

FINAL TRANSCRIPT

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GRRF - Q1 2010 CHINA GREENTECH CORP LTD Earnings Conference Call

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CORPORATE PARTICIPANTS

Qi Wang

China GrenTech Corporation Limited - VP & Head - Wireless Coverage Business

Rong Yu

China GrenTech Corporation Limited - CFO

CONFERENCE CALL PARTICIPANTS

Lisa Soh

Macquarie - Analyst

PRESENTATION

Operator

Welcome to China GrenTech 2010 First Quarter Conference Call. Statements made in the conference call regarding certain anticipated business prospects constitute forward-looking statements within the meaning of Section 27A of the Security Act of 1933, as amended, the Section 21E of the Security Exchange Act of 1934, as amended, and as defined in the Private Security Litigation Reform Act of 1995. These statements are based upon GrenTech's management's current expectations. And actual results can differ materially.

Information regarding factors that could cause actual results to vary can be found in the Company's filings with the Security and Exchange Commission at www.sec.gov. You should also review the forward-looking statements disclosed in the earning release issued today. The Company undertakes no obligation to update or revise forward-looking statements to reflect subsequent events or changed assumptions or circumstances.

Following management's opening comments, you will have the opportunity to ask questions. I would now like to turn the call over to the Company. Please go ahead.

Unidentified Company Representative

Thank you, operator. And thanks, everyone, for joining us on our first quarter 2010 results conference call. Joining me today are Ms. Rong Yu, Director and Chief Financial Officer, Mr. Qi Wang, Director and Vice President, Head of Wireless Coverage Business, and Mr. Qingchang Liu, Vice President, Head of RF Business.

As we proceed through our remarks, we will refer to our results presentation, which can be downloaded from our website at www.grentech.com.cn, in the investor section, under financials.

Slide four is a quick snapshot of our fundamental business focusing on wireless coverage products and services as well as base-station RF products. We have built a robust customer base over the years. The first quarter of 2010 meets our expectations.

I will now discuss some business and operational highlights. Specifically, slide six shows our top-line performance by quarter going back to 2008. For the first quarter of 2010, we achieved the upper end of our revenue guidance. This guidance was understandably tempered by our belief that revenue growth trajectory for 2010 would return to normal level after the period of industrial investment and that marked 2009. The Chinese telecommunications operators' investment returned to a moderate level. And base-station RF network construction normalized. As a result, the 2010 seasonality resembles 2008.

Slide seven shows that our wireless coverage products and services revenue was RMB114.7 million. Nevertheless, though moderated, demand by our key customers in this segment remained.



May. 19. 2010 / 12:00PM, GRRF - Q1 2010 CHINA GRENTECH CORP LTD Earnings Conference Call

First quarter 2010 revenue from China Unicom was RMB68.6 million, equivalent to 43.1% of our total revenues. First quarter 2010 revenue from China Mobile was RMB30.4 million, representing 19.1% of our total revenues. First quarter 2010 revenue from China Telecom was RMB14 million, equivalent to 8.8% of our total revenues.

Moving onto base-station RF business highlights on slide eight, for the first quarter of 2010, revenues from base-station RF products were RMB44.8 million -- wait, RMB44.6 million. The decrease in RF business versus the same period last year was primarily due to the normalization in base-station network construction in 2010 versus 2009, which resulted in the decline in the amount of base-station RF products.

Furthermore, TD Phase 4 has not commenced yet. In addition, an international electronic component supply shortage led to a decline in base-station production by OEMs, which also affected the demand for our base-station RF products.

I will now cover our financials. Please turn to page ten for our income statement. Total revenues for the first quarter of 2010 were RMB159.4 million. Gross profit for the first quarter of 2010 was RMB38.8 million. Gross margin for the first quarter of 2010 was 24.3% as compared with 25.6% in the first quarter of 2009. The decline in gross profit margin was mainly due to the decrease in production scale.

Operating loss for the first quarter of 2010 was RMB20.3 million. Net loss attributable to equity shareholders for the first quarter of 2010 was RMB22.9 million as compared to a net income of RMB6.3 million in the first quarter of 2009.

Turning to our balance sheet on slide 11, cash, cash equivalents, and pledged time deposits were RMB230.8 million as of March 31, 2010. Total accounts receivable as of March 31, 2010, was RMB1,308.2 million, a decrease of 2.7% versus December 31, 2009. Of this, the long-term accounts receivable balance as of March 31, 2009, was RMB420.7 million, a decline of 7% versus December 31, 2009.

Inventories as of March 31, 2010 increased versus December 31, 2009, by 17.4% to reach RMB905.5 million. Total assets of March 31, 2010, decreased versus December 31, 2009, by 4.9% to reach RMB3,174.2 million.

Now I will turn to our business outlook and guidance. Slide 17 addresses our outlook for our wireless coverage business and base-station RF business. For our wireless coverage business, first, we will see steady growth throughout the year as we expect that operators' capital expenditure for wireless coverage infrastructure will continue.

China Mobile, China Unicom, and China Telecom will launch the bidding processes in the second quarter of 2010. We anticipate more rigorous and demanding bidding requirements, particularly in the areas of R&D capabilities and production capacity, which will give GrenTech a competitive advantage over other bidders. We remain confident that our leading technological edge, strong engineering teams, and elastic production capacity will lead to success in the bidding process and greater market share in 2010.

Also, we see a number of new growth channels. We have dedicated resources to developing the industrial user market in 2010 with a particular focus on civil wireless network coverage in railway transport.

Third, we plan to leverage our advanced technical solutions, innovative product portfolio, and nationwide service support in our efforts to build our market share.

For base-station RF business, first, deployment of base station network construction will continue to drive demand for base-station products. And we expect TD Phase 4 construction to commence in the second half of 2010.

Second, the bottleneck in base-station RF products manufacturing in the first quarter resulting from the supply shortage of international manufacturers electronic components has been substantially alleviated since May 2010.

May. 19. 2010 / 12:00PM, GRRF - Q1 2010 CHINA GRENTech CORP LTD Earnings Conference Call

Slide 14 shows our guidance. We estimate that 2010 growth trajectory will moderate in comparison to 2009. This is because the completion of telecom industrial restructuring in late 2008 and the issuance of 3G licenses by the PRC government in early 2009 created an exceptional environment for 2009 that is driving extraordinary strong demand from all three telecom operators in China.

Nevertheless, for 2010, we expect growth to continue in our business, driven by continued demand. After the outsized investment of 2009, the pace of investment will moderate, and seasonal revenue patterns resembles 2008. As a result, we estimate the results for the second quarter 2010 will be between RMB350 million to RMB380 million.

To conclude, I would like to summarize our initiatives to enhance our business growth. Our plan consists of three strategic priorities. First, we will export emerging opportunities with industrial uses with a focus on civil railway wireless communications coverage in 2010. Second, we will continue to commit R&D resources to solidify our market leadership position and expand our innovative product portfolio. Third, the enforcements of our efforts to improve our payment collection will continue as we execute this strategy. We are confident that we will successfully enhance our current business growth trajectory.

That concludes our formal remarks. And we would now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Lisa Soh from Macquarie. Please proceed.

Lisa Soh - *Macquarie - Analyst*

Hi, guys. Thanks for taking my question. I've just got some questions regarding the bidding processes that the operators have started in the second quarter and your comment that you do anticipate more rigorous requirements around that. Can you talk a little bit about the weight that the operators are assigning to each category? And also, are you seeing any significant pricing pressure in this round versus 2009?

Unidentified Company Representative

Can I clarify with you about the first part of your questions? You're talking about the categories. Can you sort of repeat on that part of the question, please?

Lisa Soh - *Macquarie - Analyst*

Yes, sure. Just regarding categories that the operators evaluate you on, whether there's been any change in -- you can talk about the weights that the operators are placing on those categories for the second Q around?

Unidentified Company Representative

Okay. Thank you.

May. 19. 2010 / 12:00PM, GRRF - Q1 2010 CHINA GRENTech CORP LTD Earnings Conference Call

Qi Wang - China GrenTech Corporation Limited - VP & Head - Wireless Coverage Business

(spoken in foreign language)

Unidentified Company Representative

Mr. Wang, the head of our Wireless Coverage will respond to your questions. Firstly, the three operators have started the preparation in terms of the bidding process.

Qi Wang - China GrenTech Corporation Limited - VP & Head - Wireless Coverage Business

(interpreted) So far, the operators will increase the focus in terms of the overall capability of the suppliers as well as the technology.

In the evaluation process, they focus on the product development capabilities the, manufacturing, production, and supply. And they also base on the historical record in the previous two years.

Of course, the bidding process will bring pressure to the overall ASP. However, we see increasing trends that the operators focus more on the overall capability as well as the technology side of the vendors. So that will help to mitigate a bit of the pressure on the ASP. That will be all.

Rong Yu - China GrenTech Corporation Limited - CFO

(spoken in foreign language)

Unidentified Company Representative

Rong Yu is going to substantiate more on the answer.

Rong Yu - China GrenTech Corporation Limited - CFO

(interpreted) Okay. As reiterated by Mr. Wang, the bidding process now has a bit of a change focused more on the product development capabilities of the vendor. That will allow someone like GrenTech with strong overall capabilities to really maintain certain ASP.

In addition, the senior management has also taken various initiatives to protect and maintain the margins in five areas.

Firstly, we will transfer the pressure on the pricing to the vendors, to our suppliers;

Optimize the product development process to increase efficiency and reduce cost.

Thirdly is also to improve our revenue mix and focus more on developing the integration services.

Fourthly, we will develop new solution services for our wireless coverage network, including new product developments to enhance or maintain our margins.

And number five is to increase the proportion of integration services as contributed to our overall revenue. Thank you.



May. 19. 2010 / 12:00PM, GRRF - Q1 2010 CHINA GRENTech CORP LTD Earnings Conference Call

Operator

(Operator Instructions). At this time, I'm showing we have no further questions. I'd like to hand the call back over to management for closing remarks.

Unidentified Company Representative

Thank you once again for joining us today. We look forward to updating you on the progress. Good day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference call. You may now disconnect. Have a wonderful day.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.

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