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)
(Stock Code: 1155)

Interim Report 2012

CONTENTS

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 2012 together with the comparative figures for the corresponding period in 2011. These condensed consolidated interim financial results have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

	Notes	**For the six months ended 30 June** **2012** **(Unaudited)** ***RMB'000***	2011 (Unaudited) *RMB'000*
REVENUE	4	**749,870**	736,977
Cost of sales		**(555,758)**	(503,340)
Gross profit		**194,112**	233,637
Other income	4	**8,998**	11,023
Selling and distribution costs		**(39,307)**	(35,860)
General and administrative expenses		**(88,801)**	(78,549)
Finance costs	5	**(7,400)**	(7,315)
PROFIT BEFORE TAX	6	**67,602**	122,936
Income tax expense	7	**(21,422)**	(26,068)
PROFIT FOR THE PERIOD		**46,180**	96,868
Attributable to:			
Ordinary equity holders of the Company		**44,863**	95,378
Non-controlling interests		**1,317**	1,490
		46,180	96,868
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic and diluted (RMB cents) (2011 restated)		**5.76**	12.25

Details of the dividend are disclosed in note 8 to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
PROFIT FOR THE PERIOD	**46,180**	96,868
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**(254)**	(1,506)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**45,926**	95,362
Attributable to:		
Ordinary equity holders of the Company	**44,609**	93,872
Non-controlling interests	**1,317**	1,490
	45,926	95,362

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	203,380	211,533
Prepaid land lease payments		10,586	10,707
Intangible assets		440	1,761
Deferred tax assets		3,941	1,494
Goodwill		1,135	1,135
Total non-current assets		219,482	226,630
CURRENT ASSETS			
Inventories		430,759	392,899
Trade and bills receivables	12	1,169,028	1,221,670
Prepayments, deposits and other receivables		42,355	38,913
Entrusted loan receivable	11	40,000	40,000
Pledged deposits		57,556	26,818
Cash and cash equivalents		189,453	197,171
Total current assets		1,929,151	1,917,471
CURRENT LIABILITIES			
Trade and bills payables	13	196,695	199,825
Other payables and accruals		56,507	65,599
Interest-bearing bank borrowings		255,775	221,858
Tax payable		31,304	29,381
Dividend payable	8	31,688	–
Total current liabilities		571,969	516,663
NET CURRENT ASSETS		1,357,182	1,400,808
TOTAL ASSETS LESS CURRENT LIABILITIES		1,576,664	1,627,438

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

30 June 2012

	Notes	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,576,664**	1,627,438
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**33,805**	100,799
Deferred tax liabilities		**6,582**	4,600
Total non-current liabilities		**40,387**	105,399
Net assets		**1,536,277**	1,522,039
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	14	**74,957**	74,957
Reserves		**1,449,915**	1,436,994
		1,524,872	1,511,951
Non-controlling interests		**11,405**	10,088
Total equity		**1,536,277**	1,522,039

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

		Attributable to ordinary equity holders of the Company									
			Reserves								
	Note	Issued capital RMB'000 (Note 14)	Share premium account RMB'000	Share option reserve RMB'000	Capital reserve RMB'000	Enterprise expansion and statutory reserve funds RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2011 (audited) and 1 January 2012		74,957	498,852	6,377	85,106	172,000	695,135	(20,476)	1,511,951	10,088	1,522,039
Profit for the period		–	–	–	–	–	44,863	–	44,863	1,317	46,180
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(254)	(254)	–	(254)
Total comprehensive income for the period		–	–	–	–	–	44,863	(254)	44,609	1,317	45,926
2011 final dividend declared	8	–	–	–	–	–	(31,688)	–	(31,688)	–	(31,688)
At 30 June 2012 (unaudited)		**74,957**	**498,852***	**6,377***	**85,106***	**172,000***	**708,310***	**(20,730)***	**1,524,872**	**11,405**	**1,536,277**
At 31 December 2010 (audited) and 1 January 2011		74,082	487,309	6,377	85,106	141,140	582,479	(20,079)	1,356,414	7,564	1,363,978
Profit for the period		–	–	–	–	–	95,378	–	95,378	1,490	96,868
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(1,506)	(1,506)	–	(1,506)
Total comprehensive income for the period		–	–	–	–	–	95,378	(1,506)	93,872	1,490	95,362
2010 final dividend declared	8	–	–	–	–	–	(31,942)	–	(31,942)	–	(31,942)
At 30 June 2011 (unaudited)		74,082	487,309	6,377	85,106	141,140	645,915	(21,585)	1,418,344	9,054	1,427,398

* *These reserve accounts comprise the consolidated reserves of RMB1,449,915,000 in the condensed consolidated statement of financial position.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
NET CASH FLOWS FROM/(USED IN):		
OPERATING ACTIVITIES	**68,464**	(72,132)
INVESTING ACTIVITIES	**(35,752)**	(2,993)
FINANCING ACTIVITIES	**(40,477)**	(69,547)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(7,765)**	(144,672)
Cash and cash equivalents at beginning of period	**197,171**	365,527
Effect of foreign exchange rates changes, net	**47**	(1,145)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**189,453**	219,710
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**237,685**	251,342
Non-pledged time deposits with original maturity of less than three months when acquired	**9,324**	2,988
Less: Deposits pledged for a loan	**(38,940)**	–
Deposits pledged for bills payable facilities	**(18,616)**	(34,620)
	189,453	219,710

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

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 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 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, and the sale of digital television network coverage equipment and the 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 of Hong Kong Limited (the "Stock Exchange").

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's audited annual financial statements for the year ended 31 December 2011 except as disclosed in note 2.1 below.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

30 June 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

In the current period, the Group has adopted, for the first time, the following amendments issued by the HKICPA which are effective for the Group's accounting period beginning on 1 January 2012.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of these new and revised HKFRSs has had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

3. 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 People's Republic of China (''PRC"), which is the Group's principal place of business and operations. Therefore, no analysis by geographical region is presented.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

30 June 2012

4. 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 period, after allowances for returns and trade discounts.

An analysis of revenue and other income is as follows:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Manufacture and sale of wireless telecommunications coverage system equipment and the provision of related engineering services	**714,531**	719,100
Sale of digital television network coverage equipment and the provision of related engineering services	**35,339**	17,877
	749,870	736,977
Other income		
Bank interest income	**2,323**	2,157
Foreign exchange differences, net	**45**	5,554
Service fee income	**400**	2,219
Subsidy income from the PRC government	**4,630**	101
Others	**1,600**	992
	8,998	11,023

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

30 June 2012

5. FINANCE COSTS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**6,684**	6,576
Amortisation of bank charges on a syndicated loan	**716**	739
	7,400	7,315

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories sold and services provided	**555,758**	503,340
Depreciation	**13,167**	12,300
Amortisation of intangible assets	**1,321**	11,316
Amortisation of prepaid land lease payments	**121**	121
Impairment of trade receivables	**6,678**	–
Write-off of prepayments for installation	**2,451**	–

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

30 June 2012

7. INCOME TAX EXPENSE

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 (2011: Nil). Taxes on profits assessable in the PRC have been calculated at the prevailing tax rates.

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current tax – PRC		
Charge for the period	**21,887**	23,639
Withholding tax	**1,982**	2,450
Deferred tax	**(2,447)**	(21)
Total tax charge for the period	**21,422**	26,068

Pursuant to the income tax law of the PRC being effective on 1 January 2008, the PRC income tax rate is unified at 25% for all enterprises. During the period, Centron Communications Technologies Fujian Co., Ltd. ("Fujian Centron") is entitled to PRC corporate income tax rate for High-New Technology Enterprise of 15%.

Pursuant to the income tax law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. 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 Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 10%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

30 June 2012

8. DIVIDEND

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Final dividend in respect of the financial year ended 31 December 2011 of HK5 cents (approximately RMB4.07 cents) (2011: final dividend in respect of the financial year ended 31 December 2010 of HK5 cents (approximately RMB4.2 cents)) per ordinary share declared during the period	**31,688**	31,942

On 25 June 2012, the Company's shareholders approved at the annual general meeting a final dividend of HK5 cents payable in cash with a scrip dividend alternative (the "Scrip Dividend Scheme") for the year ended 31 December 2011. Further details of the Scrip Dividend Scheme are set out in the Company's announcement dated 10 July 2012.

The directors of the Company do not recommend any payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

30 June 2012

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

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company of RMB44,863,000 (2011: RMB95,378,000) and the weighted average number of ordinary shares of 778,891,583 (30 June 2011 restated: 778,891,583) in issue during the six months ended 30 June 2012.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the period ended 30 June 2011 was restated to reflect the effect of 10,675,783 new shares issued by the Company as scrip dividend during the year ended 31 December 2011.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the six months period ended 30 June 2012 and 2011 as the share options in issue during those years have no dilutive effect.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with an aggregate cost of RMB5,014,000.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

30 June 2012

11. ENTRUSTED LOAN RECEIVABLE

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
	RMB'000	*RMB'000*
Entrusted loan receivable	**40,000**	40,000

On 22 October 2010, 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 long-term entrusted loan of RMB40,000,000 to a fellow subsidiary.

The entrusted loan receivable is not impaired as at the end of the reporting period. It is unsecured and bears interest at 20% above the interest rate announced by the People's Bank of China per annum, and is due in October 2012.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

30 June 2012

12. TRADE AND BILLS RECEIVABLES

	30 June 2012 *RMB'000*	31 December 2011 *RMB'000*
Trade and bills receivables	**1,175,784**	1,221,748
Impairment	**(6,756)**	(78)
	1,169,028	1,221,670

The Group's trading terms with its customers are mainly on credit. The credit period is generally nine months (2011: nine 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 contract, or upon completion of the warranty period of one to two years granted to customers.

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:

	30 June 2012 (Unaudited) *RMB'000*	31 December 2011 (Audited) *RMB'000*
Within 3 months	**507,496**	580,745
3 to 6 months	**269,415**	233,676
6 to 12 months	**323,436**	354,860
Over 1 year	**68,681**	52,389
	1,169,028	1,221,670

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

30 June 2012

13. 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:

	30 June 2012 (Unaudited) ***RMB'000***	31 December 2011 (Audited) *RMB'000*
Within 3 months	**153,202**	166,177
3 to 6 months	**21,598**	19,577
6 to 12 months	**17,012**	5,697
Over 1 year	**4,883**	8,374
	196,695	199,825

The trade payables are non-interest-bearing and are normally settled in two to three months terms.

14. SHARE CAPITAL

On 26 August 2011, 10,675,783 new shares are issued by the Company at a deemed issue price of HK$1.42 per share to settle HK$15,160,000 (approximately RMB12,418,000) of the final dividend of HK5 cents payable in cash with a scrip dividend alternative for the year ended 31 December 2010. Accordingly, the share capital of the Company increased from approximately HK$76,822,000 (approximately RMB74,082,000) to approximately HK$77,889,000 (approximately RMB74,957,000), and the share premium of the Company increased from approximately HK$499,863,000 (approximately RMB487,309,000) to approximately HK$513,955,000 (approximately RMB498,852,000).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

30 June 2012

15. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Short-term employee benefits	**1,378**	1,302

The directors are of the opinion that the above transaction was conducted in the ordinary course of business of the Group.

16. EVENTS AFTER THE REPORTING PERIOD

On 26 July 2012, the Company, as borrower, entered into a facility agreement (the "Facility Agreement") with Bank of China (Hong Kong) Limited, Hang Seng Bank Limited and CITIC Bank International Limited as lenders (collectively the "Lenders"), and Hang Seng Bank Limited as agent and security trustee, whereby the Lenders agreed, among other things, to grant to the Company a term loan facility up to US$50,000,000 (the "Facility"), subject to the terms and conditions of the Facility Agreement.

Further details of the Facility Agreement are set out in the Company's announcement dated 26 July 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

1. Operating results

For the six months ended 30 June 2012 (the "reporting period"), the Group realised revenue of RMB749.9 million, representing an increase of RMB12.9 million or 1.8% from RMB737.0 million over the same period last year.

During the reporting period, revenue from China Mobile Group: 中國移動通信集團公司 (China Mobile Communications Corporation) and its subsidiaries and branch companies (collectively "China Mobile Group"); China Unicom Group: 中國聯合通信有限公司 (China United Telecommunications Corporation) and its subsidiaries and branch companies (collectively "China Unicom Group"); China Telecom Group: 中國電信集團公司 (China Telecommunications Corporation) and its subsidiaries and branch companies (collectively "China Telecom Group") and other customers are as follows:

	For the six months ended 30 June			
	2012		2011	
	(Unaudited)		(Unaudited)	
	RMB'000	***%***	*RMB'000*	*%*
By customers				
China Mobile Group	**267,774**	**35.7**	280,754	38.1
China Unicom Group	**251,549**	**33.5**	244,405	33.2
China Telecom Group	**187,103**	**25.0**	140,488	19.1
	706,426	**94.2**	665,647	90.4
Others	**43,444**	**5.8**	71,330	9.6
	749,870	**100.0**	736,977	100.0
By business category				
2G and 3G	**714,531**	**95.3**	719,100	97.6
Digital Terrestrial Television (the "DTTV")	**35,339**	**4.7**	17,877	2.4
	749,870	**100.0**	736,977	100.0

1. **Operating results** *(continued)*

During the reporting period, revenue from 2G and 3G networks was approximately RMB714.5 million, representing approximately 95.3% of the Group's total revenue.

During the reporting period, revenue from digital television wireless coverage was approximately RMB35.3 million, representing approximately 4.7% of the Group's total revenue.

Lowered profit despite our effort to maintain existing business scale

The depth and width of the sovereign debt crisis in the US and Europe were casting uncertainties over the global telecommunication market and yet, no significant improvement was seen during the first half of 2012. Meanwhile, macro-economic conditions of the PRC were subject to downward pressure, resulting in tensions in the telecommunication equipment industry, slowdown in capital investment from the three major operators and rising costs. In addition, the emergence and development of mobile internet have impacted the traditional mobile telecommunication business and the pattern of profits across the industry.

Amid market competition in a complex and challenging environment, the Group strived to maintain our existing business scale through adopting various measures, making us achieving a slight growth in sales income as compared to the corresponding period last year, which is within our expectation. However, factors such as increase in overall costs and decrease in selling price have led to the decrease in the profit of the Group as compared to the corresponding period last year.

Digital television wireless network coverage business

Although the Group's income from digital television wireless network coverage business for the first half of 2012 increased by 97.2% to RMB35.3 million as compared with the corresponding period last year, a majority of which is derived from projects that commenced during last year pending inspection. During the first half of the year, as affected by the country's policy and many other factors, the results of this business may experience a decline this year.

2. Gross profit

During the reporting period, the Group realised gross profit of RMB194.1 million, representing a decrease of RMB39.5 million or 16.9% from RMB233.6 million over the same period last year.

During the reporting period, the gross profit margin was 25.9%, a decrease of 5.8% over the same period of last year.

External macro-economic conditions, such as the international financial crisis and downward pressure in the PRC's economy, together with the continuous development of mobile internet were causing impact on the profitability of traditional mobile telecommunication business across the industry. Under the circumstances, in order to cope with increasing demand from customers, competition among the three largest telecommunication operators intensified with lower and lower telecommunication fees. Considering operating income and profit realisation, telecommunication operators were having greater concerns over the purchasing price and cost of suppliers, and suppliers were hit due to the maturation of 3G technologies in the PRC, which in turn resulted in intensified competition in the mobile telecommunication industry, profits under pressure and therefore selling prices went down. In addition, the rise in cost of sales due to inflation has also contributed to the decrease in gross profit margin during the reporting period.

3. Research and development expenditure

During the reporting period, research and development related expenditure of the Group was approximately RMB23.2 million (2011 1H: RMB26.0 million), representing approximately 3.1% (2011 1H: 3.5%) of total revenue.

Research and development expenditure decreased slightly compared with the corresponding period last year. The decrease was mainly attributable to the completion of amortisation of intangible assets in the first half of the year.

During the second half of 2012, the Group will continue to increase its investment in research and development as scheduled and will accelerate research and development for various businesses, including the products and its technology applications of 3G, 4G, WLAN, digital television network coverage and multi-network integration. Besides, the Group will also conduct research and development in advanced technologies such as private network in digital interphone industry and terrestrial satellite communications to enrich our technologies, so as to further accommodate to the restructuring of our business and products and lay a solid foundation to the future business development of the Company.

4. Selling and distribution costs

During the reporting period, selling and distribution costs of the Group was approximately RMB39.3 million (2011 1H: RMB35.9 million), increased by 9.5% over the same period last year.

The increase was mainly attributable to (1) relative growth in selling costs of the engineering construction; (2) general increase in selling staff's salary to the industry level and as a result of inflation of the external environment.

5. General and administrative expenses

During the reporting period, general and administrative expenses was approximately RMB88.8 million (2011 1H: RMB78.5 million), representing an increase of approximately 13.1% over the same period last year.

The increase was mainly attributable to (1) bad debt provision incurred during the period; (2) write-off of prepayments for installation; and (3) increase in administrative staff salaries.

6. Finance costs

During the reporting period, finance costs was approximately RMB7.4 million (2011 1H: RMB7.3 million), representing an increase of approximately 1.4% over the same period last year.

During the reporting period, the Group was financed by interest-bearing bank loans of total outstanding amount of RMB289.6 million, of which RMB214.6 million is secured bank borrowings and RMB75.0 million is unsecured bank borrowings. Except for the bank loans of RMB35.0 million which bore a fixed interest rate, all the bank loans bore a floating interest rate.

The management is prudent to manage the credit risk and monitors closely the latest development of financial market in order to control and minimise finance costs. The management plans and arranges the most appropriate financing tools for the purpose of capital investment, R&D investment and working capital of the Group.

7. Taxation

During the reporting period, the income tax expense by the Group was RMB21.4 million (2011 1H: RMB26.1 million), a decrease of approximately 18% over the same period last year.

As a High-New Technology Enterprise, Centron Communications Technologies Fujian Co., Ltd ("Fujian Centron") is entitled to the preferential tax rate of 15% for the period ended 30 June 2012. Whilst the earnings generated from other subsidiaries established in Mainland China is subject to relevant income tax rate of 25%. In addition, the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, by making an assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future during the period, was RMB2.0 million (2011: RMB2.5 million).

8. Net profit

During the reporting period, net profit for the period was RMB46.2 million (2011 1H: RMB96.9 million), decreased by 52.3% over the same period last year.

The net profit margin was 6.2% (2011 1H: 13.1%) of the total revenue, representing a decrease of 6.9% as compared with corresponding period of the last year.

The decrease in net profit during the reporting period was mainly attributable to (1) decline in gross profit margin owing to the drop in selling price caused by increasingly fierce competition in the telecommunication industry and the increase in the cost of sales caused by inflation; (2) general increase in staff's salary to the industry level and as a result of inflation; and (3) bad debt provision and write-off of prepayments for installation.

PROSPECTS

Existing Business of our Mobile Telecommunications Coverage and Digital Television Wireless Coverage

Subsequent to substantial completion of the nationwide 3G network establishment at the end of 2011, the number of 3G subscribers grew rapidly and the increment in network infrastructure expenditure of telecommunication operators gradually returned to normal levels. They are gradually increasing their investment in quality of optimisation of network, enhanced mobile terminals and improved applications and services. In the meantime, popularity of intelligent terminals and development of mobile internet were weighing on the flow of operators, and therefore may result in a change in the structure of products currently supplied by network coverage operators. Despite the pressure from the existing economic environment, market competition and industrial transformation, in the long run, the three major telecommunication operators will have higher requirements on the quality of network coverage and increase their investment in mobile internet business. This represents a challenge but also an opportunity for network coverage suppliers. The Group will increase its investment in the research and development of 3G, 4G, mobile internet products and applications with an aim to maintain its market share amid a complex environment. However, based on our prediction for the second half of this year, provided the existing situation of decline in gross profit and increase in costs (including increase in research and development expenses) cannot be reversed in the near future, the profit level for this year would be affected.

For the digital television wireless coverage business, as affected by the country's policy and other factors, it is uncertain that whether the CMMB network construction work for this year will be resumed in the second half of the year. Moreover, although we have started constructing network for Digital Terrestrial Multimedia Broadcast (the "DTMB") in certain cities and provinces, the scale is still relatively small. Accordingly, the results of digital television wireless network coverage business for the year will decline as compared to that of last year. However, the Group's early start in the digital television network coverage business, its extensive network, advanced technology, as well as being shortlisted as a qualified supplier for all of our products have provided ample room of development for the Group.

The Group got various advantages and resources given its experience in the mobile telecommunication coverage industry over the years. Leveraging such advantages and resources, combined with our industrial alliance platform, external cooperation in research and development and its own research and development capacity, the Group will create synergy and commence the research and development of various advanced technologies as our future reserves, including private network business in digital interphone industry and terrestrial satellite communications.

The Twelve Five-Year Plan of the PRC expressly states its support to the integration of telecommunication, radio and television, industrial digitalisation and internet, which represents a key driver for the communication equipment industry. Meanwhile, the Ministry of Industry and Information Technology of the PRC has already formulated the general direction of "general digitalisation" and there has been increasing numbers of documents and policies issued. Under these circumstances, the Group will increase its investment in advanced technologies such as private network business in digital interphone industry as a future technology reserve to accommodate ourselves to the future development trend of the industry and the strategy to restructure our products and business.

As stated above, the external environment has made it more challenging for the Group's operation this year, but the Group has and will put in place a series of measures, such as increasing investment on research and development, increasing the number of new products, broadening income source and reducing cost, as well as exploring new markets, to strive to reverse the unfavorable situation, and pave way for our future development.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2012, the Group had cash and bank balances of RMB189.5 million (31 December 2011: RMB197.2 million), most of which were denominated in US dollars, Hong Kong dollars or Renminbi. As at 30 June 2012, the Group had pledged deposits of RMB57.6 million (31 December 2011: RMB26.8 million).

As at 30 June 2012, the Group had interest-bearing bank borrowings payable within one year of RMB255.8 million (31 December 2011: RMB221.9 million).

As at 30 June 2012, the Group had interest-bearing bank borrowings payables more than one year of RMB33.8 million (31 December 2011: RMB100.8 million).

Average trade receivable turnover period was 289 days (31 December 2011: 243 days). Average inventory turnover period was 134 days (31 December 2011: 122 days). Overall, the Group maintained a current ratio of 3.37 as at 30 June 2012 (31 December 2011: 3.71).

As at 30 June 2012, the gearing ratio (as defined as total borrowings (except for trade and bills payables in the ordinary course of business) divided by total equity) was 18.8% (31 December 2011: 21.2%).

Treasury Policies

During the six months ended 30 June 2012, 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 2012. 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 2012, the Group incurred capital expenditure of approximately RMB5.0 million, which was financed by the Group's internal resources.

Pledge of Assets

As at 30 June 2012, certain of the Group's interest-bearing bank borrowings were guaranteed/ secured by:

– corporate guarantee of RMB35,000,000 (31 December 2011: RMB35,000,000) from Fujian Centron;

– personal guarantee of RMB35,000,000 (31 December 2011: RMB35,000,000) from Mr. Dai Guoliang, a director of the Company;

– corporate guarantee of US$43,000,000 (31 December 2011: US$43,000,000) jointly from Nice Group Resources Limited ("Nice Group") and Centron Telecom System (Asia) Limited, wholly-owned subsidiaries of the Company;

– share mortgage over the entire issued share capital of Nice Group;

– the pledge of the Group's certain trade receivables amounting to RMB11,796,000 (31 December 2011: RMB12,776,000) as at 30 June 2012;

– the pledge of the Group's equity interest in Fujian Centron;

– assignment of amount due from Fujian Centron to Nice Group as at 30 June 2012; and

– standby letter of credit amounting to US$6,000,000 and tenor of 9 months.

Contingent Liabilities

As at 30 June 2012, the Group did not have any significant contingent liabilities.

Employee Information

As at 30 June 2012, the Group had approximately 2,000 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. In 2010, the Company has granted 13,200,000 share options to three directors and an employee, while no share options were granted during the reporting period and year 2011.

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 RMB488.2 million were utilised in accordance with the proposed applications set out in the prospectus of the Company dated 21 June 2007, as follows:

- approximately RMB110.6 million was used for the construction of new facility in Xunmei Industrial Park, Quanzhou, PRC;
- approximately RMB136.3 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 RMB48.5 million was used for the establishment of overseas sales and marketing channels; and
- approximately RMB74.7 million for general working capital purpose.

Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012.

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 to 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 provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the reporting period.

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 during the reporting period.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Hung Ee Tek, Lin Yuanfang and Li Hongbin. The chairman of the Audit Committee is Mr. Hung Ee Tek.

The Audit Committee reviewed the Group's condensed consolidated interim financial statements for the six months ended 30 June 2012 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 Executive's Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporations

As at 30 June 2012, the interests and short positions of the directors and the chief executive of the Company 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 held	Percentage of the Company's issued share capital
Mr. Dai Guoliang	1	Through a controlled corporation	274,317,517	35.22

Note:

1. Oriental City Profits Ltd. ("Oriental City") held 35.22% interest in the issued share capital of the Company as at 30 June 2012. As at 30 June 2012, the issued 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, who 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 SFO, Mr. Dai Guoliang is deemed to be interested in 274,317,517 shares held by Oriental City as he is entitled to control one-third or more of the voting power at general meetings of Oriental City.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporations

(continued)

Long positions in share options:

Name of director	Capacity and nature and interests	Number of underlying shares	Percentage of the company's issued share capital
Mr. Guo Zeli	Beneficial owner	3,300,000	0.42%
Mr. Dai Guoyu	Beneficial owner	3,300,000	0.42%
Mr. Yi Zhangtao	Beneficial owner	1,100,000	0.14%

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	Numbers of ordinary 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

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporations

(continued)

Long positions in ordinary shares of an associated corporation: (continued)

Notes:

1. Oriental City held 35.22% interest in the issued share capital of the Company as at 30 June 2012. The issued 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, who 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 30 June 2012, none of the directors or the chief executive of the Company had registered an 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 to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

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

The following table discloses movements in the Company's share options outstanding during the reporting period:

Name or category of participant	Number of shares to be allocated and issued upon the exercise in full of the subscription rights attached to the share options: At 1 January 2012	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period	At 30 June 2012	Date of grant of share options	Exercisable period of share options	Exercise price of share options HK$ per share	Closing price immediately before date of grant HK$ per share
Directors										
Mr. Guo Zeli	3,300,000	–	–	–	–	3,300,000	14-6-10	14-6-10 to 13-6-13	3.55	2.191
Mr. Dai Guoyu	3,300,000	–	–	–	–	3,300,000	14-6-10	14-6-10 to 13-6-13	3.55	2.191
Mr. Yi Zhangtao	1,100,000	–	–	–	–	1,100,000	14-6-10	14-6-10 to 13-6-13	3.55	2.191
Sub-total	7,700,000	–	–	–	–	7,700,000				
Other employee										
One employee	5,500,000	–	–	–	–	5,500,000	14-6-10	14-6-10 to 13-6-13	3.55	2.191
Total	**13,200,000**	**-**	**-**	**-**	**-**	**13,200,000**				

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director of the Company or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

As at 30 June 2012, the interests or shorts 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	274,317,517	35.22
Mr. Dai Guoliang	(1)	Through a controlled corporation	274,317,517	35.22
Cathay Mobile Communications Limited	(2)	Directly beneficially owned	115,500,000	14.83
Cathay Capital Holdings, L.P.	(2)	Through a controlled corporation	115,500,000	14.83
Molatis Limited	(3)	Directly beneficially owned	51,975,000	6.67
Mr. Sussman Selwyn Donald	(3)	Through a controlled corporation	51,975,000	6.67
Mr. Sussman Selwyn Donald	(3)	Directly beneficially owned	9,643,000	1.24

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares *(continued)*

Long positions: (continued)

Notes:

(1) Oriental City is 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 Mr. Wu Duange and Mr. 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, who held 38.36% as a bare trustee for these individuals in the proportion mentioned above.

(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 totaling 61,618,000 are beneficially held by Mr. Sussman Selwyn Donald, of which 51,975,000 shares are held through Molatis Limited.

Save as disclosed above, as at 30 June 2012, no person, other than the directors of the Company, 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.

Disclosures Pursuant to Rule 13.21 of the Listing Rules

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan agreement dated 15 July 2010 between the Company, Bank of China (Hong Kong) Limited, Hang Seng Bank Limited, CITIC Bank International Limited, Bank of Ayudhya Public Company Limited, Hong Kong Branch, Industrial Bank of Taiwan Co., Ltd., and The Shanghai Commercial and Savings Bank, Ltd., Hong Kong Branch relating to a three-year loan facility of United States dollars ("US$") 43,000,000, a termination event would arise if (i) Oriental City ceased to own beneficially, directly or indirectly, at least 30% of the shares in the Company's issued capital; (ii) Mr. Dai Guoliang is not or ceases to be Chairman of the Company; (iii) Mr. Dai Guoliang, Mr. Dai Guoyu and Mr. Dai Guowei collectively do not or cease to own, directly or indirectly, at least 70% of the beneficial shareholding carrying at least 70% of the voting rights in Oriental City; and (iv) Mr. Dai Guoliang does not or ceases to maintain control over the management and business of the Group. On 3 August 2012, the Company had settled all outstanding amounts under the abovementioned loan agreement.

Pursuant to a loan agreement dated 26 July 2012 between the Company, Bank of China (Hong Kong) Limited, Hang Seng Bank and CITIC Bank International Limited relating to a three-year loan facility of US$50,000,000, it shall be an event of default if: (i) Mr. Dai Guoliang is not or cease to be chairman of the Company; (ii) Mr. Dai Guoyu is not or cease to be executive director of the Company; (iii) Mr. Dai Guoliang and Mr. Dai Guoyu collectively do not or cease to maintain control over the management and business of the Group; (iv) Mr. Dai Guoliang does not or ceases to own, directly or indirectly, at least 20% of the beneficial shareholding carrying at least 20% of the voting rights in the Company, free from any mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect (the "Security"); (v) Mr. Dai Guoliang does not or ceases to be the single largest controlling shareholder of the Company; or (vi) Mr. Dai Guoliang does not or ceases to own, directly or indirectly, at least 51% of the beneficial shareholding carrying at least 51% of the voting rights in Oriental City free from any Security.

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 2012.

By Order of the Board
Dai Guoliang
Chairman

Hong Kong, 28 August 2012