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Centron Telecom International Holding Limited

星辰通信国际控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1155)

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

CHAIRMAN'S STATEMENT

Business Review

In 2008, Centron Telecom International Holding Limited (“the Company”) and its subsidiaries (collectively referred to as the “Group”) has further solidified its market position and prepared itself for future growth by investing in product development, infrastructure and sales network. The macro-economic environment in which the Group operates had undergone a major change with challenges resulted from the restructuring of China’s telecommunications industry, the global financial crisis and China’s move to stimulate domestic consumption.

At the end of 2008, the Group’s major customers including the major telecom operators implemented their restructuring plan which started in 2007. As a result, network expansion by these telecom operators slowed down during the period of restructuring. However, all the telecom operators have also finalised their 3G testing and roll-out plan in 2008 together with major build-out plans for the next several years. We believe China’s telecom industry will enter into a new growth phase starting with the ambitious 3G networks in the next several years. The Group has made a strategic decision to make the necessary investments in 2008 and 2009 so that the Group will be best positioned to take advantage of the growth in the 3G and telecom industry.

The Group recognises three key competitive advantages, which are advanced products, quality service and effective cost control. We have made significant improvements in each of these areas in 2008.

Firstly, the Group invested around RMB30 million to develop new products for all 3G network standards including TD-SCDMA, WCDMA and CDMA2000. As a result, the Group now has a full range of 3G products that can satisfy the requirements of all telecom operators. We believe our expanded product line will increase the contribution of 3G revenue to our total revenue and improve our profit margin in the future.

Secondly, the Group expanded the sales and service network nationwide with a focus on the eastern coastal region. The Group is better positioned to capture the 3G business as well as the emerging Digital Terrestrial Television Broadcasting (“DTTB”) business which has higher requirement in sales and services network.

Thirdly, the Group continued to expand in overseas markets with export sales reaching more overseas markets and export revenue has increased by 114% compared with last year’s export sales. The Group has selectively expanded the overseas sales and services network to capitalise on the growth of the target markets. The Group continues to implement the strategy of profitable expansion into overseas market given the global economic condition.

Fourthly, the Group has successfully established its leadership position in the DTTB in 2008. The Group has not only developed a good reputation in the market for its products and sales network, but also has geared for future growth by acquiring a 62.2% equity interest in a DTTB technology company. The Group believes that it has laid a solid foundation to capture the growth in this market.

Lastly, the Group completed the new facility in Quanzhou with state-of-art equipment and additional production capacity in 2008. We believe that the investment in the facility and equipment will enable us to expand our businesses and provide the best quality products to our customers. To improve cost control, the Group has also invested in office automation and an Enterprise Resource Planning (ERP) system.

In summary, in a year of challenge, the Group has taken advantages of its financial strength to invest for the future in product expansion, market expansion and capacity expansion.

Business Outlook

The macroeconomic environment will continue to be challenging in 2009, however the Group is confident that the China’s telecom industry will start to resume its growth due to the implementation of 3G networks and the government’s stimulus efforts for domestic consumption.

3G build-out will be a driving force behind the growth of China's telecom industry in the next five years. According to the forecast of Ministry of Industry and Information Technology of the People's Republic of China (MII), the Chinese telecom operators are expected to invest over RMB170 billion in 3G networks in 2009, of which RMB120 billion has started or in the process of starting while total investment expected by all three major telecom operators will exceed RMB400 billion from 2009 to 2011. The Group expects to compete effectively in the 3G projects by providing a full range of products, extensive service coverage and best technical solutions for the telecom operators. The Group will continue to invest in research and development for 3G products to meet the requirements of different 3G networks. In 2009, the Group will start the marketing and sale of three major product lines developed in 2008: wireless coverage products and services, wireless transmission products and services and wireless interconnection products and services. The Group expects 3G revenue to increase as a percentage of total revenue.

With nationwide implementation of the wireless digital television networks in China, the Group expects the DTTB market will continue to grow rapidly. The Group will leverage on its leading position in the industry, focus on major markets and further develop new products to meet the increasing demand.

The Group will also continue to expand its overseas market by focusing on the Southeast Asia region with prudent risk control given the global economic conditions.

In 2009, we will face changes and challenges, but we expect to also see opportunities that can benefit our Group. I am confident that the Group will continue to execute its business and expansion strategies and take full advantages of the impending recovery and create long term value for our shareholders and employees.

Appreciation

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

Dai Guoliang
Chairman

The Board of directors (the “Board” or “Directors”) of the Company is pleased to present the consolidated results of the Group for the year ended 31 December 2008, together with the comparative figures in 2007 and the relevant explanatory notes, as set out below:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	<i>Notes</i>	2008 RMB'000	2007 RMB'000
Revenue	4	818,295	843,368
Cost of sales		<u>(581,232)</u>	<u>(561,174)</u>
Gross profit		237,063	282,194
Other income and gains	4	15,067	23,999
Selling and distribution costs		(42,211)	(30,035)
General and administrative expenses		(70,561)	(54,161)
Finance costs	6	—	(1,560)
Share of profit of a jointly-controlled entity		<u>694</u>	<u>—</u>
PROFIT BEFORE TAX	5	140,052	220,437
Tax	7	<u>(21,861)</u>	<u>—</u>
PROFIT FOR THE YEAR		<u>118,191</u>	<u>220,437</u>
Dividends	8		
Special		—	88,000
Proposed final		<u>—</u>	<u>50,350</u>
		<u>—</u>	<u>138,350</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic		<u>RMB16.89 cents</u>	<u>RMB36.09 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

31 December 2008

	<i>Notes</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		217,174	80,881
Prepaid land lease payments		11,430	11,671
Deposit paid for purchase of property, plant and equipment		1,521	1,182
Prepayment for purchase of intangible assets		3,960	—
Intangible assets		55,395	969
Interest in a jointly-controlled entity		6,661	—
Total non-current assets		<u>296,141</u>	<u>94,703</u>
CURRENT ASSETS			
Inventories		335,724	100,566
Trade receivables	10	284,472	290,991
Entrusted loan receivable	11	75,000	—
Prepayments, deposits and other receivables		24,858	5,166
Available-for-sale investments		2,080	25,000
Financial assets at fair value through profit or loss		—	73,999
Due from a jointly-controlled entity		974	—
Pledged deposits		30,316	21,889
Cash and bank balances		110,192	454,320
Total current assets		<u>863,616</u>	<u>971,931</u>
CURRENT LIABILITIES			
Trade and bills payables	12	102,357	73,109
Other payables and accruals		20,534	18,861
Tax payables		6,273	—
Total current liabilities		<u>129,164</u>	<u>91,970</u>
NET CURRENT ASSETS		<u>734,452</u>	<u>879,961</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,030,593</u>	<u>974,664</u>
Net assets		<u>1,030,593</u>	<u>974,664</u>
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital		67,993	68,136
Reserves		962,600	856,178
Proposed final dividend	8	—	50,350
Total equity		<u>1,030,593</u>	<u>974,664</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2008

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 located 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.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year’s financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> and HKFRS 7 <i>Financial Instruments: Disclosures - Reclassification of Financial Assets</i>
HK(IFRIC)-Int 11	HKFRS 2 – <i>Group and Treasury Share Transactions</i>
HK(IFRIC)-Int 12	<i>Service Concession Agreements</i>
HK(IFRIC)-Int 14	HKAS 19 – <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ³
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> ¹
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i> ¹
HKFRS 3 (Revised)	<i>Business Combinations</i> ³
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i> ¹
HKFRS 8	<i>Operating Segments</i> ¹
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> ¹
HKAS 23 (Revised)	<i>Borrowing Costs</i> ¹
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ³
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i> ¹
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> ³
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) - Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement - Embedded Derivatives</i> ²
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> ⁴
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i> ¹
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i> ⁵
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i> ³
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> ³

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

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

² Effective for annual periods ending on or after 30 June 2009

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 July 2008

⁵ Effective for annual periods beginning on or after 1 October 2008

* *Improvements to HKFRSs* contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it is expected that while the adoption of HKFRS 7 Amendments, HKFRS 8 and HKAS 1 (Revised), may result in new or amended disclosures, these new and revised HKFRSs are unlikely to 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, and sale of digital television network coverage equipment. 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 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 year, after allowances for returns and trade discounts.

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

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Revenue</u>		
Manufacture and sale of wireless telecommunication coverage system equipment and the provision of related engineering services	811,455	843,368
Sale of digital television network coverage equipment	6,840	—
	<u>818,295</u>	<u>843,368</u>
<u>Other income and gains</u>		
Bank interest income	10,551	18,262
Dividend income from available-for-sale investments	1,087	673
Dividend income from financial assets at fair value through profit or loss	1,635	1,203
Subsidy income from the PRC government	1,790	3,681
Exchange gains, net	—	180
Others	4	—
	<u>15,067</u>	<u>23,999</u>

5. PROFIT BEFORE TAX

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Cost of inventories sold*	581,232	561,174
Depreciation	12,139	4,057
Amortisation of prepaid land lease payments	241	141
Amortisation of intangible assets**	2,444	705
Minimum lease payments under operating leases in respect of land and buildings	1,689	718
Employee benefits expenses (including directors' remuneration):		
Wages and salaries	49,482	31,593
Fees	801	656
Staff welfare expenses	7,097	5,053
Pension scheme contributions (defined contribution schemes)***	<u>51</u>	<u>21</u>
	<u>57,431</u>	<u>37,323</u>
Auditors' remuneration	1,700	1,400
Dividend income from available-for-sale investments	(1,087)	(673)
Dividend income from financial assets at fair value through profit or loss	(1,635)	(1,203)
Research and development expenditure****	16,817	8,886
Product warranty cost*****	2,183	2,805
Impairment of trade receivables**	1,455	—
Bank interest income	(10,551)	(18,262)
Foreign exchange differences, net	<u>443</u>	<u>(180)</u>

* The cost of inventories sold for the year includes RMB21,729,000 (2007: RMB15,518,000), relating to direct employee benefits expenses, depreciation of manufacturing activities and operating lease rentals of land and buildings, which are also included in the total amounts disclosed above for each of these types of expenses.

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

*** As at 31 December 2008, the Group had no (2007: Nil) forfeited contributions available to reduce its contributions to the pension schemes in future years.

**** The research and development expenditure for the year includes RMB5,836,000 (2007: RMB2,666,000) relating to operating lease rentals of land and buildings, depreciation of research and development centre, amortisation of intangible assets and employee benefits expense for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

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

6. FINANCE COSTS

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans wholly payable within five years	<u>—</u>	<u>1,560</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 year (2007: Nil). Taxes on profits assessable in the PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax - PRC		
Charge for the year	<u>21,861</u>	<u>—</u>

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

8. DIVIDENDS

The directors resolved not to declare any dividend for the year ended 31 December 2008 (2007: special dividend totaling approximately RMB88,000,000 and final dividend of RMB7.19 cents (HK8 cents) per ordinary share, totaling approximately RMB50,350,000).

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

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of RMB118,191,000 (2007: RMB220,437,000) and the weighted average of 699,713,000 (2007: 610,822,000) ordinary shares deemed to have been in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share amount for the year ended 31 December 2007 includes the pro forma issued share capital of the Company of 525,000,000 shares, comprising:

- (i) the 1 share of the Company allotted and issued at nil paid on 6 March 2007;
- (ii) the 999 shares issued as consideration for the acquisition of Nice Group Resources Limited on 3 June 2007; and
- (iii) the capitalisation issue of 524,999,000 shares.

The weighted average number of shares of 610,822,000 used to calculate the basic earnings per share amount for the year ended 31 December 2007 includes the weighted average of 85,822,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 5 July 2007 and the aforementioned 525,000,000 shares.

Since no share options were issued during the years ended 31 December 2008 and 2007, there was no potential dilutive ordinary share in existence and, accordingly, no diluted earnings per share amount has been presented for these years.

10. TRADE RECEIVABLES

	Group	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	285,927	290,991
Impairment	<u>(1,455)</u>	<u>—</u>
	<u>284,472</u>	<u>290,991</u>

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

10. TRADE RECEIVABLES (continued)

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

	Group	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	219,545	215,860
3 to 6 months	52,431	65,065
6 to 12 months	9,157	9,724
Over 1 year	<u>3,339</u>	<u>342</u>
	<u>284,472</u>	<u>290,991</u>

The carrying amounts of the Group's trade receivables approximate to their fair values.

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

	Group	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	—	—
Impairment losses recognised (note 5)	<u>(1,455)</u>	<u>—</u>
	<u>(1,455)</u>	<u>—</u>

Included in the above impairment allowance for trade receivables is an allowance for individually impaired trade receivables of RMB1,455,000 (2007: Nil) with a carrying amount of RMB1,455,000 (2007: Nil). The individually impaired trade receivables relate to a customer that was in financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	283,956	290,941
Less than 1 month past due	131	—
1 to 3 months past due	—	—
More than 3 months past due	<u>385</u>	<u>50</u>
	<u>284,472</u>	<u>290,991</u>

10. TRADE RECEIVABLES (continued)

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

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

11. ENTRUSTED LOAN RECEIVABLE

	Group	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Entrusted loan receivable	75,000	—
Impairment	<u>—</u>	<u>—</u>
	<u>75,000</u>	<u>—</u>

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

The entrusted loan has an effective interest rate of 11.5% per annum and is due in June 2009. The carrying amount of the Group’s entrusted loan receivable approximates to its fair value due to its short maturity. The entrusted loan is secured by certain equity interests in the lending agent pledged by the borrower.

Messrs. Dai Guoliang, Guo Zeli, Dai Guoyu and Yi Zhangtao, being the executive directors of the Company, had entered into a deed of indemnity in favour of the Company, pursuant to which the executive directors undertake (a) to indemnify the Group, on a joint and several basis, in respect of any losses, damages, costs and expenses incurred or suffered by the Group arising from the failure of the borrower to comply with its repayment obligations under the Entrusted Loan Agreement; and (b) that subject to the compliance with the relevant laws, rules and regulations (including the Rules Governing the Listing of Securities on the Stock Exchange), the executive directors shall, upon demand by the Company, acquire the entrusted loan and the interest accrued thereon from the Company at a consideration equivalent to the amount of the entrusted loan and the accrued interest.

12. 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:

	Group	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	102,330	71,921
3 to 6 months	27	190
6 to 12 months	—	956
Over 1 year	—	42
	<u>102,357</u>	<u>73,109</u>

The trade payables are non-interest-bearing and are normally settled on two to three months terms. The carrying amounts of trade and bills payables approximate to their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Revenue

For the year ended 31 December 2008, the Group's principal operations, i.e. network system integration services for mobile telecommunication and digital TV, basically leveled with that of the year ended 31 December 2007. Due to the restructuring of the telecommunication industry of the PRC during the year, despite the installation procedures of many projects were completed by the Group, the acceptance procedures were pushed back by China Mobile Communications Corporation and its subsidiaries ("China Mobile"), China United Network Communications Corporation Limited and its subsidiaries ("China Unicom"), China Telecommunications Corporation ("China Telecom") in various regions of the PRC, and the related revenue from these projects were not included in the results of the current year in accordance with the Group's accounting policies.

Meanwhile, the Group recorded growth in its overseas export business during the year. In Laos, construction of a nationwide mobile communication network with a contract amount exceeding US\$18 million undertaken by the Group is currently under progress. During the year, the Group made a breakthrough in wireless digital TV network coverage by winning digital terrestrial television coverage projects in seven provinces or cities, including Hangzhou Municipality of Zhejiang, the entire Heilongjiang Province and Anyang Municipality of Henan. Currently, construction of some of such projects has been completed. Revenue from these projects was also not included in the revenue for the current year as they were yet to be inspected and accepted.

Due to the above, the revenue presented in this results announcement is basically leveled as that of last year and it is expected that the Group will see a substantial increase in its revenue for the first half of 2009.

(1) ***By business operations***

During the year, revenue from 3G network coverage increased significantly from the previous year to RMB108.6 million, accounting for 13.3% of the Group's total revenue.

During the year, revenue from traditional 2G/2.5G network optimisation business decreased by 16.3% from RMB840 million in the previous year to RMB702.9 million, accounting for 85.9% of the Company's total revenue.

During the year, revenue from digital TV system integration amounted to RMB6.8 million, as compared with nil in the previous year.

(2) ***By markets***

During the year, revenue from domestic market, including China Mobile, China Unicom, China Telecom and various mobile TV operators, was RMB812.1 million, representing a decrease of 3.3% as compared with RMB840 million in the previous year. The decrease was mainly due to the fact that many completed projects were yet to be inspected and accepted as mentioned above.

During the year, revenue from overseas market was RMB6.2 million, representing an increase of approximately 114% as compared with RMB2.9 million in the previous year.

2. **Gross profit**

The Group's gross profit and gross profit margin for the year were RMB237.1 million and 29.0% respectively, as compared with a gross profit of RMB282.2 million and a gross profit margin of 33.4% in the previous year. The decrease in gross profit margin compared to the previous year was mainly due to (1) prices of traditional 2G/2.5G products has fallen, (2) the product mix of the Group during the year was different from last year; (3) the increase in the costs of some raw materials; (4) the increase in transportation and installation fees.

In 2008, the Group took a series of cost-cutting measures, including: (1) optimising old products which were still being sold, improving production processes and adopting new production management models, which significantly improved our production efficiency and reduced production costs; (2) improving the Group's logistics management mechanism, strengthening purchase cost control and reduction and obtaining more purchase discounts from suppliers by making timely payment of purchase prices to obtain favorable prices.

3. Research and development expenditure

During the year, the Group significantly increased its investment in research and development activities. A total investment of RMB16.8 million was made during the year, representing an increase of 88.8% over RMB8.9 million in the previous year. In addition to increasing its investments in the development of our own new products, the Group jointly developed new products with various domestic research institutions and academies, including digital TV transmitters, 3G direct broadcast stations, microwave distant transmission equipment, various road test software and equipment, etc.

In addition, the Group's investment in intangible assets related to 3G and digital TV amounted to RMB56.9 million during the year.

These self-initiated research and development projects, entrusted development projects and investment in intangible assets greatly enhanced the Group's competitiveness in the 3G market, overseas mobile communication markets and digital TV market.

4. Selling and distribution costs

The selling and distribution costs of the Group for the year amounted to RMB42.2 million, representing an increase of 40.5% over RMB30 million in last year and accounting for 5.2% of the Group's revenue (3.6% in last year). The increase in selling and distribution costs was mainly due to: (1) the increase in market development costs; (2) the increase in remuneration expenses due to employing more marketing staff; (3) the increase in the costs for the promotion of new products and tests.

5. General and administrative expenses

The general and administrative expenses of the Group for the year amounted to RMB70.6 million, representing an increase of 30.3% over RMB54.2 million in last year and accounting for 8.6% of the Group's revenue (6.4% in last year). The increase in administrative expenses was mainly due to: (1) the Group recruited a large number of senior management and research and development staff during the year, resulting in an increase in remuneration expenses; (2) the Group purchased a large amount of additional fixed assets during the year, resulting in an increase in depreciation expenses; and (3) the Group significantly increased its investments in research and development during the year; (4) the increase in legal, public relations and other professional fees related to the listed company.

6. Finance expenses

The Group had no finance expenses in the year, as compared with RMB1.56 million in last year. The significant decrease in finance expenses for the year was due to the fact that the Group has not drawn down any bank loans in the year.

7. Taxation

The Group incurred an income tax expense of RMB21.9 million during the year and paid no income tax in the previous year. The increase in income tax was due to the fact that Fujian Centron is a foreign invested enterprise which can be exempted from income tax for two years and exempted from 50% of the income tax for three years thereafter. Fujian Centron was exempted from income tax in 2006 and 2007 and it can enjoy a 50% reduction in tax rate (12.5%) from this year to 2010. The income tax expense of the Group accounted for 2.7% of its revenue.

8. Net profit

The profit attributable to the Company's shareholders (net profit) was RMB118.2 million, representing a decrease of 46.4% or RMB102.2 million from RMB220.4 million in last year. The net profit accounted for 14.4% of the Group's total revenue. The decrease in the net profit of the Group was mainly due to:

- (1) Despite the installation process of a large number of network integration projects were completed by the Group, the acceptance procedures were pushed back by the telecommunication operators, and in accordance with the Group's accounting policies, the results from these projects were not accounted as the Group's financial results for the year.

- (2) Income tax rate for the year was 12.5% as compared with nil in last year, which had reduced the net profit of the year by RMB21.9 million.
- (3) The Group increased its investments in fixed assets for long term growth in the future.

9. **Liquidity and financial resources**

As at 31 December 2008, the Group had cash and bank balance of RMB110.2 million (2007: RMB454.3 million), most of which were denominated in Renminbi, Hong Kong dollars and US dollars.

Average trade receivable turnover period was 128 days (2007: 94 days). The increase in average trade receivable turnover days was mainly due to the restructuring of mobile communication operators in the PRC and a lot of accounts receivables were not settled on time, resulting in the increase in average receivable turnover days of the Group.

Average inventory turnover period was 137 days (2007: 57 days). The increase in average inventory turnover days was mainly due to: (1) from the second half of the year, especially the fourth quarter, telecommunication operators significantly increased investments and could not complete the acceptance procedures of the projects on time. In accordance with the Group's accounting policies that the related telecommunication equipment and other raw materials commissioned under such projects were reflected as the Group's inventories as at 31 December 2008, therefore resulting in an increase in inventory turnover days; (2) from the second half of the year, especially the fourth quarter, the Group's business volume increased significantly which required an increased in inventories.

In overall, the Group maintained a current ratio of approximately 6.7 as at 31 December 2008 (31 December 2007: 10.6).

As at 31 December 2008, the Group did not have any bank loans (31 December 2007: nil).

The Group finance its working capital requirement through equity funds and the funds generated from operations.

10. **Treasury policy and exchange risk**

The Group centralises the allocation of funds for business needs and closely monitors its exchange risk. That policy will also enable the Group to control its financial operation effectively with less average cost of funding.

As at 31 December 2008, the Group's transactions were mainly denominated in Renminbi, with some transactions denominated in foreign currencies. The Group did not enter into hedging instruments against 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.

11. Capital expenditure

As at 31 December 2008, the Group incurred capital expenditure of approximately RMB205.4 million, which was financed by the Group's internal resources. All these capital expenditures were paid out of the proceeds from the initial public offering and the internal resources of the Group.

12. Capital commitment and contingent liabilities

As at 31 December 2008, the Group's future capital commitment contracted but not yet provided for was approximately RMB36.1 million, and will be paid out of the proceeds from the initial public offering and the Group's cash generated from operation. The Group did not have any material contingent liabilities.

13. Use of proceeds from the share offer

The net proceeds from the share offer amounted to RMB554 million.

The net proceeds are proposed to be used in the following ways:

Usage as disclosed in the prospectus	RMB385.5 million has been used <i>RMB, million</i>
Construction of the 2nd phase of the new facilities at the Xunmei Industrial Area in Quanzhou	107.7
Long-term research and development expenses	45.1
Purchase production and testing equipment, related software and staff recruitment, their remuneration and training	93.4
Establish overseas sales and marketing channels	28.2
Expand domestic sales and marketing channels	36.4
General working capital purpose	74.7

14. Employees

As at 31 December 2008, the Group had over 1,000 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. On 3 June 2007, the Company adopted a share option scheme under which the Company may grant options to the employees of the Group to subscribe for the shares of the Company. Since the adoption of the share option scheme, no share option has been granted by the Company.

15. Dividends

The Board does not recommend the payment of any final dividend in consideration of the Group's optimised use of capital for the expected 3G development. However, the Board will consider the payment of interim dividend in 2009.

16. Prospects

(1) *Analysis based on objective facts*

In spite of the impact of the global financial crisis on the overall economy, the industrial mobile telecommunication and digital TV network system integration business of the Group progressed well. In view of the financial crisis, the PRC government adopted a series of measures to stimulate the market. The mobile telecommunication and digital TV industries in which the Group operates are included in the ten industries which will receive great support and investment from the government. At present, 3G licenses have been granted to the three largest mobile telecommunication operators in China, and the construction of 3G networks is under progress. The Group was selected as a supplier in the national group purchase made by the three largest telecommunication operators for most provinces and cities. Currently, the Group's equipment manufacturing operations and installation operations are at their peak and carries out orderly. In addition, owing to the preparation and preliminary construction works in the previous two years, a construction upsurge of mobile digital TV will occur in 2009 in China. Thanks to the China Mobile Multimedia Broadcasting ("CMMB") handset TV network roaming across the country, the urban mobile TV program in various provinces and cities and the program to extend TV coverage to every village, there will be considerable demand for the products and system integration service of the Group in 2009.

(2) *The Group has the following advantages from an internal perspective*

- (2.1) A number of new technologies and products developed by the Group during the year will play a significant role in the new round of 3G network and digital TV network construction. These new products are more competitive due to their technical advancement and lower cost. Furthermore, the Group has a significant leading edge over its competitors in the mobile telecommunication network system integration industry in terms of digital TV network system integration.
- (2.2) A number of new products developed by the Group during the year such as broadband SCDMA, microwave point-to-point teletransmission equipment, high-power TV-transmitter and Interference Cancellation System (ICS) anti-isolation technology will all benefit the Group in the development of new businesses with fewer competitions.
- (2.3) Through further internal reform and increase of investment during this year, the Group established a marketing system and evaluation mechanism adaptable to the market; established a modern logistics distribution system; purchased many advanced manufacturing equipment and instruments, and enhanced its ability to meet the requirements of telecommunication operators for equipment and services, the Group completed the microwave module processing center, which will satisfy market demand to a large extent and reduce production cost significantly.

Conclusion

The industry in which the Group operates is under a stage of rapid development. As a result, the internal reforms conducted by the Group and its efforts made in new product development and market exploration will bring a significant growth in the results of the Group in 2009 as compared with 2008. In this regard, the Board is full of confidence.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, the Company made the following purchases of its own shares on the Stock Exchange:

Month of purchase in 2008	Number of shares purchased	Purchase consideration per share		Aggregate Consideration HK\$
		Highest HK\$	Lowest HK\$	
October	45,000	0.45	0.45	20,250
October	1,094,000	0.45	0.425	485,517
October	<u>483,000</u>	0.45	0.44	<u>216,722</u>
Total	<u>1,622,000</u>			<u>722,489</u>

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

CORPORATE GOVERNANCE

The Group is committed to maintain a high standard of corporate governance with a view to enhance the management efficiency of the Group as well as preserve the interests of the shareholders as a whole.

On 4 June 2008, Fujian Centron entered into an entrusted loan agreement (the "Entrusted Loan Agreement") with a lending agent in the PRC (the "lending agent"). Pursuant to the Entrusted Loan Agreement, Fujian Centron had, through the lending agent, provided a short-term entrusted loan of RMB75,000,000 to the borrower. As the applicable percentage ratios represented by the amount of the entrusted loan exceed 5% but are less than 25%, the provision of the entrusted loan pursuant to the Entrusted Loan Agreement constituted a discloseable transaction for the Company and would have been subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. An announcement for the Entrusted Loan Agreement was made on 24 April 2009. The Company admitted that it should have complied with such requirements under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange at the time when it entered into the Entrusted Loan Agreement. The delay was caused by the failure of the management of the Company to submit information relating to the Entrusted Loan Agreement to the Board for its consideration and approval at the material time. The Company has carried out more stringent measures in financial reporting and internal controls as the immediate remedial measures.

In the opinion of the Board, except for the Entrusted Loan Agreement mentioned above, the Group has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the “Code”) throughout the year 2008.

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 throughout the year 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 June 2009 to 26 June 2009, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the Annual General Meeting (“AGM”), all transfer of shares accompanied by the relevant share certificates and transfer forms, must be lodged with the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on 22 June 2009.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on 26 June 2009. A notice of the AGM will be published and despatched in the manner as required by the Listing Rules in due course.

REVIEW OF ACCOUNTS

The audit committee of the Company has reviewed the Group’s consolidated financial statements for the year ended 31 December 2008, including the accounting principals and practices adopted by the group.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the website of the Stock Exchange and the Company (www.centron.com.hk). The 2008 Annual Report of the Company will be dispatched to the shareholders of the Company as well as published on the website of the Stock Exchange and the Company in due course.

BOARD COMPOSITION

As at the date of this announcement, the Board comprises Mr. Dai Guoliang, Mr. Guo Zeli, Mr. Dai Guoyu and Mr. Yi Zhangtao as executive directors and Mr. Paul Steven Wolansky and Mr. Leung Ping-chung, Hermann as non-executive directors and Mr. Miu Hon-kit, Mr Lin Yuanfang and Mr. Li Hongbin as independent non-executive directors.

By Order of the Board
Dai Guoliang
Chairman

Hong Kong, 25 April 2009