Corporation and its subsidiaries ("China Mobile") was RMB439.8 million, accounting for 38.5% of the Group's total revenue. During the year, revenue from China Telecommunications Corporation and its subsidiaries ("China Telecom") was RMB184.8 million, accounting for 16.2% of the Group's total revenue. During the year, revenue from other customers was RMB63.2 million, accounting for 5.5% of the Group's total revenue.

By business category

During the year, revenue from 2G and 3G networks was approximately RMB1,126.6 million, representing approximately 98.7% of the Group's total revenue.

During the year, revenue from digital TV system integration was approximately RMB15.0 million, representing approximately 1.3% of the Group's total revenue.

2. Gross profit

During the year, the Group realised gross profit of RMB323.9 million, representing an increase of RMB86.8 million or 36.6% over RMB237.1 million in the previous year.

During the year, gross profit margin was approximately 28.37%, downed 0.60 percentage points from 28.97% in the previous year. In view of the pressure of reduction of average selling prices of all existing developed mobile telecommunication products, the Group strove to provide various new products and solutions from time to time according to the requirements of telecommunication network operators in the PRC. As a result, the gross margin of the Group in 2009 was similar with that of 2008.

3. Research and development expenditure

During the year, research and development expenditure of the Group was approximately RMB32.6 million, representing an increase of approximately RMB15.8 million or 94.0% over RMB16.8 million in the previous year.

The Group has increased its product development expenditure in 2009 in order to provide products and services of high quality to the telecommunication operators.

4. Selling and distribution costs

In 2009, the Group strove to control all costs. During the year, selling and distribution cost of the Group was approximately RMB43.0 million, increased by 1.8% over RMB42.2 million in last year.

5. Administrative expenses

During the year, administrative expenses of the Group were approximately RMB99.4 million, an increase of approximately 40.9% over RMB70.6 million in last year. The increase in administrative expenses during the year was mainly attributable to increase in research and development expenditure and fixed assets depreciation.

6. Finance expenses

During the year, the Group did not incur any finance expenses.

7. Taxation

During the year, the Group incurred an income tax expense of RMB25.9 million, an increase of approximately 18.3% from RMB21.9 million in last year. As part of a tax holiday, Centron Communications Technologies Fujian Co., Ltd, a wholly-owned subsidiary of the Group operating in Mainland China, enjoyed two years of tax free holiday and started the 50% income tax holiday at the rate of 12.5% from 1 January 2008 to 31 December 2010.

8. Net profit

During the year, profit attributable to ordinary equity holders of the Company was RMB165.0 million, increased by 39.6% from RMB118.2 million in last year. The net profit margin accounted for 14.5% of the total revenue, which is almost the same as compared with last year.

PROSPECT

Currently the telecommunications market of the PRC is the largest single market in the world in terms of the number of users.

The telecommunications market in the PRC has been developing rapidly. The coverage of 2G network is being expanded to cover all rural areas of the PRC. The new 3G network is being developed at a very fast pace. The new development of the telecommunications market in the PRC is the convergence of mobile communication, television broadcasting and internet and the trial run of 4G network in the Shanghai Expo. The Group believes that the telecommunications industry in the PRC is always prosperous despite the ever-changing global economy.

In 2010, the Group will continue to adopt a diversified market strategy to develop the following major businesses:

1. Wireless coverage business
2. Wireless broadcasting business
3. Wireless connection system business
4. Digital TV network coverage business

Besides, the Group will actively explore local and overseas suppliers of telecommunications product for cooperation opportunities and accelerate its expansion into overseas markets.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2009, the Group had cash and cash equivalents of RMB 145.9 million (31 December 2008: RMB 110.2 million), most of which were denominated in Renminbi, Hong Kong dollar, or United States dollar. As at 31 December 2009, the Group had pledged deposits of RMB 46.0 million (31 December 2008: RMB 30.3 million).

As at 31 December 2009, the Group had interest-bearing bank borrowings of RMB 60.4 million (31 December 2008: Nil).

Average trade receivable turnover period was 147 days (31 December 2008: 128 days). Average inventory turnover period was 144 days (31 December 2008: 137 days). Overall, the Group maintained a current ratio of 4.91 as at 31 December 2009 (31 December 2008: 6.69).

As at 31 December 2009, the gearing ratio (defined as interest-bearing bank borrowing divided by total equity) was 5.1% (31 December 2008: 0%).

TREASURY POLICIES

During the year ended 31 December 2009, majority of the Group's transactions was denominated in Renminbi. There has not been any significant foreign exchange exposure. In addition, for the interest rates applicable to the Group, the management did not encounter any material rise in the best lending rates in PRC during the year ended 31 December 2009. Accordingly, the Group did not enter into hedging instruments on foreign exchange and interest rate. However, the management closely monitors the Group's exposure to any potential foreign exchange and interest rate risks and will enter into appropriate financial instruments for hedging purpose when necessary.

CAPITAL EXPENDITURE

As at 31 December 2009, the Group incurred capital expenditure of approximately RMB 22.0 million, which was financed by the Group's internal resources and the proceeds from the initial public offering.

As at 31 December 2009, the Group's future capital commitments entered into but not yet provided for were approximately RMB 19.1 million, and will be paid out of the proceeds from the initial public offering and the Group's cashflow from operation.

CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have significant contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2009, the Group had approximately 1,300 full-time employees. Salaries and wages are generally reviewed on an annual basis in accordance with individual qualifications and performance, the Group's results and market conditions. The Group provides discretionary bonus, medical insurance, provident fund, educational subsidy and training to its employees. The Company adopted a share option scheme under which the Company can grant options to the employees of the Group to subscribe for shares of the Company. Since the adoption of the share option scheme, no share option has been granted by the Company.

USE OF PROCEEDS

The net proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in July 2007, after deduction of related issuance expenses, amounted to approximately RMB554 million (HK$569 million). Proceeds of approximately RMB457.1 million were utilised in accordance with the proposed applications set out in the prospectus of the Company dated 21 June 2007 (the "Prospectus"), as follows:

— approximately RMB110.6 million was used for the construction of new facility in Xunmei Industrial Park, Quanzhou, the PRC;

— approximately RMB118.7 million was used for the purchase of manufacturing and testing equipment;

— approximately RMB45.1million was used for the long-term research and development;

— approximately RMB73.0 million was used for the expansion of domestic sales and marketing channels;

— approximately RMB35.0 million was used for the establishment of overseas sales and marketing channels; and

— approximately RMB74.7 million was used for general working capital purpose.

DIVIDEND AND BONUS SHARE

The board proposes a final dividend for 2009 of HK5 cents per share (2008: Nil). In addition to the distribution of dividend, the board also proposes to distribute 1 bonus share for every 10 existing shares held by shareholders whose name appear on the Company's share register on 9 June 2010.

CHAIRMAN AND EXECUTIVE DIRECTOR

Dai Guoliang, aged 48, the Chairman, the chief executive officer and an executive director. Mr. Dai founded 福建先創電子有限公司 (Centron Communications Technologies Fujian Co., Ltd.) ("Fujian Centron"), a wholly-owned subsidiary of the Company on December 18,1989 and has been in charge of general management of the Company. Mr. Dai is an experienced engineer and has almost 20 years of experience in management, research, production and sales within the telecommunications industry. Mr. Dai has gained extensive popularity and has been the president of Fujian Mobile Communication Industry's Union (福建移動通訊產業聯盟) since 2009.

EXECUTIVE DIRECTORS

Guo Zeli, aged 55, the vice chairman and an executive director. Mr. Guo is involved from time to time with the strategic development and market planning of the Company and Fujian Centron. Mr. Guo is also the chairman of 星辰先創通信系統(廈門)有限公司, a wholly-owned subsidiary of the Company. Mr. Guo has over 20 years of management experience. Mr. Guo was appointed to the board of directors of Fujian Centron on July 25, 2004. Prior to 2006, Mr. Guo served as the vice general manager of Xiamen Economic Trading Company Limited (廈門經濟特區貿易有限公司) and as the chairman of Xiamen Overseas Chinese Electronic Company Limited (廈門華僑電子股份有限公司). Mr. Guo obtained a Master's degree in business administration from Xiamen University in January 1998. He has been a part-time professor at the business management department of Xiamen University since 2004.

Dai Guoyu, aged 45, an executive director. Mr. Dai is mainly responsible for local and overseas' sales and marketing, development and implementation of the strategies of the Company. Mr. Dai joined Fujian Centron on May 2, 1994. Mr. Dai has almost 20 years of sales and management experience within the telecommunications industry and therefore has accumulated extensive customer network. Mr. Dai is an experienced engineer in the telecommunications industry and has completed the EMBA program in Hua Qiao University.

Yi Zhangtao, aged 45, an executive director. Mr. Yi is also the chairman of 深圳澤惠通通訊技術有限公司, the Group's jointly-controlled entity. Mr. Yi has almost 20 years of research and production experience within the telecommunications industry. Mr. Yi joined the Group on August 4, 1992. Prior to joining the Group, Mr. Yi was employed by Wuhan Zhongyuan Electronics Group Co. Ltd from 1986 to 1989. Mr. Yi graduated from Xi'an Electronic Technology University and obtained the title of engineer in April 2006.

NON-EXECUTIVE DIRECTORS

Paul Steven Wolansky, aged 54, a non-executive director. He is the Chairman of New China Capital Management,LLC, the fund manager for Cathay Capital Holdings, L.P. and Cathay Capital Holdings II, L.P., and a director of Cathay Investment Fund Ltd. Mr. Wolansky is also a non-executive director of China Aoyuan Property Group Limited (中國奧園地產集團股份有限公司), a Hong Kong listed company; a non-executive director of Longtop Financial Technologies Limited, a New York Stock Exchange listed company; and a non-executive director of CNInsure, Inc., a NASDAQ listed company. Mr. Wolansky was a non-executive director of Warderly International Holdings Limited (匯多利國際控股有限公司) (from December 2003 to May 2007) a Hong Kong listed company and China Resources Land Ltd. (from August 1996 to May 2006), a Hong Kong listed company; a non-executive director of Wuxi Little Swan Company Limited (無錫小天鵝股份有限公司), a PRC listed company, and China Yuchai International, a New York Stock Exchange listed company. Mr. Wolansky received a Bachelor of Arts degree from Amherst College in 1978, a JD degree from The Harvard Law School in 1981, and is admitted to practice law as a member of the bar of the State of New York.

Leung Ping-chung, Hermann, aged 54, a non-executive director. He graduated from the Chinese University of Hong Kong (香港中文大學) with a Bachelor's degree in social sciences in 1979. He graduated from the Chinese University of Hong Kong with a Master's degree in 1982. He is an executive director of New China Capital Management (HK) Ltd. Mr. Leung is also a non-executive director of Vinda International Holdings Limited (維達國際控股有限公司) and a non-executive director of China Aoyuan Property Group Limited (中國奧園地產集團股份有限公司), both Hong Kong listed companies. He is a non-executive director of Wuxi Little Swan Company Limited (無錫小天鵝股份有限公司), a PRC listed company, which shares are listed on the Shenzhen Stock Exchange. He was an alternate non-executive director of Warderly International Holdings Limited (匯多利國際控股有限公司), a Hong Kong listed company, until May 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Hung Ee Tek, aged 47, an independent non-executive director. Mr. Hung was appointed to the board of directors of the Company on December 31, 2009. Mr. Hung has more than 20 years of experience in finance, accounting and auditing. He had worked in local and international accounting firms, and had been finance manager and company secretary and financial controller of listed companies in Hong Kong. Mr. Hung is currently the company secretary and assistant financial controller of a company listed on the Singapore Stock Exchange. He holds a Master's degree in arts (China Studies) from The Hong Kong University of Science & Technology and a Master's degree in arts, majoring in international accounting, from The City University of Hong Kong.

Lin Yuanfang, aged 69, an independent non-executive director. Mr. Lin was appointed to the board of directors of the Company on April 1, 2007. Mr. Lin has been an independent non-executive director of Xiamen Overseas Chinese Electronic Co., Limited (廈門華僑電子股份有限公司) since May 2004. Mr. Lin has been the vice chairman of China Electronic Imaging Industry Association (中國電子視像行業協會) since November 2001. Mr. Lin was the vice department head of the Economic System Reform and Operation Department of the PRC Ministry of Information Industry ("MII") from 1998 to 2000. Prior to that and from 1980, Mr. Lin held various official positions in the MII, and the Ministry of Electronic Industry (電子工業部). Mr. Lin graduated from Fudan University in 1964 majoring in physics.

Li Hongbin, aged 44, an independent non-executive director. Mr. Li was appointed to the board of directors of the Company on April 1, 2007. Mr. Li has been a professor in information technologies at Peking University since 2004. Prior to that, Mr. Li was employed by Xi'an Electronic Technology University (西安電子科技大學) from 1989 to 2002. From 2002 to 2005, Mr. Li was a member of the expert panel for a national advanced technologies research and development project (Project 863). Mr. Li obtained a Master's degree in January 1989 from Xi'an Electronic Technology University (西安電子科技大學).

SENIOR MANAGEMENT PROFILE

Ma Ruidong, aged 45, the Company's vice president and Fujian Centron's vice president of general affairs assisting the work of chief executive officer, being in charge of the research & development centre of the Group and managing the general affairs of Fujian Centron. Mr. Ma is also currently the senior consultant of the information business department of Wireless Telecommunication Products Quality Testing Centre of China WLLC Communication Lab (中國威爾克（西安）通信試驗室). Mr. Ma joined Fujian Centron in 2008 and has more than 20 years of experience in research and development and management in the telecom industry. Mr. Ma obtained a Master in Engineering from Xi'an Electronic Technology University (西安電子科技大學) and is a senior engineer. He is also a senior member of Shannxi Telecom Committee (陝西省通信學會) and has participated in various setting up of the State's digital microwave standards. Mr. Ma also won an individual technology improvement second class award in the Post and Telecommunication Department of the National 9th Five-Year Plan Period's 《155Mbps SDH Practical Project》(九五攻關項目《155Mbps SDH 實用化項目》).

Ng Wai-kee, aged 50, chief financial officer, and company secretary of the Company. Mr. Ng joined the Group on October 1, 2006. Mr. Ng has over 20 years of experience in accounting and auditing. Mr. Ng previously worked as company secretary of Global Bio-chem Technology Group Company Limited and Datasys Technology Holdings Limited, both are companies listed on the Stock Exchange and served as a non-executive director of CDW Holding Limited. Mr. Ng graduated from Hong Kong Shue Yan College in July 1985 with a diploma in accounting. Mr. Ng has been a qualified accountant since 1986 and is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Yang Weimin, aged 41, assistant of chairman of Fujian Centron and a general manager of the administrative centre of Fujian Centron. Mr. Yang joined the Group on February 1, 2005. Prior to joining the Group, Mr. Yang was employed by Fujian Film Machinery Factory and was the chief engineer of Zhejiang Xinda Machinery Company Limited. Mr. Yang received a Bachelor's degree in engineering, majoring in physics in magnetic fields and devices, from University of Electronic Science and Technology of China in July 1991. Mr. Yang has over 10 years of experience in electronic technologies development. Mr. Yang is qualified as an engineer.

Liu Qinghuang, aged 46, general manager of the finance centre of Fujian Centron. Mr. Liu joined the Group in March 2007 and has experience in the fields of accounting and financial management. Prior to joining the Group, Mr. Liu served as general manager of Quanzhou City XinCheng Investment Management Consultancy Company Limited (泉州市信誠投資管理顧問有限公司) and as chief financial officer of HuaHeng Packing (Hong Kong) Group (華恒包裝（香港）集團) and as general manager of XinChengDa (Wuhan) Optical & Electrical Technology Limited (信誠達（武漢）光電科技有限公司). Mr. Liu graduated from Xiamen University, majoring in accounting and obtained the title of accountant.

Chen Yong, aged 34, general manager of sales centre of Fujian Centron, is responsible for the sales of Fujian Centron. Mr. Chen joined Fujian Centron in 2002 and worked in various positions, namely the assistant manager of marketing department, manager of general office, general manager assistant, deputy general manager and general manager of sales centre of Fujian Centron. Mr. Chen previously worked in Xiamen Promotion Centre for the Trade to Taiwan and 廈門英和華投資顧問公司, an investment consultancy firm in Xiamen. Mr. Chen obtained a Bachelor's degree in radio technology from Fujian Electronic & Industrial School (福建電子工業學校) in 1997 and a Bachelor's degree in accounting from Xiamen University in 1999.

Qiu Xiaping, aged 41, general manager of production centre of Fujian Centron, is responsible for production and procurement of Fujian Centron. Mr. Qiu joined the Fujian Centron in 2008. He had worked in Xiamen Overseas Chinese Electronic Co, Ltd. as production manager of television factory, manger of inventory department, product development officer and general manager of production centre. Mr. Qiu is a senior business administrator and has more than 15 years of experience in research, development, production and management in electronic sector. Mr. Qiu graduated from Fuzhou University and Xiamen University and majored in social work and business management respectively.

Chen Hong, aged 33, assistant of chairman of Fujian Centron and the general manager of the Company's securities and investment management department. Mr. Chen joined the Group in 2006 and was previously the secretary to the board of directors of Fujian Centron and Nice Group Resources Limited, a wholly-owned subsidiary of the Company. Mr. Chen was responsible for investors' relations of the Company during 2009. Mr. Chen was previously the international trade supervisor of a Hong Kong listed company. Mr. Chen obtained a bachelor's degree in science from Fudan University and a Master's degree in management, majoring in accountancy, from Xiamen University.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensure high standards of corporate governance with a view to enhance management efficiency of the Group as well as preserve the interest of its shareholders. The directors of the Company (the "Directors") confirm, to the best of their knowledge, the Group has complied with the Code on Corporate Governance Practices contained in Appendix 14 (the "Corporate Governance Code") to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the financial year ended 31 December 2009 (the "Financial Year").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding Directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year 2009.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. The biographical details of all Directors are set out on pages 11 to 14 of this annual report. The composition of the Board is well balanced with Directors having sound knowledge and skill on different areas of the Company's business. Details of composition and their respective area of responsibilities are set out in the table on page 2 of this annual report.

The Company has received, from each independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent. The independent non-executive Directors will provide independent views and share their knowledge and experience with the other members of the Board.

FUNCTIONS OF THE BOARD

The Board is responsible for (i) the formulation of operational and strategic direction of the Group; (ii) monitoring the financial performance of the Group; (iii) overseeing the performance of management; and (iv) ensure that the business and operation of the Group are managed by properly authorized and competent management.

MEETINGS OF THE BOARD

During the year 2009, the Board held 6 Board meetings. At least 7 days notice of regular Board meetings was given to all Directors and they can include matters for discussion in the agenda as they think fit. Minutes of every Board meeting are kept by the secretary of the Company at the registered office and Board members are also entitled to have full access to the Board minutes and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities. Details of individual attendance of Directors are set out in the attendence table on page 19 of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

(To ensure a balance of power between the Board and the management of the Company, the role of the Chairman of the Board and the chief executive officer were segregated and were not exercised by the same individual during the year 2009. Mr. Dai Guoliang was the Chairman of the Board who is responsible for the effectiveness of operation of the Board and Mr. Dai Guoyu was the chief executive officer who is responsible for the effectively management of the Group's business in all aspects and the implementation of the strategies approved by the Board.) Mr. Dai Guoyu resigned as the chief executive officer of the Company with effect from 23 April 2010 due to his health problems but he remains an executive Director. Mr. Dai Guoliang has held the positions of the Chairman and the chief executive officer of the Company since then as he is well acquainted with the business and operation of the Group. The Board has been in the process of indentifying a suitable candidate to take the office of chief executive officer.

RELATIONSHIP OF THE BOARD MEMBERS

None of the Directors has any financial, business, family or other material or relevant relationships among members of the Board except that Mr. Dai Guoliang and Mr. Dai Guoyu are brothers.

DIRECTORS' INTEREST IN CONTRACT

Before each Board meeting, the Directors have to declare their interests in the subject matter to be considered in the relevant Board meeting. Any Director who or whose associates have any material interest in any proposed Board resolutions will not be counted as a quorum in the relevant Board meeting nor vote for the Board resolutions. The independent non-executive Directors who and whose associates have no material interest in the matter will attend the meeting to deal with the matter if it is considered appropriate.

NON-EXECUTIVE DIRECTORS

The non-executive Directors, Mr. Leung Ping-chung, Hermann and Mr. Paul Steven Wolansky have each entered into an appointment letter with the Company for a term of three years commencing from 20 March 2010 and are subject to re-election at annual general meetings in accordance with the Articles of Association of the Company and the relevant letter of appointment.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors (Except Mr. Guo Zeli) has entered into a service contract with the Company for a term of three years commencing on 5 July 2007 and renewal is subject to notification by either party giving to the other not less than six months' notice prior to the termination of the service contract. Mr. Guo Zeli has entered into an appointment letter with the Company for a term of three years commencing on 20 March 2010.

Each of the non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing on 20 March 2010.

Each of the independent non-executive Directors has entered into an appointment letter with the Company. Each appointment letter is for a term of three year commencing on 1 April 2010, except that Mr. Hung Ee Tek has entered into an appointment letter with the Company for a term of three years commencing on 31 December 2009.

In accordance with the Company's Articles of Association, all Directors (including independent non-executive Directors) are subject to retirement by rotation at least once every three years.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance of the Corporate Governance Code. The Remuneration Committee consists of five members, namely Mr. Yi Zhangtao, Mr. Leung Ping-chung, Hermann, Mr. Lin Yuanfang, Mr. Li Hongbin and Mr. Hung Ee Tek. Mr. Lin Yuanfang, Mr. Li Hongbin and Mr. Hung Ee Tek are independent non-executive Directors. The chairman of the Remuneration Committee is Mr. Leung Ping-chung, Hermann. The Remuneration Committee meeting shall be held at least once a year to determine the remuneration policy for Directors and senior management. During the Financial Year, two Remuneration Committee meetings were held and the attendance of each member is set out in the attendance table on page 19 of this annual report.

The primary functions of the Remuneration Committee include evaluating the performance of, and making recommendations on the remuneration packages of, the Directors and senior management, evaluating and making recommendations on employee benefit arrangements, determining the award of bonuses and considering the grant of options under the share option scheme of the Company.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") consists of the three independent non-executive Directors, namely Mr. Hung Ee Tek, Mr. Lin Yuanfang and Mr. Li Hongbin. The chairman of the Audit Committee is Mr. Hung Ee Tek. During the Financial Year, Two Audit Committee meetings were held and the attendance of each member is set out in the attendance table on page 19 of this annual report.

The principle responsibilities of the Audit Committee include (i) reviewing the financial information of the Company; (ii) overseeing the Group's financial reporting system and internal control procedure; (iii) assisting the Board on the appointment, reappointment and removal of the external auditor; (iv) to approve the remuneration and terms of engagement of the external auditor; and (v) performing other duties as set out in the Corporate Governance Code.

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") has primary duties of reviewing the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The Nomination Committee consists of three members, namely, Mr. Dai Guoliang, the Group's chairman and two independent non-executive Directors, namely, Mr. Lin Yuanfang and Mr. Li Hongbin. Mr. Lin Yuanfang is the chairman of the Nomination Committee.

Two meetings were held by the Nomination Committee during the Financial Year and the attendance of each member is set out in the attendance table on page 19 of this annual report.

Details of the appointment and resignation during the Financial Year are set out in the section of "Report of the Directors" of this annual report.

AUDITOR'S REMUNERATION

An analysis of the remuneration of the Company's auditors, Ernst & Young, for the year ended 31 December 2009 is set out below:

	Fee paid/payable
	Approximately RMB million
Services rendered	
Audit fee for 2009 annual audit	1.7
Non-audit service	0.3
Total	2.0

Attendance Table

Attendance out of number of meetings

Name of Director	**Position**	**Board**	**Remuneration Committee**	**Audit Committee**	**Nomination Committee**
Executive Directors					
Mr. Dai Guoliang	Chairman and CEO	6/6			2/2
Mr. Guo Zeli	Vice Chairman	6/6			
Mr. Dai Guoyu		6/6			
Mr. Yi Zhangtao		6/6	2/2		
Non-executive Directors					
Mr. Paul Steven Wolansky		6/6			
Mr. Leung Ping-chung, Hermann		6/6	2/2		
Independent non-executive Directors					
Mr. Hung Ee Tek*		—	—	—	
Mr. Lin Yuanfang		6/6	2/2	2/2	2/2
Mr. Li Hongbin		6/6	2/2	2/2	2/2
Mr. Miu Hon-Kit*		6/6	2/2	2/2	

* On 31 December 2009 Mr. Miu Hon-kit resigned as an independent non-executive Director of the Company. On the same day, Mr, Hung Ee Tek was appointed as an independent non-executive director of the Company to fill the vacancy arising from Mr. Miu's resignation.

ACCOUNTABILITY OF THE BOARD

The Directors acknowledge that it is their responsibilities for preparing the financial statements of the Group, so as to give a true and fair view of the financial position, results and cash flow of the Group and presenting the interim and annual reports and results announcements to shareholders. In preparing the financial statements for the year ended 31 December 2009, the Directors have adopted suitable accounting policies and applied them consistently, made judgements and estimations that are prudent and reasonable and have prepared the financial statements on a going concern basis.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to provide its shareholders accurate, clear, comprehensive and timely information of the Group via the publication of annual reports, interim reports, announcements, press release and also the company website at http://www.centron.com.hk. The Board will maintain regular communication with institutional investors to address their enquiries on the Group's strategies, operations management and plans.

All the shareholders of the Company are to be given a formal notice 21 days in advance of the Company's annual general meeting where the shareholders will have an opportunity to communicate directly with the Board of the Company.

INTERNAL CONTROL

The Board has established an on-going process for identifying, evaluating and managing the significant and potential risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines.

The Board is of the view that the system of internal controls in place for the Financial Year and up to the date of the issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders and employees, and the Group's assets.

The Directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 32 to 108.

The Directors recommend the payment of a final dividend of HK5 cents per ordinary share in respect of the year to shareholders on the register of members on 9 June 2010.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in July 2007, after deduction of related issuance expenses, amounted to approximately RMB554 million (HK$569 million). Proceeds of approximately RMB457.1 million were utilised in accordance with the proposed applications set out in the prospectus of the Company dated 21 June 2007 (the "Prospectus"), as follows:

— approximately RMB110.6 million was used for the construction of a new facility in the Xunmei Industrial Park, Quanzhou, the People's Republic of China (the "PRC");

— approximately RMB118.7 million was used for the purchase of manufacturing and testing equipment;

— approximately RMB45.1 million was used for the long-term research and development;

— approximately RMB73.0 million was used for the expansion of domestic sales and marketing channels;

— approximately RMB35.0 million was used for establishment of overseas sales and marketing channels; and

— approximately RMB74.7 million was used for general working capital purpose.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, prepared on the basis as set out herein, is set out below.

RESULTS

	Year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**1,141,615**	818,295	843,368	553,390	253,845
PROFIT BEFORE TAX	**190,894**	140,052	220,437	171,132	91,035
Income tax expense	**(25,870)**	(21,861)	—	(37,205)	(33,193)
PROFIT FOR THE YEAR	**165,024**	118,191	220,437	133,927	57,842
Attributable to:					
Ordinary equity holders of the Company	**165,024**	118,191	220,437	133,927	57,842

	As at 31 December				
	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,430,444**	1,159,757	1,066,634	395,753	170,001
Total liabilities	**(234,774)**	(129,164)	(91,970)	(102,270)	(80,550)
	1,195,670	1,030,593	974,664	293,483	89,451

The summary of the consolidated results of the Group for each of the two years ended 31 December 2005 and 2006 and of the assets and liabilities as at 31 December 2005 and 2006 have been extracted from the Prospectus. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis as set out in the annual report of the Company for the year ended 31 December 2007. The consolidated results of the Group for the year ended 31 December 2007, 2008 and 2009 and the consolidated assets and liabilities of the Group as at 31 December 2007, 2008 and 2009 are extracted from the audited financial statements.

The above summary does not form a part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options during the year are set out in notes 28 and 29 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB713,770,000. The amount of RMB713,770,000 includes the Company's share premium account and capital reserve of RMB716,130,000 in aggregate at 31 December 2009, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 97.3% of the total sales for the year and sales to the largest customer included therein accounted for 39.8%. Purchases from the Group's five largest suppliers accounted for 29.5% of the Group's total purchases for the year and purchases to the largest supplier accounted for 6.9%.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Dai Guoliang
Mr. Dai Guoyu
Mr. Yi Zhangtao
Mr. Guo Zeli

Non-executive Directors:

Mr. Paul Steven Wolansky
Mr. Leung Ping-chung, Hermann

Independent non-executive Directors:

Mr. Miu Hon-kit*
Mr. Lin Yuanfang
Mr. Li Hongbin
Mr. Hung Ee Tek*

* Mr. Miu Hon-kit resigned as an independent non-executive Director on 31 December 2009 and Mr. Hung Ee Tek was appointed to fill the vacancy arising from the resignation of Mr. Miu Hon-Kit on the same day.

In accordance with article 87(1) of the Company's articles of association, Messrs. Dai Guoliang, Paul Steven Wolansky and Li Hongbin will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive Directors and independent non-executive Directors are appointed for periods of three years.

The Company has received annual confirmations of independence from Messrs. Miu Hon-kit, Lin Yuanfang, Li Hongbin and Mr. Hung Ee Tek pursuant to Rule 3.13 of the Listing Rules and as at the date of this report still considers them to be independent, except that Mr. Miu Hon-kit resigned as an independent non-executive Director.

DIRECTORS' AND SENIOR MANAGEMENT's BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors (except Mr. Guo Zeli) has entered into a service agreement with the Company for a term of three years commencing on 5 July 2007. Mr. Guo Zeli has entered into a an appointment letter with the Company commencing on 20 March 2010. Each of the non-executive Directors has been appointed for a term of three years commencing on 20 March 2010. Each of the independent non-executive Directors (except Mr. Hung Ee Tek) has been appointed for a term of three years commencing on 1 April 2010. Mr. Hung Ee Tek has entered into an appointmnet letter with the Company for a term of three years commencing on 31 December 2009. Under the service contracts, after each complete year of service, the remuneration payable to each of the executive Directors is subject to the discretion of the Company's board of directors.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

EMOLUMENT POLICIES AND DIRECTORS' REMUNERATION

The Directors' remuneration is subject to shareholders' approval at general meetings with reference to the recommendation of the Group's remuneration committee. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive Directors is to enable the Group to retain and motivate the executive Directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's remuneration packages include basic salaries, discretionary bonuses, housing benefits and share option benefits.

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE's INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2009, the interests and short positions of the Directors and the chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Note	Capacity and nature of interests	Number of shares	Percentage of the Company's issued share capital
Mr. Dai Guoliang	1	Through controlled corporation	240,897,000	34.49

Note:

1. Oriental City Profits Ltd. ("Oriental City") held a 34.49% interest in the issued share capital of the Company as at 31 December 2009. As at 31 December 2009, the share capital of Oriental City was beneficially owned as to 61.64% by Mr. Dai Guoliang, as to 17.56% by Mr. Dai Guoyu, as to 6.10% by Mr. Yi Zhangtao, as to 5.34% by each of Messrs. Wu Duange and Dai Guowei, and as to 1.34% by each of Messrs. Zhang Yonghua, Huang Yinhui, and Xu Shiyang. (All the shares are registered in the name of Mr. Dai Guoliang. However, Mr. Dai Guoliang held 38.36% as a bare trustee for these individuals in the proportions mentioned above.) As mentioned above, Mr. Dai Guoliang's beneficial interest in Oriental City amounted to 61.64%. Accordingly, pursuant to the SFO, Mr. Dai Guoliang was deemed to be interested in the 240,897,000 shares held by Oriental City as he was entitled to control one-third or more of the voting power at the general meetings of Oriental City.

Long positions in ordinary shares of an associated corporation:

Name of director	Name of associated corporation	Capacity and nature of interests	Relationship with the Company	Number of shares held	Approximate percentage of the associated corporation's issued share capital
Mr. Dai Guoliang	Oriental City	Beneficial and registered owner	(note 1)	524	100.00
Mr. Dai Guoyu	Oriental City	Beneficial owner	(note 2)	92	17.56
Mr. Yi Zhangtao	Oriental City	Beneficial owner	(note 3)	32	6.10

Notes:

1. Oriental City held a 34.49% interest in the issued share capital of the Company as at 31 December 2009. The share capital of Oriental City was beneficially owned as to 61.64% by Mr. Dai Guoliang, as to 17.56% by Mr. Dai Guoyu, as to 6.10% by Mr. Yi Zhangtao, as to 5.34% by each of Messrs. Wu Duange and Dai Guowei, and as to 1.34% by each of Messrs. Zhang Yonghua, Huang Yinhui, and Xu Shiyang. (All the shares were registered in the name of Mr. Dai Guoliang. However, Mr. Dai Guoliang held 38.36% as a bare trustee for these individuals in the proportions mentioned above.)

2. Mr. Dai Guoyu was beneficially interested in 17.56% of the issued share capital of Oriental City by virtue of a declaration of trust (which is a bare trust) made by Mr. Dai Guoliang on 27 March 2007.

3. Mr. Yi Zhangtao was beneficially interested in 6.10% of the issued share capital of Oriental City by virtue of a declaration of trust (which is a bare trust) made by Mr. Dai Guoliang on 27 March 2007.

Save as disclosed above, as at 31 December 2009, none of the Directors or the chief executive of the Company had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share option scheme" below, at no time during the year 2009 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

No share options have been granted under the Share Option Scheme since its adoption and up to 31 December 2009. Details of the Share Option Scheme are set out in note 29 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2009, the interests or short positions of the persons, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Oriental City	(1)	Directly beneficially owned	240,897,000	34.49
Mr. Dai Guoliang	(1)	Through a controlled corporation	240,897,000	34.49
Cathay Mobile Communications Limited	(2)	Directly beneficially owned	105,000,000	15.03
Cathay Capital Holdings, L.P.	(2)	Through a controlled corporation	105,000,000	15.03
Molatis Limited	(3)	Directly beneficially owned	47,250,000	6.77
Mr. Sussman Selwyn Donald	(3)	Through a controlled corporation	47,250,000	6.77
Mr. Sussman Selwyn Donald	(3)	Directly beneficially owned	8,766,000	1.26

Notes:

(1) The ordinary shares were held by Oriental City, which was beneficially owned by Mr. Dai Guoliang.

(2) The ordinary shares were held by Cathay Mobile Communications Limited, a direct wholly-owned subsidiary of Cathay Capital Holdings, L.P.

(3) The ordinary shares totalling 56,016,000 were beneficially held by Mr. Sussman Selwyn Donald, of which 47,250,000 shares were held through Molatis Limited.

Save as disclosed above, as at 31 December 2009, no person, other than the Directors, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event after the reporting period of the Group are set out in note 38 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chairman
Dai Guoliang

Hong Kong
23 April 2010

ERNST & YOUNG
安 永

To the shareholders of Centron Telecom International Holding Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Centron Telecom International Holding Limited set out on pages 32 to 108, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the shareholders of Centron Telecom International Holding Limited
(Incorporated in the Cayman Islands with limited liability)

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 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong
23 April 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	5	**1,141,615**	818,295
Cost of sales		**(817,688)**	(581,232)
Gross profit		**323,927**	237,063
Other income	5	**5,867**	15,067
Selling and distribution costs		**(42,986)**	(42,211)
General and administrative expenses		**(99,406)**	(70,561)
Share of profit of a jointly-controlled entity	17	**3,492**	694
PROFIT BEFORE TAX	6	**190,894**	140,052
Income tax expense	9	**(25,870)**	(21,861)
PROFIT FOR THE YEAR		**165,024**	118,191
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic and diluted (RMB cents)		**23.63**	16.89

Details of the dividend are disclosed in note 10 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	2009	2008
	RMB'000	RMB'000
PROFIT FOR THE YEAR	165,024	118,191
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	53	(11,267)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	165,077	106,924

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	210,419	217,174
Prepaid land lease payments	14	11,189	11,430
Deposit paid for purchase of property, plant and equipment		988	1,521
Prepayment for purchase of intangible assets		—	3,960
Intangible assets	15	43,221	55,395
Interest in a jointly-controlled entity	17	10,153	6,661
Deferred tax assets	27	1,175	—
Total non-current assets		277,145	296,141
CURRENT ASSETS			
Inventories	18	311,148	335,724
Trade and bills receivables	19	636,324	284,472
Entrusted loan receivable	20	—	75,000
Prepayments, deposits and other receivables	21	13,906	24,858
Available-for-sale investment	22	—	2,080
Due from a jointly-controlled entity	17	—	974
Pledged deposits	23	46,015	30,316
Cash and cash equivalents	23	145,906	110,192
Total current assets		1,153,299	863,616
CURRENT LIABILITIES			
Trade and bills payables	24	137,265	102,357
Other payables and accruals	25	28,328	20,534
Interest-bearing bank borrowings	26	60,419	—
Due to a jointly-controlled entity	17	921	—
Tax payable		7,841	6,273
Total current liabilities		234,774	129,164
NET CURRENT ASSETS		918,525	734,452
TOTAL ASSETS LESS CURRENT LIABILITIES		1,195,670	1,030,593
Net assets		1,195,670	1,030,593

	Notes	2009	2008
		RMB'000	RMB'000
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	28	67,993	67,993
Reserves	30(a)	1,127,677	962,600
Total equity		1,195,670	1,030,593

Dai Guoliang
Director

Dai Guoyu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Attributable to ordinary equity holders of the Company						
	Issued capital RMB'000 (note 28)	Share premium account RMB'000 (note 30(b))	Capital reserve RMB'000 (note 30(a))	Enterprise expansion and statutory reserve funds RMB'000 (note 30(a))	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total equity RMB'000
At 1 January 2008	68,136	493,900	85,106	59,807	281,007	(13,292)	974,664
Total comprehensive income for the year	—	—	—	—	118,191	(11,267)	106,924
Final 2007 dividend declared	—	—	—	—	(50,350)	—	(50,350)
Repurchase of shares	(143)	(502)	—	—	—	—	(645)
Transfer to enterprise expansion and statutory reserve funds	—	—	—	23,222	(23,222)	—	—
At 31 December 2008	67,993	493,398*	85,106*	83,029*	325,626*	(24,559)*	1,030,593
At 1 January 2009	**67,993**	**493,398**	**85,106**	**83,029**	**325,626**	**(24,559)**	**1,030,593**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**165,024**	**53**	**165,077**
Transfer to enterprise expansion and statutory reserve funds	**—**	**—**	**—**	**26,287**	**(26,287)**	**—**	**—**
At 31 December 2009	**67,993**	**493,398***	**85,106***	**109,316***	**464,363***	**(24,506)***	**1,195,670**

* These reserve accounts comprise the consolidated reserves of RMB1,127,677,000 (2008: RMB962,600,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**190,894**	140,052
Adjustments for:			
Interest income	5	**(5,514)**	(10,551)
Share of profit of a jointly-controlled entity		**(3,492)**	(694)
Depreciation	6	**20,718**	12,139
Amortisation of prepaid land lease payments	6	**241**	241
Amortisation of intangible assets	6	**20,094**	2,444
Impairment of trade receivables	6	**173**	1,455
Dividend income from:			
– Available-for-sale investments	5, 6	**(10)**	(1,087)
– Financial assets at fair value through profit or loss	5, 6	**—**	(1,635)
		223,104	142,364
Decrease/(increase) in inventories		**24,576**	(235,158)
Decrease/(increase) in trade and bills receivables		**(352,025)**	5,064
Decrease/(increase) in prepayments, deposits and other receivables		**10,952**	(19,692)
Increase in trade and bills payables		**34,908**	29,248
Increase in other payables and accruals	31(iv), 32	**3,372**	1,095
Movements in balances with a jointly-controlled entity		**1,895**	(974)
Exchange realignment		**521**	(1,688)
Cash used in operations		**(52,697)**	(79,741)
Interest income		**5,514**	10,551
PRC profits tax paid		**(25,477)**	(15,588)
Net cash flows used in operating activities		**(72,660)**	(84,778)

	Notes	2009 RMB'000	2008 RMB'000
Net cash flows used in operating activities		**(72,660)**	(84,778)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	31(i), (ii)	**(6,941)**	(147,342)
Proceeds from disposal of items of property, plant and equipment		**79**	—
Purchases of an equity interest in a jointly-controlled entity	31(iv)	**(578)**	(5,389)
Deposit paid for purchase of items of property, plant and equipment		**(6,567)**	(1,521)
Prepayment for purchase of intangible assets		**—**	(3,960)
Additions to intangible assets	31(iii)	**(3,960)**	(56,870)
Increase in pledged deposits		**(15,699)**	(8,427)
Increase in an entrusted loan receivable	20	**—**	(75,000)
Proceeds from the redemption of available-for-sale investments		**2,090**	26,087
Purchases of available-for-sale investments		**—**	(2,080)
Proceeds from the redemption of financial assets at fair value through profit or loss		**—**	75,634
Proceeds from the redemption of loan receivable	20	**75,000**	—
Acquisition of a subsidiary	32	**5,000**	—
Net cash flows from/(used in) investing activities		**48,424**	(198,868)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**61,419**	—
Purchases of shares, net	28(a)	**—**	(645)
Final dividend paid		**—**	(49,964)
Repayment of bank loans		**(1,000)**	—
Net cash flows from/(used in) financing activities		**60,419**	(50,609)

	Notes	2009 RMB'000	2008 RMB'000
NET DECREASE IN CASH AND CASH EQUIVALENTS		**36,183**	(334,255)
Cash and cash equivalents at the beginning of year		**110,192**	454,320
Effect of foreign exchange rates, net		**(469)**	(9,873)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**145,906**	110,192
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**145,236**	75,343
Non-pledged time deposits with original maturity of less than three months when acquired		**670**	34,849
		145,906	110,192

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**245,413**	245,413
CURRENT ASSETS			
Prepayments and deposits	21	**173**	299
Due from subsidiaries	16	**453,687**	415,774
Cash and cash equivalents	23	**3,469**	46,879
Total current assets		**457,329**	462,952
CURRENT LIABILITIES			
Other payables and accruals	25	**1,955**	1,909
NET CURRENT ASSETS		**455,374**	461,043
Net assets		**700,787**	706,456
EQUITY			
Issued capital	28	**67,993**	67,993
Reserves	30(b)	**632,794**	638,463
Total equity		**700,787**	706,456

Dai Guoliang
Director

Dai Guoyu
Director

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 6 March 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The registered office address of the Company is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit 2001, 20/F, Grandtech Centre, 8 On Ping Street, Shatin, New Territories, Hong Kong. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi (the "RMB") and all amounts are rounded to the nearest thousand except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment - Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue - Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement - Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations - Plan to sell the controlling interest in a subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Other than as further explained below regarding the impact of HKAS 1 (Revised) and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards - Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards - Limited Exemption from Comparative* HKFRS 7 *Disclosures for First-time Adopters* [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment - Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation - Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendment	Amendment to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations - Plan to sell the controlling interest in a subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements* to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have significant impact on its results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in a jointly-controlled entity is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's interest in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entity, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interest in a jointly-controlled entity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (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 jointly-controlled entity;

(c) the party is a member of the key management personnel of the Group;

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

(e) 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 (c) or (d); or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	Over the shorter of lease terms and 20 years
Plant and machinery	5 - 10 years
Leasehold improvements	10 years
Motor vehicles	3 - 5 years
Furniture, fixtures, office equipment and others	3 - 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recongised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, leasehold improvements and other equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licenses

Purchased patents and licenses are stated at cost, less any impairment losses, and are amortised on the straight-line basis over their estimated useful lives of five years.

Technical know-how

Purchased technical know-how is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life of three years.

Computer software

Purchased computer software is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life of three years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Treasury shares

Own equity instruments which are reacquired are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged deposits, trade and bills receivables, deposits and other receivables, on available-for-sale investment, an amount due from a jointly-controlled entity, and an entrusted loan receivable.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or ‘’prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, interest-bearing bank borrowings, an amount due to a jointly-controlled entity and other payables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Product warranty costs are recognised as expenses in the income statement in the period in which they are incurred.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods and rendering of services associated with goods sold, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the People's Republic of China (the "PRC") government. The PRC government undertakes to assume the benefit obligations of all existing and retained employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for its qualified employees under these plans.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB which is also the Company's presentation currency. The functional currency of the Company is Hong Kong dollars. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the PRC, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of certain subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to recognise deferred tax for withholding taxes that would be payable on the unremitted earnings of certain subsidiaries that are subject to withholding taxes according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend. The Group considered that if it is not probable that these subsidiaries will distribute such earnings in the foreseeable future, then no deferred tax for withholding taxes should be recognised.

Estimation uncertainty

Useful lives and impairment assessment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for the Group's 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.

Management will increase the depreciation charge where the actual useful lives are less than previously estimated. It will also write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of property, plant and equipment have been determined based on value in use calculations. These calculations require the use of judgement and estimates.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for product warranties

The Group generally provides one to two years' warranties to its customers on certain of its products, under which faulty products are repaired and replaced. The amount of the warranty provisions is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the years ended 31 December 2009 and 2008, the provision for product warranties was not recognised as the effect was estimated by the Group to be insignificant.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of inventories. The assessment of the required write-down amount involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the inventories and the write-down charge/write-back amount in the period in which such estimate has been changed.

Impairment allowances for trade and other receivables

Impairment allowances for trade and other receivables are based on the assessment of the recoverability of trade and other receivables. The identification of impairment allowances requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying values of the receivables and impairment or its reversal in the period in which such estimate has been changed.

Accounting for intangible assets

The costs of all intangible asset are stated at cost, less any impairment losses, and are amortised on the straight-line basis over their estimated useful lives of three years. Additional amortisation is made if estimated projected revenues and cost-savings are materially different from the previous estimation.

Management reviews and revises, when necessary, the estimated projected revenue and cost-savings at regular intervals. Such change in estimations may result in a change in the rate of amortisation and/or the write-down of the carrying values of the assets to fair value. This could have an impact on the Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present values of those cash flows.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of wireless telecommunications coverage system equipment and the provision of related engineering services, and the sale of digital television network coverage equipment and the provision of related engineering services. Almost all of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single reportable operating segment.

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, the PRC, which is the Group's principal place of business and operations. Therefore, no analysis by geographical region is presented.

For the year ended 31 December 2009, revenue from three of the Group's customers amounting to RMB453,848,000, RMB439,763,000 and RMB184,752,000 individually accounted for over 10% of the Group's total revenue. For the year ended 31 December 2008, three of the Group's customers with revenue amounting to RMB354,382,000, RMB346,824,000 and RMB88,217,000 individually accounted for over 10% of the Group's total revenue.

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered during the year, after allowances for returns and trade discounts.

An analysis of revenue and other income is as follows:

	2009 RMB'000	2008 RMB'000
Revenue		
Manufacture and sale of wireless telecommunications coverage system equipment and the provision of related engineering services	1,126,610	811,455
Sale of digital television network coverage equipment and the provision of related engineering services	15,005	6,840
	1,141,615	818,295

	2009 RMB'000	2008 RMB'000
Other income		
Bank interest income	5,514	10,551
Dividend income from available-for-sale investments	10	1,087
Dividend income from financial assets at fair value through profit or loss	—	1,635
Subsidy income from the PRC government	303	1,790
Others	40	4
	5,867	15,067

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2009	2008
		RMB'000	RMB'000
Cost of inventories sold and services provided*		817,688	581,232
Depreciation	13	20,718	12,139
Amortisation of prepaid land lease payments	14	241	241
Amortisation of intangible assets**	15	20,094	2,444
Minimum lease payments under operating leases			
in respect of land and buildings		1,113	1,689
Employee benefit expense			
(including directors' remuneration - note 7):			
Wages and salaries		58,097	49,482
Fees		796	801
Staff welfare expenses		8,501	7,097
Pension scheme contributions			
(defined contribution schemes)***		47	51
		67,441	57,431
Auditors' remuneration		1,719	1,700
Dividend income from available-for-sale investments		(10)	(1,087)
Dividend income from financial assets			
at fair value through profit or loss		—	(1,635)
Research and development expenditure****		32,595	16,817
Product warranty cost*****		3,772	2,183
Impairment of trade receivables**	19	173	1,455
Foreign exchange differences, net		(23)	443

6. PROFIT BEFORE TAX (continued)

* The cost of inventories sold and services provided for the year includes RMB28,433,000 (2008: RMB21,729,000) relating to direct employee benefit expenses and depreciation of manufacturing activities, which are also included in the total amounts disclosed above for each of these types of expenses.

** The impairment of trade receivables and the amortisation of intangible assets for the year are included in "General and administrative expenses" on the face of the consolidated income statement.

*** As at 31 December 2009, the Group had no (2008: Nil) forfeited contributions available to reduce its contributions to the pension schemes in future years.

**** The research and development expenditure for the year includes RMB28,104,000 (2008: RMB5,836,000) relating to operating lease rentals of land and buildings, depreciation of a research and development centre, amortisation of intangible assets and employee benefit expense for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

***** The product warranty cost for the year is included in "Selling and distribution costs" on the face of the consolidated income statement.

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2009 RMB'000	2008 RMB'000
Fees:		
Executive directors	284	254
Non-executive directors	142	172
Independent non-executive directors	370	375
	796	801
Other emoluments:		
Salaries and benefits in kind	3,510	3,152
	4,306	3,953

7. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2009	2008
	RMB'000	RMB'000
Mr. Miu Hon-kit*	158	161
Mr. Lin Yuanfang	106	107
Mr. Li Hongbin	106	107
Mr. Hung Ee Tek*	—	—
	370	375

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

* On 31 December 2009, Mr. Miu Hon-kit resigned as an independent non-executive director of the Company. On the same day, Mr. Hung Ee Tek was appointed as an independent non-executive director of the Company to fill the vacancy arising from the resignation of Mr. Miu Hon-kit.

7. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2009				
Executive directors:				
Mr. Dai Guoliang	71	1,389	—	1,460
Mr. Dai Guoyu	71	712	—	783
Mr. Yi Zhangtao	71	412	—	483
Mr. Guo Zeli	71	997	—	1,068
	284	3,510	—	3,794
Non-executive directors:				
Mr. Paul Steven Wolansky	71	—	—	71
Mr. Leung Ping-chung, Hermann	71	—	—	71
	142	—	—	142
	426	3,510	—	3,936

7. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

	Fees RMB'000	Salaries RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2008				
Executive directors:				
Mr. Dai Guoliang	71	1,411	—	1,482
Mr. Dai Guoyu	71	720	—	791
Mr. Yi Zhangtao	71	420	—	491
Mr. Guo Zeli	41	601	—	642
	254	3,152	—	3,406
Non-executive directors:				
Mr. Guo Zeli	30	—	—	30
Mr. Paul Steven Wolansky	71	—	—	71
Mr. Leung Ping-chung, Hermann	71	—	—	71
	172	—	—	172
	426	3,152	—	3,578

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

There was no performance related bonus paid or payable to any director during the year (2008: Nil).

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2008: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2008: one) non-director, highest paid employee for the year are as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Salaries	**687**	709
Pension scheme contributions	**11**	11
	698	720

The number of non-director, highest paid employee whose remuneration fell within the following band is as follows:

	Number of employees	
	2009	2008
Nil to RMB1,000,000	**1**	1

During the year, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2008: Nil).

9. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2008: Nil). Taxes on profits assessable in the PRC have been calculated at the prevailing tax rates.

	2009	2008
	RMB'000	RMB'000
Current tax - PRC		
Charge for the year	26,611	21,861
Underprovision in prior year	434	—
Deferred (note 27)	(1,175)	—
Total tax charge for the year	25,870	21,861

Centron Communications Technologies Fujian Co., Ltd. ("Fujian Centron"), a wholly-owned subsidiary of the Group operating in Mainland China, was exempted from the PRC corporate income tax for the two years commencing from its first profit-making year from 2006 and thereafter is entitled to a 50% reduction in the PRC corporate income tax for the three years from 1 January 2008 to 31 December 2010 (the "Existing Tax Holiday").

A reconciliation of the tax expense/(credit) applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries operate to the tax expense at the effective tax rates is as follows:

9. INCOME TAX (continued)

Group - 2009

	Hong Kong RMB'000	Mainland China RMB'000	Total RMB'000
Profit/(loss) before tax	(1,792)	192,686	190,894
Tax expense/(credit) at the statutory tax rate	(1,460)	48,161	46,701
Lower tax rate due to the Existing Tax Holiday	—	(25,000)	(25,000)
Income not subject to tax	(1)	(2,248)	(2,249)
Expenses not deductible for tax	107	3,417	3,524
Tax losses not recognised	2,314	2,778	5,092
Temporary difference not recognised	(2,098)	—	(2,098)
Profit attributable to a jointly-controlled entity	—	(873)	(873)
Adjustments in respect of current tax of previous year	—	434	434
Others	(26)	365	339
Tax charge/(credit) at the Group's effective rate	(1,164)	27,034	25,870

Group - 2008

	Hong Kong RMB'000	Mainland China RMB'000	Total RMB'000
Profit/(loss) before tax	(10,421)	150,473	140,052
Tax expense/(credit) at the statutory tax rate	(1,719)	37,618	35,899
Lower tax rate due to the Existing Tax Holiday	—	(20,107)	(20,107)
Income not subject to tax	(498)	(948)	(1,446)
Expenses not deductible for tax	147	1,494	1,641
Tax losses not recognised	2,148	2,710	4,858
Temporary difference not recognised	(78)	2,489	2,411
Profit attributable to a jointly-controlled entity	—	(173)	(173)
Others	—	(1,222)	(1,222)
Tax charge at the Group's effective rate	—	21,861	21,861

9. INCOME TAX (continued)

Pursuant to the PRC Corporate Income Tax Law (the "Corporate Income Tax Law") being effective on 1 January 2008, the PRC income tax rate is unified at 25% for all enterprises.

Pursuant to the notice on the Implementation Rules for Grandfather Policy under the Corporate Income Tax Law issued by the State Council of the PRC on 26 December 2007 effective from 1 January 2008, the Existing Tax Holiday enjoyed by Fujian Centron will not change. Upon expiry of the Existing Tax Holiday, Fujian Centron will be subject to the applicable tax rate of 25%.

The share of tax attributable to a jointly-controlled entity amounting to RMB122,000 (2008: RMB73,000), is included in "Share of profit of a jointly-controlled entity" on the face of the consolidated income statement.

10. DIVIDEND

	2009 RMB'000	2008 RMB'000
Proposed final - HK5 cents (approximately RMB4.4 cents) (2008: Nil) per ordinary share	30,711	—

The proposed final dividend for the year is subject to approval of the Company's shareholders at the forthcoming annual general meeting.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of RMB165,024,000 (2008: RMB118,191,000) and the weighted average of 698,378,000 (2008: 699,713,000) ordinary shares in issue during the year.

Since no share options were issued during the years ended 31 December 2009 and 2008, there was no potential dilutive ordinary share in existence, no adjustment has been made to the basic earnings per share amounts presented for these years.

12. PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to ordinary equity holders of the Company for the year ended 31 December 2009 includes a loss of RMB5,675,000 (2008: a loss of RMB4,573,000) which has been dealt with in the financial statements of the Company (note 30(b)).

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures, office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2009	115,043	66,568	34,368	7,333	18,317	—	241,629
Additions	—	9,685	—	190	1,274	2,892	14,041
Disposals	—	—	—	—	(89)	—	(89)
Transfers	2,892	—	—	—	—	(2,892)	—
Exchange realignment	—	—	—	—	—	—	—
At 31 December 2009	117,935	76,253	34,368	7,523	19,502	—	255,581
Accumulated depreciation:							
At 1 January 2009	4,386	10,982	822	3,608	4,657	—	24,455
Charge for the year	5,636	7,145	3,265	1,198	3,474	—	20,718
Disposals	—	—	—	—	(10)	—	(10)
Exchange realignment	—	—	—	—	(1)	—	(1)
At 31 December 2009	10,022	18,127	4,087	4,806	8,120	—	45,162
Net book value:							
At 31 December 2009	107,913	58,126	30,281	2,717	11,382	—	210,419
At 31 December 2008	110,657	55,586	33,546	3,725	13,660	—	217,174

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures, office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2008	43,791	20,150	—	4,560	7,917	16,791	93,209
Additions	—	46,418	—	2,853	2,415	96,838	148,524
Transfers	71,252	—	34,368	—	8,009	(113,629)	—
Exchange realignment	—	—	—	(80)	(24)	—	(104)
At 31 December 2008	115,043	66,568	34,368	7,333	18,317	—	241,629
Accumulated depreciation:							
At 1 January 2008	1,040	6,811	—	2,575	1,902	—	12,328
Charge for the year	3,346	4,171	822	1,041	2,759	—	12,139
Exchange realignment	—	—	—	(8)	(4)	—	(12)
At 31 December 2008	4,386	10,982	822	3,608	4,657	—	24,455
Net book value:							
At 31 December 2008	110,657	55,586	33,546	3,725	13,660	—	217,174
At 31 December 2007	42,751	13,339	—	1,985	6,015	16,791	80,881

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's buildings were held under the following lease terms:

	2009	2008
	RMB'000	RMB'000
Medium-term leases:		
Outside Hong Kong	107,913	110,657

At 31 December 2009, none of the Group's property, plant and equipment was pledged to secure general banking facilities granted to the Group (2008: Nil).

During the year ended 31 December 2009, office buildings with an aggregate net book value of RMB2.9 million were transferred from construction in progress to buildings upon completion. During the year ended 31 December 2008, office buildings with an aggregate net book value of RMB44 million and a factory building with a net book value of RMB8.4 million were transferred from construction in progress to buildings upon completion. As at 31 December 2009, the Group has not yet obtained the title ownership certificates in respect of these newly constructed office and factory buildings which are situated in Quanzhou, the PRC. The Company's directors confirmed that, as the Group has properly obtained the land use right certificates in respect of the land on which the buildings are located, there is no legal barrier for the Group to obtain the ownership certificates for the buildings from the relevant PRC government authorities.

14. PREPAID LAND LEASE PAYMENTS

Group

	2009	2008
	RMB'000	RMB'000
Carrying amount at 1 January	11,671	11,912
Amortised during the year	(241)	(241)
Carrying amount at 31 December	11,430	11,671
Current portion included in prepayments, deposits and other receivables	(241)	(241)
Non-current portion	11,189	11,430

The Group's prepaid land lease payments relate to land in Mainland China under medium-term leases.

15. INTANGIBLE ASSETS

Group

	Patents and licenses RMB'000	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2009				
Cost:				
At 1 January 2009	3,530	44,390	12,480	60,400
Additions	—	—	7,920	7,920
At 31 December 2009	3,530	44,390	20,400	68,320
Accumulated amortisation:				
At 1 January 2009	3,267	1,738	—	5,005
Amortised during the year	258	14,796	5,040	20,094
At 31 December 2009	3,525	16,534	5,040	25,099
Net carrying amount:				
At 31 December 2009	5	27,856	15,360	43,221
At 31 December 2008	263	42,652	12,480	55,395

15. INTANGIBLE ASSETS (continued)

	Patents and licenses RMB'000	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2008				
Cost:				
At 1 January 2008	3,530	—	—	3,530
Additions	—	44,390	12,480	56,870
At 31 December 2008	3,530	44,390	12,480	60,400
Accumulated amortisation:				
At 1 January 2008	2,561	—	—	2,561
Amortised during the year	706	1,738	—	2,444
At 31 December 2008	3,267	1,738	—	5,005
Net carrying amount:				
At 31 December 2008	263	42,652	12,480	55,395
At 31 December 2007	969	—	—	969

16. INVESTMENTS IN SUBSIDIARIES

Company

	2009 RMB'000	2008 RMB'000
Unlisted investments, at cost	245,413	245,413

The amounts due from subsidiaries of RMB453,687,000 (2008: RMB415,774,000) are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Directly held:				
Nice Group Resources Limited ("Nice Group")*	British Virgin Islands (the "BVI")/ Hong Kong	US$1,000	100	Investment holding
Indirectly held:				
Fujian Centron*	PRC/Mainland China	RMB317,712,911 (note (i))	100	Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services
Centron Telecom System (Asia) Limited	Hong Kong	HK$1	100	Sale of wireless telecommunications coverage system equipment and provision of related engineering services

16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held: (continued)				
星辰先創通信系統（廈門）有限公司 ("Centron Xiamen")*	PRC/Mainland China	HK$100,000,000 (note (ii))	100	Manufacture and development of digital television network coverage equipment, wireless telecommunications coverage system equipment and provision of related engineering services
深圳市星辰華興通信有限公司 ("Centron Shenzhen")*	PRC/Mainland China	RMB5,000,000 (note (iii))	100	Coordination, research and development of wireless telecommunications coverage system products
福建先創通信有限公司 ("Fujian Telecommunications")*	PRC/Mainland China	RMB15,000,000 (note (iv))	100#	Dormant

* The statutory financial statements of these subsidiaries were not audited by Ernst and Young Hong Kong or any other member firm of the Ernst & Young global network.

\# Pursuant to certain contractual arrangements entered by the Group and the legal equity holders of Fujian Telecommuications, the Group controls Fujian Telecommunications by way of controlling all of its voting rights, appointing or removing the members of its board of directors and governing its financial and operating policies so as to obtain benefits from its activities. Fujian Telecommunications is considered a wholly-owned subsidiary of the Group.

16. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

(i) Fujian Centron was established as a collectively-owned enterprise in the PRC in 1989 and was converted into a limited liability company on 23 March 2001. Fujian Centron became a wholly-owned foreign enterprise with an operating period of 50 years commencing on 11 January 2006. Its registered capital was increased from RMB75,000,000 to RMB350,000,000 during the year ended 31 December 2007, of which RMB331,207,608 was paid up as at 31 December 2009. A capital commitment of RMB18,792,392 (2008: RMB32,287,089) is disclosed in note 34 to the financial statements.

(ii) Centron Xiamen was registered as a wholly-foreign-owned enterprise under the PRC law.

(iii) Centron Shenzhen was registered as a limited liability company under the PRC law.

(iv) Fujian Telecommunications is a limited liability company established in the PRC which was owned by Mr. Dai Guoliang, Mr. Dai Guoyu and Mr. Yi Zhangtao (collectively, the "Vendors"), who are also directors of the Company. Pursuant to the execution of certain contractual agreements, the entire equity interest in Fujian Telecommunications was transferred from the Vendors to two PRC individuals (the ''PRC Shareholders'') for a consideration of RMB15 million during the year ended 31 December 2009. The consideration was settled by Fujian Centron, a wholly-owned subsidiary of the Group, by assuming the liability of the same amount due from the PRC Shareholders to Fujian Telecommunications. In connection with taking up such liability, the Group, through a series of contractual arrangements, established a 100% control of Fujian Telecommunications by way of controlling its voting rights, appointing or removing the members of its board of directors and governing its financial and operating policies so as to obtain benefits from its activities. Fujian Telecommunications is therefore considered a wholly-owned subsidiary of the Group. The consideration of RMB15 million was determined by reference to the net asset value of Fujian Telecommunications at the completion date, which also approximated its fair value as of that date. Fujian Telecommunications remained dormant as at 31 December 2009.

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

Group

	2009 RMB'000	2008 RMB'000
Share of net assets	8,718	5,226
Goodwill on acquisition	1,435	1,435
	10,153	6,661

The amount due to the jointly-controlled entity of RMB921,000 (2008: an amount due from the jointly-controlled entity of RMB974,000) is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly-controlled entity are as follows:

			Percentage of			
Name	Paid-up capital	Place of registration	Ownership interest	Voting power	Profit sharing	Principal activities
深圳澤惠通通訊技術有限公司	RMB9,390,600	PRC	62	57	62	Research, development, manufacture and sale of wireless telecommunications coverage system equipment

The investment in the jointly-controlled entity is indirectly held by the Company.

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

Share of the jointly-controlled entity's assets and liabilities:

	2009 RMB'000	2008 RMB'000
Current assets	21,410	8,104
Non-current assets	1,890	2,416
Current liabilities	(14,582)	(5,294)
Net assets	8,718	5,226

Share of the jointly-controlled entity's results:

	2009 RMB'000	2008 RMB'000
Revenue	28,259	4,468
Other income	5	3
	28,264	4,471
Total expenses	(24,650)	(3,704)
Tax	(122)	(73)
Profit after tax	3,492	694

18. INVENTORIES

	Group	
	2009	2008
	RMB'000	RMB'000
Raw materials	**193,041**	220,931
Work in progress	**12,321**	21,461
Finished goods	**105,786**	93,332
	311,148	335,724

19. TRADE AND BILLS RECEIVABLES

	Group	
	2009	2008
	RMB'000	RMB'000
Trade and bills receivables	**636,402**	285,927
Impairment	**(78)**	(1,455)
	636,324	284,472

The Group's trading terms with its customers are mainly on credit. The credit period is generally four months (2008: three months). A longer credit term of twelve months may be extended to customers with a long-term business relationship and a good payment history. The balances are non-interest-bearing and include retention money which is generally receivable after final verification of products by customers, performed within four to seven months after signing the sale and purchase contracts, or upon completion of the warranty period of one to two years granted to customers.

19. TRADE AND BILLS RECEIVABLES (continued)

An aged analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Within 3 months	364,377	219,545
3 to 6 months	202,787	52,431
6 to 12 months	64,584	9,157
Over 1 year	4,576	3,339
	636,324	284,472

The movements in impairment allowance for trade receivables are as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
At 1 January	1,455	—
Impairment losses recognised (note 6)	173	1,455
Amount written off as uncollectible	(1,550)	—
	78	1,455

Included in the above impairment allowance for trade receivables is an allowance for individually impaired trade receivables of RMB78,000 (2008: RMB1,455,000) with a carrying amount before provision of RMB78,000 (2008: RMB1,455,000). The individually impaired trade receivables relate to customers that have been overdue for a long time. The Group does not hold any collateral or other credit enhancements over these balances.

19. TRADE AND BILLS RECEIVABLES (continued)

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Neither past due nor impaired	589,314	283,956
Less than 1 month past due	35,277	131
1 to 3 months past due	11,525	—
More than 3 months past due	208	385
	636,324	284,472

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of defaults.

Receivables that were past due but not impaired relate to a number of independent customers that have a good repayment record with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

20. ENTRUSTED LOAN RECEIVABLE

	Group	
	2009	2008
	RMB'000	RMB'000
Entrusted loan receivable	—	75,000
Impairment	—	—
	—	75,000

On 4 June 2008, Fujian Centron entered into an entrusted loan agreement (the "Entrusted Loan Agreement") with a lending agent in the PRC (the "Lending Agent"). Pursuant to the Entrusted Loan Agreement, Fujian Centron had, through the Lending Agent, provided a short-term entrusted loan of RMB75,000,000 to the borrower.

20. ENTRUSTED LOAN RECEIVABLE (continued)

The entrusted loan had an effective interest rate of 11.5% per annum and was due in June 2009. The carrying amount of the Group's entrusted loan receivable approximated to its fair value as at 31 December 2008 due to its short maturity. The entrusted loan is secured by certain equity interests in the Lending Agent pledged by the borrower.

Messrs. Dai Guoliang, Guo Zeli, Dai Guoyu and Yi Zhangtao, the executive directors of the Company, had entered into a deed of indemnity in favour of the Company, in respect of, among other matters, any losses, damages, costs and expenses incurred or suffered by the Group arising from the failure of the borrower to comply with its repayment obligations under the Entrusted Loan Agreement.

On 18 June 2009, Fujian Centron received repayment of the total principal amount, including the entire interest portion, of the entrusted loan of RMB75,000,000. All payment obligations of the borrower under the Entrusted Loan Agreement have been discharged. An announcement for the repayment of the entrusted loan was made by the Company on 23 June 2009.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments and other receivables	**10,776**	8,964	**173**	278
Deposits paid	**3,130**	76	**—**	21
Value added tax receivables	**—**	15,818	**—**	—
	13,906	24,858	**173**	299

None of the above assets is either past due nor impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2009	2008
	RMB'000	RMB'000
Unlisted investment, at fair value	**—**	2,080

During the year, the gross dividend income of the Group's available-for-sale investment amounting to RMB10,000 (2008: RMB1,087,000) was recognised directly in the income statement.

At 31 December 2008, the fair value of the unlisted investment was determined with reference to the quoted closing price available from the respective financial institution.

23. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**145,236**	75,343	**3,469**	12,702
Time deposits	**46,685**	65,165	**—**	34,177
	191,921	140,508	**3,469**	46,879
Less: Time deposits pledged for bills payable facilities	**(46,015)**	(30,316)	**—**	—
Cash and cash equivalents	**145,906**	110,192	**3,469**	46,879

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB138,875,000 (2008: RMB59,622,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Within 3 months	**136,455**	102,330
3 to 6 months	**514**	27
6 to 12 months	**35**	—
Over 1 year	**261**	—
	137,265	102,357

The trade payables are non-interest-bearing and are normally settled in two to five months (2008: two to three months) terms.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other payables	**7,771**	753	**39**	38
Value added tax payables	**7,605**	24	**—**	—
Accruals	**12,736**	12,823	**1,916**	1,871
Deposits received from customers	**216**	6,934	**—**	—
	28,328	20,534	**1,955**	1,909

Other payables and value added tax payables are non-interest-bearing and have an average term of three months.

26. INTEREST-BEARING BANK BORROWINGS

	Group	
	2009	2008
	RMB'000	RMB'000
Current		
Bank loans - secured	**419**	—
Bank loans - unsecured	**60,000**	—
	60,419	—
Analysed into:		
Bank loans repayable within one year	**60,419**	—

The above bank loans were all denominated in RMB. The bank loans bore interest that ranged from 0% to 10% above the interest rates announced by the People's Bank of China per annum. Because of the short maturity term, the carrying amounts of bank loans approximate to their fair values.

As at 31 December 2009, certain of the Group's bank loans were guaranteed/secured by:

(i) corporate guarantee of RMB60,000,000 from Fujian Centron;

(ii) personal guarantee of RMB64,000,000 from Mr. Dai Guoliang, a director of the Company; and

(iii) the pledge of the Group's certain trade receivables amounting to RMB419,000.

As at 31 December 2009, the Group also had unutilised bank facilities of RMB65 million granted by PRC banks to a subsidiary of the Group, which were guaranteed by Fujian Centron as to RMB65 million and Mr. Dai Guoliang, a director of the Company as to RMB65 million.

27. DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

Group

	Unrealised profit of inventories RMB'000
At 1 January 2008, 31 December 2008 and 1 January 2009	—
Deferred tax credited to the income statement during the year (note 9)	1,175
At 31 December 2009	1,175

The Group has tax losses arising in Hong Kong of RMB30,190,000 (2008: RMB16,827,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of RMB21,954,000 (2008: RMB10,841,000) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time and/or the future income stream to recoup such losses is unpredictable.

Pursuant to the Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2009, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings generated from 1 January 2008 of the Group's subsidiaries and a jointly-controlled entity established in Mainland China (2008: Nil). In the opinion of the directors, it is not probable that these subsidiaries and a jointly-controlled entity will distribute such earnings in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries and a jointly-controlled entity in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB330,060,000 (2008: RMB154,816,000) and RMB4,347,000 (2008: RMB694,000), respectively, at 31 December 2009.

28. SHARE CAPITAL

	2009		2008	
	HK$'000	RMB'000	HK$'000	RMB'000
Authorised:				
1,000,000,000 (2008: 1,000,000,000) ordinary shares of HK$0.1 (2008: HK$0.1) each	100,000	97,337	100,000	97,337
Issued and fully paid:				
698,378,000 (2008: 698,378,000) ordinary shares of HK$0.1 (2008: HK$0.1) each	69,838	67,993	69,838	67,993

The following changes in the Company's authorised and issued share capital took place during the period from 1 January 2008 to 31 December 2009:

	Note	Number of ordinary shares of HK$0.1 each	Nominal value of ordinary shares HK$'000	RMB'000
Authorised:				
At 1 January 2008, 31 December 2008 and 31 December 2009		1,000,000,000	100,000	97,337
Issued:				
As at 1 January 2008		700,000,000	70,000	68,136
Repurchase of shares	(a)	(1,622,000)	(162)	(143)
At 31 December 2008 and 2009		698,378,000	69,838	67,993

Note:

(a) During the year ended 31 December 2008, the Company repurchased 1,622,000 of its ordinary shares of HK$0.1 each from the market at a total cash consideration of approximately HK$731,000 (RMB645,000), including the transaction cost of approximately HK$9,000 (RMB8,000). Shares were cancelled upon repurchases. Approximately HK$162,000 (RMB143,000) and approximately HK$569,000 (RMB502,000) of the par value of the shares repurchased and the corresponding premium were debited from the share capital and share premium account, respectively.

29. SHARE OPTION SCHEME

The Company adopted a share option scheme on 3 June 2007 (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group. Eligible participants of the Scheme include (i) any employee (whether full-time or part-time, including directors) of the Company, its subsidiaries or invested entity; (ii) any directors or proposed directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any advisor (professional or otherwise), consultant, individual or entity who, in the opinion of the directors of the Company, has contributed or will contribute to the growth and development of the Group and the listing of the shares of the Company on the Stock Exchange; and (iv) any company wholly owned by one or more eligible participants as referred to in (i) to (iii) above.

The Scheme became effective on 3 June 2007, and unless otherwise cancelled or amended, will remain in force for 10 years from that day (the "Scheme Period"). The board of directors may from time to time during the Scheme Period offer to grant to eligible participants a right to subscribe for shares of the Company (the "Share Options"). The offer of grant of share options may be accepted not later than 21 days from the date of offer.

Upon the subscription of the Share Options, the grantee can exercise the option within the period of not less than one year and not exceeding 10 years from the date of grant. The exercise price shall be determined as the highest of the following:

(i) the closing price of each share on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets on the date of grant;

(ii) the average closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a share of the Company (HK$0.1).

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 70,000,000, being 10% in nominal amount of the aggregate of shares in issue on 5 July 2007, the date of the Company's listing on the Main Board of the Stock Exchange.

The Company may renew the maximum number of options limit at any time subject to the prior shareholder's approval but in any event, the total number of shares which may be issued upon exercise of all options to be granted under the Scheme, must not exceed 10% of the shares in issue as at the date of shareholders' approval of the renewed limit. In addition, any options granted in a 12-month period shall not exceed 1% of the shares in issue for the time being.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

There were no outstanding share options as at 31 December 2009, as the Company has not granted any share options to any eligible participants since 3 June 2007.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The Group's contributed surplus originally represented the excess of the nominal value of shares of the subsidiaries acquired pursuant to the group reorganisation taken place on 3 June 2007, when the Company became the holding company of the companies now comprising the Group (the ''Group Reorganisation''), over the nominal value of the Company's shares issued in exchange therefor.

The capital reserve of the Group represents the difference between the aggregate of (i) the nominal value of the shares of the subsidiaries acquired after deducting the distribution to the original existing shareholders of Nice Group of RMB21,400,000 and (ii) the nominal value of the convertible bonds of RMB18,300,000 issued by Cathay Mobile Communications Limited (a substantial shareholder of the Company as at 31 December 2009 and 2008) which was transferred as equity in Nice Group when the repayment obligation of the convertible bonds was terminated on 9 March 2007, over the nominal value of the Company's shares issued pursuant to the Group Reorganisation.

In accordance with the relevant regulations applicable in the PRC, a subsidiary of the Company established in the PRC is required to transfer a certain percentage of its profit after tax, if any, to the enterprise expansion and statutory reserve funds which are non-distributable, before profit distributions to shareholders. These transfers continue until the amount of the reserve funds equals 50% of the registered capital of the subsidiary. The amounts of transfers are subject to the approval of the board of directors of the subsidiary.

30. RESERVES (continued)

(b) Company

	Note	Share premium account RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated loss) RMB'000	Total RMB'000
At 1 January 2008		493,900	222,732	(22,105)	7,888	702,415
Loss for the year		—	—	—	(4,573)	(4,573)
Exchange realignment		—	—	(58,877)	—	(58,877)
Total comprehensive expense for the year		—	—	(58,877)	(4,573)	(63,450)
Repurchase of shares	28(a)	(502)	—	—	—	(502)
At 31 December 2008 and 1 January 2009		**493,398**	**222,732**	**(80,982)**	**3,315**	**638,463**
Loss for the year		**—**	**—**	**—**	**(5,675)**	**(5,675)**
Exchange realignment		**—**	**—**	**6**	**—**	**6**
Total comprehensive expense for the year		**—**	**—**	**6**	**(5,675)**	**(5,669)**
At 31 December 2009		**493,398**	**222,732**	**(80,976)**	**(2,360)**	**632,794**

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(i) The deposit paid for the purchases of property, plant and equipment of RMB1,182,000 as at 31 December 2007 was applied to partly satisfy the consideration for the purchases of items of property, plant and equipment during the year ended 31 December 2008.

(ii) The deposit paid for the purchases of property, plant and equipment of RMB1,521,000 as at 31 December 2008 was applied to partly satisfy the consideration for the purchases of items of property, plant and equipment for the year.

(iii) The deposit paid for the purchases of intangible assets of RMB3,960,000 as at 31 December 2008 was applied to satisfy the consideration for the purchases of items of intangible assets for the year.

(iv) During the year ended 31 December 2008, the Group acquired a 62% equity interest in a jointly-controlled entity (note 17) for a total cash consideration of RMB5,967,000. The Group has paid up RMB5,389,000 during the year ended 31 December 2008 and the remaining balance of RMB578,000 was paid up during the year.

32. BUSINESS COMBINATIONS

As further detailed in note 16 to the financial statements, the Group obtained a 100% control of Fujian Telecommunications during the year ended 31 December 2009 for a consideration of RMB15 million. In the opinion of the directors, there is no material difference between the fair values of the identifiable assets and liabilities of Fujian Telecommunications as at completion date and the corresponding carrying amounts immediately before the acquisition.

	Note	**Fair value recognised on acquisition**	**Previous carrying amount**
		RMB'000	RMB'000
Net assets acquired:			
Due from Fujian Centron		15,000	15,000
Cash and cash equivalents		5,000	5,000
Other payables		(5,000)	(5,000)
Total net assets acquired		15,000	15,000
Consideration	(a)	15,000	

Note:

(a) The consideration represented the obligation assumed by the Group from the PRC Shareholders on the amount due from them to Fujian Telecommunications. Further details are included in note 16 to the financial statements.

An analysis of the net inflow of cash and cash equivalents in respect of the acquisitions of the above subsidiary is as follows:

	RMB'000
Cash and cash equivalents and net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	5,000

Since the above acquisition, Fujian Telecommunications had no contribution to the Group's turnover and contributed RMB1,000 to the Group's consolidated profit for the year ended 31 December 2009.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would remain at RMB1,141,615,000 and RMB165,024,000 respectively.

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises, warehouse and staff quarters under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to two years.

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	184	1,095
In the second to fifth years, inclusive	14	72
	198	1,167

The Company had no operating lease commitments at 31 December 2009 (2008: Nil).

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following contracted but not provided for commitments at the end of the reporting period.

	2009 RMB'000	2008 RMB'000
Contracted, but not provided for:		
Unpaid capital of Fujian Centron	18,792	32,287
Purchase of intangible assets	287	990
Construction of certain new factory buildings	—	2,872
	19,079	36,149

The Company had no commitments at 31 December 2009 (2008: Nil).

35. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2009 RMB'000	2008 RMB'000
Discontinued transaction			
Rental expense paid to Chen Shuru, the spouse of Dai Guoliang, a director of the Company	(a)	—	242
Continuing transactions			
Rental expense for office premises paid to Dai Guoliang	(b)	413	—
A jointly-controlled entity:			
Purchases of raw materials and finished goods	(c)	3,673	99

Notes:

(a) The rental expense was determined with reference to the prevailing market conditions. Pursuant to the termination agreement entered into between the Group and Chen Shuru on 1 January 2009, the leasing of the premise was ceased on 1 January 2009.

(b) The rental expense was determined with reference to the prevailing market conditions.

(c) The purchases from a jointly-controlled entity were charged based on mutually agreed prices and terms.

(ii) Outstanding balances with related parties

Details of the Group's balance with its jointly-controlled entity as at the end of the reporting period are disclosed in note 17 to the financial statements.

35. RELATED PARTY TRANSACTIONS (continued)

(iii) Compensation of key management personnel of the Group:

	2009 RMB'000	2008 RMB'000
Short-term employee benefits	3,936	3,578
Post-employment benefits	—	—
Total compensation paid to key management personnel	3,936	3,578

Further details of directors' emoluments are included in note 7 to the financial statements.

The directors are of the opinion that the transactions in (i), (ii) and (iii) were conducted in the ordinary course of business of the Group.

(iv) Other transactions with related parties:

(a) During the year ended 31 December 2009, the Group obtained control of Fujian Telecommunications from the Vendors, who are also directors of the Company. Further details are included in note 16 to the financial statements.

(b) During the year ended 31 December 2008, Messrs. Dai Guoliang, Guo Zeli, Dai Guoyu and Yi Zhangtao, the executive directors of the Company, entered into a deed of indemnity in favour of the Company, pursuant to which the executive directors undertook (a) to indemnify the Group, on a joint and several basis, in respect of any losses, damages, costs and expenses incurred or suffered by the Group arising from the failure of the borrower to comply with its repayment obligations under the Entrusted Loan Agreement; and (b) that subject to the compliance with the relevant laws, rules and regulations (including the Listing Rules), the executive directors shall, upon request of the Company, acquire the entrusted loan and the interest accrued thereon from the Company at a consideration equivalent to the amount of the entrusted loan and the accrued interest. Further details of the Entrusted Loan Agreement are set out in note 20 to the financial statements.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Group					
	2009			2008		
	Loans and receivables RMB'000	Available-for-sale financial asset RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale financial asset RMB'000	Total RMB'000
Trade and bills receivables	636,324	—	636,324	284,472	—	284,472
Entrusted loan receivable	—	—	—	75,000	—	75,000
Financial assets included in prepayments, deposits and other receivables	8,645	—	8,645	3,803	—	3,803
Available-for-sale investment	—	—	—	—	2,080	2,080
Due from a jointly-controlled entity	—	—	—	974	—	974
Pledged deposits	46,015	—	46,015	30,316	—	30,316
Cash and cash equivalents	145,906	—	145,906	110,192	—	110,192
	836,890	—	836,890	504,757	2,080	506,837

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Financial liabilities

Financial liabilities at amortised cost

	Group	
	2009	2008
	RMB'000	RMB'000
Trade and bills payables	**137,265**	102,357
Financial liabilities included in other payables and accruals	**7,771**	753
Due to a jointly-controlled entity	**921**	—
Interest-bearing bank borrowings	**60,419**	—
	206,376	103,110

Company

Financial assets

Loans and receivables

	Company	
	2009	2008
	RMB'000	RMB'000
Financial assets included in prepayments and deposits	—	21
Due from subsidiaries	**453,687**	415,774
Cash and cash equivalents	**3,469**	46,879
	457,156	462,674

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Company

Financial liabilities

Financial liabilities at amortised cost

	Company	
	2009	2008
	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	**39**	38

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise time deposits and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Group is also influenced by commodity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Foreign currency risk

The Group mainly operates in Mainland China with most of its transactions settled in RMB. The Group's assets and liabilities, and transactions arising from its operations are mainly denominated in RMB. The Group has not used any forward contract or currency borrowing to hedge its exposure as foreign currency risk is considered minimal.

Credit risk

The Group trades only with recognised and creditworthy customers. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise an entrusted loan receivable, other receivables, available-for-sale investments, financial assets at fair value through profit or loss, time deposits and cash and bank balances, arise from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings to meet its working capital requirements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	On demand RMB'000	Less than 12 months RMB'000	Total RMB'000
2009			
Trade and bills payables	536	136,729	137,265
Financial liabilities included in other payables and accruals	967	6,804	7,771
Due to a jointly-controlled entity	921	—	921
Interest-bearing bank borrowings	—	60,419	60,419
	2,424	203,952	206,376
2008			
Trade and bills payables	2,303	100,054	102,357
Financial liabilities included in other payables and accruals	47	706	753
	2,350	100,760	103,110

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	2009 On demand RMB'000	2008 On demand RMB'000
Financial liabilities included in other payables and accruals	39	38

Commodity price risk

The major raw materials used in the production of the Group's products include metal cables and various electronic components. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 2008.

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital plus total debt. Total debt includes trade and bills payables, other payables and accruals, interest-bearing bank borrowings, and an amount due to a jointly-controlled entity. Capital includes equity attributable to ordinary equity holders of the Company.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group's gearing ratios as at the ends of the reporting periods are as follows:

	2009 RMB'000	2008 RMB'000
Trade and bills payables	137,265	102,357
Other payables and accruals	28,328	20,534
Interest-bearing bank borrowings	60,419	—
Due to a jointly-controlled entity	921	—
Total debt	226,933	122,891
Equity attributable to ordinary equity holders of the Company	1,195,670	1,030,593
Total capital plus total debt	1,422,603	1,153,484
Gearing ratio	16.0%	10.7%

38. EVENT AFTER THE REPORTING PERIOD

The Board proposes to increase the share capital of the Company by capitalising the share premium of the Company, pursuant to which bonus shares will be allotted and issued to the shareholders on the basis of 1 bonus share for every 10 ordinary shares held by the shareholders. Based on a total of 698,378,000 shares in issue as at 31 December 2009, 69,837,800 bonus shares will be issued by the Company. The share capital of the Company will increase from approximately HK$69,838,000 to approximately HK$76,822,000 upon completion of the bonus issue.

The bonus issue and the increase in the Company's share capital are subject to approval of the Company's shareholders at the forthcoming annual general meeting.

39. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the presentation of certain balances in the financial statements has been revised to comply with the current year's new requirements.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2010.

Annual Report
2009年度報告