



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的有限公司)



2008 中期
報告
Interim Report

CONTENTS

	<i>Page</i>
Condensed Consolidated Income Statement	2
Condensed Consolidated Balance Sheet	4
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Cash Flow Statement	7
Notes to Condensed Consolidated Interim Financial Statements	8
Management Discussion and Analysis	19
Other information	27

The board of directors (the "Board") of Centron Telecom International Holding Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2008 together with the comparative figures for the corresponding period in 2007.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		For the six months ended 30 June	
	Notes	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
REVENUE	4	369,432	347,891
Cost of sales		(265,888)	(231,695)
Gross profit		103,544	116,196
Other income and gains	4	5,348	953
Selling and distribution costs		(19,529)	(12,808)
General and administrative expenses		(27,666)	(12,725)
Finance costs	5	—	(1,291)
PROFIT BEFORE TAX	6	61,697	90,325
Tax	7	(8,529)	—
PROFIT FOR THE PERIOD		53,168	90,325
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		53,168	90,325
DIVIDEND	8	—	88,000
Earning per share attributable to equity holders of the Company			
Basic (RMB cents)		7.60	17.22
Diluted (RMB cents)		—	—

The calculation of the basic earnings per share for the periods is based on the profit attributable to equity holders of the Company amounting to RMB53,168,000 (30 June 2007: RMB90,325,000) and on 700,000,000 shares (30 June 2007: 525,000,000 shares) in issue during the periods.

There is no diluted earnings per share for the periods ended 30 June 2008 and 2007 as there were no potential ordinary shares outstanding during those periods.

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

	Notes	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	121,749	80,881
Prepaid land lease payments		11,550	11,671
Deposit paid for purchase of property, plant and equipment		1,110	1,182
Deposit paid for purchase of a jointly-controlled entity		1,771	—
Intangible assets		616	969
Total non-current assets		136,796	94,703
CURRENT ASSETS			
Inventories		122,636	100,566
Trade receivables	10	221,305	290,991
Prepayments, deposits and other receivables		38,085	5,166
Available-for-sale investments		20,000	25,000
Financial assets at fair value through profit or loss		65,601	73,999
Pledged deposits		15,600	21,889
Cash and bank balances		497,591	454,320
Total current assets		980,818	971,931
CURRENT LIABILITIES			
Trade and bills payables	11	76,668	73,109
Other payables and accruals		26,130	18,861
Dividend payables		50,350	—
Total current liabilities		153,148	91,970
NET CURRENT ASSETS		827,670	879,961
TOTAL ASSETS LESS CURRENT LIABILITIES		964,466	974,664
Net assets		964,466	974,664

	Notes	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	12	68,136	68,136
Reserves		896,330	856,178
Proposed final dividend		—	50,350
		<hr/>	<hr/>
Total equity		964,466	974,664
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to equity holders of the Company									
	Issued capital	Share premium account	Capital reserve	Equity component of convertible bonds	Contributed surplus	Enterprise expansion and statutory reserve funds	Retained profits	Exchange fluctuation reserve	Proposed final dividend	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2007 (audited) and 1 January 2008	68,136	493,900	85,106	—	—	59,807	230,657	(13,292)	50,350	974,664
Exchange realignment	—	—	—	—	—	—	—	(13,016)	—	(13,016)
Total income and expense recognised directly in equity	—	—	—	—	—	—	—	(13,016)	—	(13,016)
Profit for the period	—	—	—	—	—	—	53,168	—	—	53,168
Total income and expense for the period	—	—	—	—	—	—	53,168	(13,016)	—	40,152
Final dividend for the year ended 31 December 2007	—	—	—	—	—	—	—	—	(50,350)	(50,350)
At 30 June 2008 (unaudited)	68,136	493,900	85,106	—	—	59,807	283,825	(26,308)	—	964,466
At 31 December 2006 (audited) and 1 January 2007	—	—	—	18,300	66,806	27,547	180,830	—	—	293,483
Exchange realignment	—	—	—	—	—	—	—	(1,801)	—	(1,801)
Total income and expense recognised directly in equity	—	—	—	—	—	—	—	(1,801)	—	(1,801)
Profit for the period	—	—	—	—	—	—	90,325	—	—	90,325
Total income and expense for the period	—	—	—	—	—	—	90,325	—	—	90,325
Issue of shares pursuant to the reorganisation	—	—	85,106	(18,300)	(66,806)	—	—	—	—	—
Special dividend	—	—	—	—	—	—	(88,000)	—	—	(88,000)
At 30 June 2007 (unaudited)	—	—	85,106	—	—	27,547	183,155	(1,801)	—	294,007

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET CASH INFLOW/(OUTFLOW) FROM:		
OPERATING ACTIVITIES	71,753	23,573
INVESTING ACTIVITIES	(28,482)	(36,254)
FINANCING ACTIVITIES	—	(11,500)
	<hr/>	<hr/>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	43,271	(24,181)
Cash and cash equivalents at beginning of period	454,320	117,795
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	497,591	93,614
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	497,591	93,614
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2008

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands 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 of the Company is located at Unit 2001, 20/F Grantech Centre, 8 On Ping Street, Shatin, New Territories, Hong Kong. The Company is an investment holding company. The principal activities of its subsidiaries are manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The condensed consolidated interim financial statements does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.1. Impact of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

During the six months ended 30 June 2008, the Group has adopted, for the first time, the following new and revised HKFRSs (which include all HKFRSs, HKASs and Interpretations) issued by the HKICPA which are relevant to the Group and effective for the accounting periods beginning on or after 1 January 2008:

HK(IFRIC) – Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above new and revised Interpretations has had no material impact on the financial statements of the Group.

2.2. Impact of issued but not yet effective HKFRSs

The Group has not adopted the following new and revised HKFRSs, that have been issued but are not yet effective, in the condensed consolidated interim financial statements.

HKFRS 2 Amendment	Share-based Payment: Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

2.2. Impact of issued but not yet effective HKFRSs *(Continued)*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. It is expected that these new and revised HKFRSs would unlikely have a significant impact on the Group's results of operations and financial position.

3. 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. 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 business segment.

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the People's Republic of China ("PRC"). Therefore, no analysis in business or geographical segment is presented.

4. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Manufacture and sale of wireless telecommunication coverage system equipment and provision of related engineering services	369,432	347,891
Other income and gains		
Bank interest income	4,145	422
Dividend income from financial assets at fair value through profit or loss and available-for-sales investments	1,203	—
Subsidy income from the PRC government	—	531
	5,348	953
	374,780	348,844

5. FINANCE COSTS

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on:		
Bank loans repayable within five years	—	1,291

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended	
	30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	265,888	231,695
Depreciation	3,517	1,244
Amortisation of intangible assets	353	352
	<u><u> </u></u>	<u><u> </u></u>

7. 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 period. Taxes on profits assessable in the PRC have been calculated at the rates of tax prevailing, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended	
	30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax – PRC		
Charge for the period	8,529	—
	<u><u> </u></u>	<u><u> </u></u>

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, Centron Communications Technologies Fujian Co., Ltd. ("Fujian Centron"), a wholly-owned subsidiary of the Group operating in the PRC. Upon being transformed to a wholly-owned foreign investment enterprise on 11 January 2006, Fujian Centron 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 subsequent three years from 1 January 2008 to 31 December 2010.

7. TAX (Continued)

Under the new Enterprise Income Tax Law of the PRC ("New Tax Law") and its implementation rules (effective on 1 January 2008), the PRC enterprise income tax rate for domestic-invested and foreign-invested enterprises is unified to 25%. Also, a foreign-invested enterprise established before the New Tax Law was promulgated, which is entitled to foreign-invested enterprise income tax holiday, can continue to enjoy the existing tax holiday until its expiry subject to a 5-year period restriction. Fujian Centron enjoys the 50% reduction in the new unified PRC enterprise income tax rate of 25% for the years ending 31 December 2008, 2009 and 2010.

8. DIVIDEND

The directors of the Company do not recommend any payment of special dividend (2007: RMB88,000,000) or interim dividend (2007: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

	Building RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
As at 1 January 2007	—	14,951	3,202	2,181	20,058	40,392
Additions	65	5,199	1,358	2,848	43,347	52,817
Transfers	43,726	—	—	2,888	(46,614)	—
As at 31 December 2007 and 1 January 2008	43,791	20,150	4,560	7,917	16,791	93,209
Additions	—	28,293	2,176	1,178	12,825	44,472
Exchange realignment	—	—	(68)	(19)	—	(87)
As at 30 June 2008	43,791	48,443	6,668	9,076	29,616	137,594
Accumulated depreciation:						
As at 1 January 2007	—	5,148	2,150	973	—	8,271
Provided during the year	1,040	1,663	425	929	—	4,057
As at 31 December 2007 and 1 January 2008	1,040	6,811	2,575	1,902	—	12,328
Provided during the period	1,040	1,308	430	739	—	3,517
As at 30 June 2008	2,080	8,119	3,005	2,641	—	15,845
Net book value:						
As at 30 June 2008	41,711	40,324	3,663	6,435	29,616	121,749
As at 31 December 2007	42,751	13,339	1,985	6,015	16,791	80,881

The Group's building was situated outside Hong Kong and was held under medium term lease.

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and a longer credit term of six months may be extended to customers with long-term business relationship and 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 three months after signing the sale and purchase contract, or upon completion of the one to two years warranty period granted to customers.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	30 June	31 December
	2008	2007
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Within 90 days	167,925	215,860
91 to 180 days	11,161	65,065
181 to 360 days	42,219	9,724
Over 360 days	—	342
	221,305	290,991

The carrying amounts of trade receivables approximate to their fair values.

11. TRADE AND BILLS PAYABLES

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

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within 90 days	76,668	71,921
91 to 180 days	—	190
181 to 360 days	—	956
Over 360 days	—	42
	<u>76,668</u>	<u>73,109</u>

The trade payables are non-interest bearing and are normally settled on 60 to 90-day terms. The carrying amount of trade and bills payables approximate to their fair values.

12. SHARE CAPITAL

(a) Authorised and issued capital

	Nominal Value	
	<i>HK\$'000</i>	<i>RMB'000</i>
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>97,337</u>
<i>Issued and fully paid:</i>		
700,000,000 ordinary shares of HK\$0.10 each	<u>70,000</u>	<u>68,136</u>

(b) Share option

The Company adopted a share option scheme, details of which are set out in the Company's Annual Report 2007. Since the adoption of the share option scheme, no share option has been granted by the Company.

13. COMMITMENTS

The Group had the following commitments at the balance sheet date.

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Contracted commitment in respect of unpaid capital of Fujian Centron	40,069	40,069
Contracted commitment in respect of the construction of certain new factory buildings and the underlying land use rights	26,267	4,781
	66,336	44,850

14. RELATED PARTY TRANSACTIONS

- (i) The Group had the following material transactions with related parties during the period:

		For the six months ended 30 June	
	Notes	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Rental expense for a factory premise paid to Dai Guoliang, a director of the Company	(a)	—	63
Rental expense for a factory premise paid to Chen Shuru, the spouse of Dai Guoliang	(b)	121	121

Notes:

- (a) The rental expense was determined with reference to the then prevailing market conditions. Pursuant to the termination agreement entered into between the Group and Dai Guoliang on 1 November 2006, the leasing of the factory premise ceased on 31 March 2007. The transaction has been discontinued.
- (b) The rental expense was determined with reference to the prevailing market conditions.

14. RELATED PARTY TRANSACTIONS *(Continued)*

(ii) Compensation of key management personnel of the Group

	For the six months ended	
	30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Short term employee benefits	1,362	578
Post-employment benefits	—	—
	<hr/>	<hr/>
Total compensation paid by key management personnel	1,362	578
	<hr/> <hr/>	<hr/> <hr/>

15. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the following significant event took place:

On 1 August 2008, Fujian Centron had acquired an equity interest in a jointly-controlled entity, Shenzhen ZHT Communication & Technology Co., Ltd. (深圳澤惠通訊技術有限公司) and holds approximately 62.18% of the issued share capital of the jointly-controlled entity with a purchase consideration of RMB5,967,200.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

1. Operating results

For the first half ended 30 June 2008 (during the reporting period), the Group realized revenue of RMB369.4 million, up 6.2% from the same period last year, despite the natural calamities such as the ice storm and the earthquake that hit China and the delay in investment due to the continued restructuring of the major telecom operators during the reporting period. The Group has made major breakthrough in new product sales. In particular, 3G products sales reached 11% of total revenue. The Group has always received significant orders from overseas market and in the digital TV network equipment. These new developments will translate into profit in the foreseeable future.

The Group has been actively participating in the emergency repair and rebuilding of the mobile telecommunication network in the earthquake effected Sichuan province. This has contributed to the increased business in the reconstruction of the telecommunication network in southwest China.

By customers

During the reporting period, revenue from China United Telecommunications Corporation Limited and its subsidiaries (China Unicom) was RMB148.4 million, an increase of RMB39.7 million over the same period last year and representing 40.2% of revenue of the Company. During the reporting period, revenue from sales to China Mobile Communications Corporation and its subsidiaries (China Mobile) was RMB181.8 million, a decrease of RMB29.7 million over the same period last year and representing 49.2% of revenue of the Company.

During the reporting period, revenue from other customers was RMB39.2 million, an increase of RMB11.5 million over the same period last year and representing 10.6% of revenue of the Company.

By business category

During the reporting period, revenue from 3G networks was approximately RMB40.5 million, representing approximately 11.0% of revenue, while revenue in this respect was zero in the same period last year.

During the reporting period, revenue from the traditional mobile communication network optimization business (mainly 2G, 2.5G repeaters) was approximately RMB328.9 million, including:

- (1) revenue from new products of the Company such as antenna-feeder systems and tower mounted amplifiers was approximately RMB35.0 million, representing approximately 9.5% of revenue;
- (2) revenue from system integration, project installation and construction and after-sales services was approximately RMB36.0 million, representing approximately 9.7% of revenue.

During the reporting period, the Group won a contract for the construction of a nationwide mobile communication network in Laos, an overseas market, through bidding with a total contract amount of exceeding US\$18 million. The Group has also won digital TV projects in regions such as Hangzhou Municipality, the entire Heilongjiang Province, the Anyang Region of Henan and the Changzhou region of Jiangsu. Revenues from these business will be reflected in future results of the Group.

2. Gross profit

During the reporting period, the Group realized gross profit of RMB103.5 million, a decrease of RMB12.7 million or 10.9% from RMB116.2 million over the same period last year.

During the reporting period, gross profit margin was approximately 28.0%, down 5.4 percentage points from 33.4% in the same period last year. The decrease in gross profit margin was mainly attributable to the significant decline in the centralized purchasing price of 2G, 2.5G products. However gross profit margin of the Group's 3G products, antenna-feeder systems, tower mounted amplifiers and system integration, project construction, after-sales services are considerably higher than that of traditional products. As revenue from the various new businesses increase and accounting for a larger proportion of the total revenue, we expect gross margin to improve in the future.

3. Research and development expenditure

During the reporting period, research and development expenditure of the Group was approximately RMB17 million, an increase of approximately 10 times over the same period last year and representing approximately 4.6% of total revenue. The considerable increase in research and development expenditure was mainly attributable to increased investment in the research and development of 3G products, products required by overseas markets and digital TV network coverage products. We have laid a solid foundation for the new businesses for the full year and the long-term growth of the Company.

4. Selling costs

During the reporting period, selling cost of the Group was approximately RMB19.5 million, increased by 52.5% from RMB12.8 million over the same period last year. The increase in sales cost was mainly attributable the increased marketing and salary costs associated with the new products.

5. Administrative expenses

During the reporting period, administrative expenses were approximately RMB27.7 million, an increase of approximately 118% from RMB12.7 million over the same period last year. The increase was mainly attributable to the increase in research and development expenses, audit fees, depreciation and salary expense as the company expands.

6. Finance expenses

During the reporting period, the Group did not incur any finance expenses.

7. Taxation

During the reporting period, the income tax payable by the Group was RMB8.5 million as compared with no income tax payable in the same period last year. The major reason for this was that as part of a tax holiday, the Group enjoyed two years of tax free holiday and the Group started the 50% income tax holiday at the rate of 12.5% during the reporting period.

8. Net profit

During the reporting period, profit attributable to shareholders (net profit) was RMB53.2 million, down RMB37.1 million from RMB90.3 million in the same period last year. The net profit margin accounted for 14.4% of the total revenue, a decrease of 11.6 percentage points over the same period last year. The decrease in the net profit was mainly attributable to increased taxes, transportation costs, research and development expense, salary expense and marketing costs associated with overseas sales and digital TV coverage business.

Outlook for the second half year

Market outlook

1. While the telecom operators conclude the industry wide restructuring, the telecom companies have expedited their network construction and optimization in order to gain a competitive advantage in the market. The Group has been very successful in the nationwide procurement biddings conducted by China Mobile, China Unicom and China Telecom. We are seeing increased orders from all major telecom operators.
2. All telecom operators have been focused on the investment in 3G networks. Revenue from the 3G business of the Group for the first half year accounted for 11% of total revenue and will continue to increase in the second half year.
3. As China rolls out digital TV networks, demand for coverage equipment for the networks will grow rapidly. During the reporting period, the Group won a total of five projects in Heilongjiang Province, Hangzhou, Anyang of Henan and Changzhou of Jiangsu through bidding. The Group has completed network experiments in more than twenty provinces and cities such as Beijing, Shanghai, Kunming and Guangzhou. As a leader in this field, the Group expects more orders in the second half year.
4. With painstaking efforts for almost two years, the Group's overseas operations have made breakthrough progress. During the reporting period, the Group received an order for a mobile communication network project from Laos, a Southeast Asian country. The total contract amount exceeds US\$18 million. The project will be completed in several years. Delivery of equipment and construction works will begin in the second half year. During the reporting period, the customer has paid US\$1 million in advance. The Group is also developing markets in other Asian country and expects to realize revenue in the second half of the year.

Product outlook

Through research and development in the past few years, particularly with stepped up efforts during the reporting period, the Group developed four new product categories to respond the market demand. There are: mobile communication network coverage products and system integration solutions for 3G network construction; new products for digital TV network coverage; a range of network coverage products that meet the needs of different countries and regions in accordance with the demand of overseas markets; an advanced microwave module production base. These new products will allow the Group to reduce costs, increase quality and increase in competitive advantage. Moreover, the Group will emphasized on the development the service business to telecom operators and aim to increase the contribution from services business by offering full range and quality services.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2008, the Group had cash and bank balances of RMB 497.6 million, most of which were denominated in US dollars, Hong Kong dollars or Renminbi. Cash and cash equivalent per share was RMB0.71 (31 December 2007: RMB0.65).

As at 30 June 2008, the Group had cash and bank balance, pledged deposits and financial assets at fair value through profit or loss totaling RMB578.8 million, which the financial assets at fair value through profit or loss was a US dollars money market fund.

As at 30 June 2008, the Group had no interest-bearing bank borrowings (31 December 2007: Nil).

Average trade receivable turnover period was 127 days (31 December 2007: 94 days), which was resulted from the changes of customers procurement and payment procedures. Average inventory turnover period was 77 days (31 December 2007: 57 days), which was resulted from the increase in inventories level for the demand in sales order of the overseas market and the digital TV network coverage products in second half of the year. Overall, the Group maintained a current ratio of 6.40 as at 30 June 2008 (31 December 2007: 10.57).

As at 30 June 2008, the Group had no debt and the gearing ratio (as defined as total borrowings (except for account payables in the ordinary course of business) divided by total equity) was 0% (31 December 2007: 0%).

Treasury Policies

During the six months ended 30 June 2008, the majority of the Group's transactions were 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 lending rates in PRC during the six months ended 30 June 2008. 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

During the six months ended 30 June 2008, the Group incurred capital expenditure of approximately RMB44.5 million, which was financed by the Group's internal resources and the proceeds of the Initial Public Offering. As at 30 June 2008, the Group's future capital commitment entered into but not yet provided for was approximately RMB66.3 million, and will be paid out of the proceeds from the Initial Public Offering and the Group's cashflow operation.

Contingent liabilities

As at 30 June 2008, the Group did not have significant contingent liabilities.

Employee Information

As at 30 June 2008, the Group had a total of approximately 997 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 in July 2007, after deduction of related issuance expenses and the use in the last year ended 31 December 2007 in accordance with the proposed applications set out in the Prospectus, amounted to approximately RMB507.4 million. These proceeds continues to be applied during the period in accordance with the proposed applications set out in the Prospectus, RMB91.8 million was used during the reporting period as follows:

- approximately RMB30.3 million was used for the construction of new facility in Xunmei Industrial Park, Quanzhou, PRC;
- approximately RMB37.0 million was used for the purchase of manufacturing and testing equipment;
- approximately RMB5.2 million was used for the long-term research and development;
- approximately RMB15.8 million was used for the expansion of domestic sales and marketing channels; and
- approximately RMB3.5 million was used for the establishment of overseas sales and marketing channels.

The remaining net proceeds of approximately RMB415.6 million are placed as term deposits and investment funds with licensed financial institutions in Hong Kong and Mainland China.

Dividend

The Board does not recommend the payment of any interim dividend.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period.

Corporate Governance

The Company is committed to maintain a high standard of corporate governance with a view of enhancing the management efficiency of the Company as well as preserve the interests of the shareholders as a whole. In the opinion of the Board, the Group has complied with the code provision set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Code"). During the period from the Listing Date up to the date of this report.

Model Code for Securities Transaction by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code for directors' dealing in securities of the Company (the "Own Code"). Having made specific enquiry of the Company's directors, the directors confirmed that they have fully complied with the required standard as set out in the Own Code from the Listing Date to the date of this report.

Audit Committee

The Audit Committee comprises three independent directors, namely Miu Hon-Kit, Lin Yuanfang and Li Hongbin. The chairman of the Audit Committee is Miu Hon-Kit.

The Audit Committee reviewed the Group's Condensed Interim Financial Statements for the six months ended 30 June 2008 to ensure that these financial statements and the relevant disclosures were made in accordance with the requirements of HKAS 34 and Appendix 16 to the Listing Rules and discussed with the management in respect of the results and the financial position of the Group.

OTHER INFORMATION

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 30 June 2008, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures 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 for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Note	Capacity and nature of interests	Number of shares held	Percentage of the Company's issued share capital
Mr. Dai Guoliang	1	Through controlled corporation	239,400,000	34.20

Note:

- As at 30 June 2008, Oriental City Profits Ltd. ("Oriental City") held 34.20% interest in the issued share capital of the Company. As at 30 June 2008, 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 Yinhuai and Xu Shiyang. (All of 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 amounts to 61.64%. Accordingly, pursuant to the SFO, Mr. Dai Guoliang is deemed to be interested in 239,400,000 shares held by Oriental City as he is entitled to control one-third or more of the voting power at general meeting of Oriental City.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations (Continued)

Long positions in ordinary shares of an associated corporation:

Name of director	Name of associated corporation	Capacity and nature of interest	Numbers of Relationship with the Company	ordinary shares	Percentage of the associated corporation's issued share capital
Mr. Dai Guoliang	Oriental City	Beneficial and registered owner	(note 1)	524	100
Mr. Dai Guoyu	Oriental City	Beneficial owner	(note 2)	92	17.56
Mr. Yi Zhangtao	Oriental City	Beneficial owner	(note 3)	32	6.1

Notes:

- As at 30 June 2008, Oriental City held 34.2% interest in the issued share capital of the Company. As at 30 June 2008, 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 of 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 at 30 June 2008, 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.
- As at 30 June 2008, 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 30 June 2008 none of the directors and chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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.

Substantial Shareholders' and Other Persons' Interests in Shares

As at 30 June 2008, the interest and short position 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 pursuant to Section 336 of the SFO were as follows:

Long positions:

Name	Note	Capacity and nature of interest	Number of ordinary of share held	Percentage of the Company's issued share capital
Oriental City	(1)	Directly beneficially owned	239,400,000	34.20
Dai Guoliang	(1)	Through a controlled corporation	239,400,000	34.20
Cathay Mobile Communications Limited	(2)	Directly beneficially owned	105,000,000	15.00
Cathay Capital Holdings, L.P.	(2)	Through a controlled corporation	105,000,000	15.00
Molatis Limited	(3)	Directly beneficially owned	47,250,000	6.75
Sussman Selwyn Donald	(3)	Through a controlled corporation	47,250,000	6.75

Notes:

- (1) The ordinary shares are held by Oriental City, which is beneficially owned by Mr. Dai Guoliang.
- (2) The ordinary shares are held by Cathay Mobile Communications Limited, a direct wholly-owned subsidiary of Cathay Capital Holdings, L.P.
- (3) The ordinary shares are held by Molatis Limited, which is beneficially owned by Mr. Sussman Selwyn Donald.

Save as disclosed above, as at 30 June 2008, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' chief executives interests and short positions in shares, underlying shares and debentures of the Company and its associated corporation" 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.

Appreciation

On behalf of the Board, I would like to express my gratitude to our management and staff for their dedication and contribution to the Group throughout the six months ended 30 June 2008.

By Order of the Board

Dai Guoliang

Chairman

Hong Kong, 19 September 2008

2008 中期
報告
Interim Report
