

FINAL TRANSCRIPT

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GRRF - Q4 2008 CHINA GRENTech CORP LTD Earnings Conference Call

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CORPORATE PARTICIPANTS

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Adele Mao

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PRESENTATION

Operator

Welcome to China Grentech's 2008 Fourth Quarter and Full Year Results 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 Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the Private Securities Litigation Reform Act of 1995.

These statements are based upon Grentech management's current expectations, and actual results could differ materially. Information regarding factors that could cause actual results to vary can be found in the Company's filings with the Securities and Exchange Commission at www.sec.gov. 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 Fourth Quarter and Full Year Results 2008 Conference Call. We have the whole management team present in the call today, which include Yingjie Gao, Chairman and Chief Executive Officer; Rong Yu, Chief Financial Officer; Liping Mao, Director and Vice President of Wireless Coverage; Qi Wang, Vice President of RF business; and Qingchang Liu, Vice President of Corporate Finance. 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.

After an overview of our strategy on slide four, the slides pertaining to the progress on our business initiatives and fourth quarter and full year 2008 performance start on slide five. Let us begin with the progress of our business initiatives on slide five. As

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announced last quarter, we committed to a set of strategic and operational initiatives to strengthen our cash flow position and work toward achieving long-term profitability. The results so far are encouraging.

In 2008, management made a strategic decision to address short-term challenges while focusing on driving long-term growth. First, we made improving cash flow position a priority. While we benefited from the new payment terms under the centralized bidding process for wireless equipment procurement, which shortened settlement terms significantly, we also implemented measures of our own. We increased the scrutiny of our order selection process, while offering discounts to certain customers in order to accelerate the collection of aged accounts receivable, and we had made a provision of RMB24.4 million for the settlement of discounts as of December 31, 2008.

Although these initiatives may slow our revenue and profit growth in the short term, they helped us to increase 2008 payment collections by RMB276 million, or 34.9%, year-over-year, and at the same time reduced our accounts receivable by RMB35.9 million in 2008 and improved our cash flow position. We believe these are important steps toward driving future growth in the long term.

On slide six, we have taken a number of steps to enhance our operating efficiency. We have divested two subsidiaries in Quanzhou to increase short-term liquidity and streamline manufacturing process. We wrote off RMB43.6 million of bad debts incurred from wireless equipment sales to non-operator customers. We also made a one-time provision of RMB42 million for inventory that has become obsolete due to rapid advancement in wireless coverage technology and the rollout of large-scale 3G network construction. This write-off is necessary to align our inventory stock with market demands.

Finally, we reduced administration expenses by reducing our senior management team from eight to five positions and streamlining middle management. We believe these measures will effectively sharpen our competitive edge and enhance our ability to capitalize on the growing network construction opportunities.

Now let's go through our wireless coverage business highlights on slide seven. In the fourth quarter, network constructions resumed to normal after the completion of Beijing Olympic Games and the conclusion of the telecommunication restructuring encouraged operators to initiate additional investments in order to improve network coverage under the new competitive landscape. In addition to capturing the tremendous opportunities presented to us by the favorable market conditions, we are also focused on improving our cash flow position and customer mix.

To improve our cash flow position, as I mentioned earlier, our order screening process is now more stringent, in order to build a high-quality customer base. We face persistent equipment sales pricing pressure under the centralized bidding process for wireless coverage procurement, which impacted the gross profit margin. In facing this challenge, we will continue to evolve our revenue mix to increase the contribution from the higher-margin integration and maintenance services to offset the impact of declining equipment margins.

This slide also shows the wireless coverage revenue breakdown by customer, which demonstrates good progress in improving our customer mix. Revenue from China Mobile accounted for more than 39% of the total revenue in 2008, once again making it our number one revenue contributor.

Moving to our base station RF business highlights on slide eight, as the telecommunication operators accelerated network expansion, demand for domestic base station equipment increased. We strengthened our RF business development and made breakthroughs in key customer accounts. Revenue from the RF business in the fourth quarter 2008 tripled over the 2007 level, mainly due to increased sales to the largest domestic base station manufacturers.

We have also commenced bulk supply for one of the leading global base station manufacturers and provided trial supply for another.

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Now let's go through the financials, beginning on slide nine with our income statement. Revenue for the fourth quarter of 2008 increased by 9% to RMB514.4 million, while revenue for the fiscal year 2008 was RMB984.7 million.

Gross profit for the fourth quarter of 2008 decreased 47.6% to RMB86.4 million. The gross profit margin was 16.8% in the fourth quarter. The decrease in margin was due to the inventory provision, the declining wireless coverage equipment average selling price and the increased revenue contribution from base station RF products.

Gross profit for fiscal year 2008 amounted to RMB233.3 million. Gross profit margin was 23.7%. Excluding the inventory provision, the gross profit margin in 2008 would have been 28%.

The fourth quarter 2008 operating loss was RMB63.9 million and the operating loss for the fiscal year 2008 was RMB102.5 million.

Net loss for the fourth quarter of 2008 was RMB51.8 million and the net loss for fiscal year 2008 was RMB118.8 million.

Now looking at our balance sheet on slide 10, cash, cash equivalents and pledged time deposits as of December 31st, 2008, totaled RMB415.7 million. The accounts receivable as of December 31, 2008, reduced to RMB1.279 billion as a result of the Company's efforts to sourcing high-quality orders and initiatives to improving collections of aged accounts receivable.

Inventory as of December 31, 2008, was RMB520.6 million.

Moving to the industry outlook on slide 11, after the issuance of 3G licenses in the beginning of 2009, the three telecommunication operators in China have commenced large-scale 3G network constructions. China Mobile plans to complete construction of the TD-SCDMA Phase II network in 28 cities by June of 2009 and the China Unicom plans to commercialize its WCDMA Phase I network in the second quarter of 2009. China Telecom also plans to directly upgrade CDMA1X to CDMA2000 and expects to commercialize its 3G network in May of 2009.

Based on the foregoing, we believed continued and increasing 3G network investments by China's leading telecommunications operators will present us with additional growth opportunities in both the wireless coverage and base station RF businesses in China. As the 2G network remains a key income source for operators in the near term, we believe the three operators will continue to improve network quality, investing in 2G to remain competitive under the new landscape created by the restructuring.

Outlook for our wireless coverage business is listed on slide 12. In 2009, we plan to vigorously develop 3G network coverage products in order to increase our 3G market share, while maintaining market share in the traditional 2G markets. At the same time, we will continue to evolve our revenue mix to increase contribution from integration and maintenance services to offset the impacts of declining equipment prices and therefore drive further growth and profitability in 2009 and beyond.

Now let's take a look at the outlook on our RF business, as listed on slide 13. We anticipate the base station demand to remain strong, as our two key customers, the leading base station manufacturers in China, have picked up substantial market share for base station products during the WCDMA and CDMA network constructions. We expect to benefit from their rapid business growth. At the same time, we're confident that we can achieve greater market share with our industry-leading technological capability.

With respect to the development of international customers, we commenced bulk supply for one of the leading global base station manufacturers and began trial supply for another. We expect revenues on overseas customers will increase considerably over the medium-term. Finally, I will turn to our guidance for the first quarter of 2009 on slide 14.

Considering the accelerated demand driven by telecommunication operators' investment growth, we estimate the revenue for the first quarter of 2009 will range between RMB280 million and RMB310 million, and with that we will be happy to take your questions.

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QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Your first question is from the line of Adele Mao, with Susquehanna International. Please proceed.

Adele Mao - Susquehanna International - Analyst

It's Adele Mao from Susquehanna. Several questions. First of all, could you just discuss your trends into 2009? It looks like excluding inventory write-offs in the fourth quarter, the gross margin is somewhere in the mid 20s. Where do you see your gross margin for the first quarter and what is your target for the full year?

Unidentified Company Representative

Adele, your line breaks up a little bit. I will make sure I get your question right. Your question basically is on the gross profit margin for Q1, what is the estimate and for the full year 2009, is it?

Adele Mao - Susquehanna International - Analyst

Assuming there is no further inventory write-offs.

Unidentified Company Representative

All right, thank you. (spoken in Chinese).

Rong Yu - China Grentech - Director, CFO

(spoken in Chinese)

Unidentified Company Representative

Ms. Yu answered your question. She said she would not foresee this kind of inventory write-offs in the future, in the near quarters, and for the Q1 '09 gross profit margin, it will be pretty much in line with the Q4 '08. However, considering the percentage of RF revenue has increased, so the overall gross profit margin in Q1 will be around 25%. However, this does not mean the Company's profitability has decreased, because the gross profit margin for each product line basically remains at the same level. The difference is only due to the different revenue mix as RF business picked up in the Q1 '09, so the overall gross profit margin in the first quarter will be a little bit down.

Rong Yu - China Grentech - Director, CFO

(interpreted) In terms of full year gross profit margin, we're not going to provide a specific number. However, at the end of Q1 '09, we will provide the outlook for Q2 '09.

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Adele Mao - *Susquehanna International - Analyst*

Okay, given that, understandable that you are not able to provide the full year guidance on the margin, but could you just comment on the pricing trends, especially in wireless coverage, do you foresee more pricing pressure from this area as we head into the second half?

Rong Yu - *China Greentech - Director, CFO*

(interpreted) The pricing pressure will exist, but limited. Our strategy is to increase the percentage of integration and services revenue to offset the potential decline in the equipment margins. At the same time, we will control our cost of revenue by increasing our scale, we will see the benefit in the procurement of our production material and the other one is as we improve our solutions, our equipment costs will also decrease.

Adele Mao - *Susquehanna International - Analyst*

Okay, that's very helpful. Wondering if you can also discuss the seasonality for 2009 revenue and given that first quarter guidance seems to be a lot stronger than expected, and if you can comment on the visibility through to 2009, how do you see the full year trending, going forward?

Unidentified Company Representative

(spoken in Chinese)

Qingchang Liu - *China Greentech - VP*

(spoken in Chinese)

Unidentified Company Representative

Mr. Liu answered your question. He said seasonality this year is much different than the previous years.

Qingchang Liu - *China Greentech - VP*

(interpreted) The primary reason is the large-scale 3G network construction has commenced in the first quarter and so that our base station RF business has peaked in Q1. Also, for the wireless coverage business in Q1, it's pretty strong as well, and we estimate to continue to see the strong demand into second quarter.

So overall the increased growth in the first half is definitely much bigger and faster compared to last year. As for the second half of 2009, we still see lack of visibility in the operators' investment patterns. We will be clearer and know more later on.

Adele Mao - *Susquehanna International - Analyst*

Great, that's helpful. My last question is if you could go through sort of your operating expense target, your target as a percentage of revenue for 2009 and whether you expect your 2009 to be breakeven. Thank you.

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Unidentified Company Representative

(spoken in Chinese)

Unidentified Company Representative

(interpreted) The management will try to control the operating expenses through various channels. We're sure that in 2009, the R&D, sales and marketing and G&A expenses will all have improvements.

And also to remind everyone that in 2009 we do not anticipate any extraordinary items -- any a large number of extraordinary items. As for 2009, bottom line, we'll see a significant improvement compared to 2008 and we definitely see the possibility of breakeven.

Adele Mao - Susquehanna International - Analyst

Okay, great, thank you.

Operator

(Operator Instructions). Your next question comes from [Luke Zheng]. Please proceed.

Luke Zheng -- Analyst

(spoken in Chinese)

Unidentified Company Representative

Sure, go ahead.

Luke Zheng -- Analyst

Okay, thank you. Okay, thank you. (spoken in Chinese)

Qi Wang - China Grentech - VP

(spoken in Chinese)

Unidentified Company Representative

Let me translate the last question to English first for the English listeners. The question basically is asking why some of Grentech's competitors' gross profit margins are higher than the Company's, and can the management explain that?

Mr. Qi Wang just explained in terms of base station RF business, one of the key reasons is due to scale. Compared to our competitors, our scale is still much smaller. As we increase our scale, there is big room for gross profit margin improvement. Next, I will ask Mr. Mao to address in terms of wireless coverage business. (spoken in Chinese)

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Liping Mao - China Grentech - Director, VP

(interpreted) There are differences between different players in terms of gross profit margin in wireless coverage, but the difference is not big. Part of the reason is due to our stringent selection process of quality orders and also our different revenue mix. As we continue to improve our revenue mix between the equipment sales and integration maintenance services, we will see room for improvement in the gross profit margin in 2009.

Rong Yu - China Grentech - Director, CFO

(spoken in Chinese)

Unidentified Company Representative

Ms. Yu just added to the comment. She said, in terms of wireless coverage, actually, our gross profit margin is pretty much in line with the rest of competitors. The minor difference, maybe it's because they have included other products in wireless coverage revenue.

Operator

At this time, there are no other questions in the queue. I'd like to turn the call over to Mr. Gao for closing remarks.

Yingjie Gao - China Grentech - Chairman, President, CEO

(interpreted) There's one point I must emphasize. While we're delighted to see robust growth in the recent years, in the course of growth and development, we encountered challenges in accounts receivable. This challenge is mainly the result of our relatively late entry into the market, which gave us a different customer mix. In 2008, we have adjusted our business strategy and made improving cash flow position a priority, where achievement has resulted as shown in our financial statement.

In 2009, we will continue such focus to put cash flow improvement as a top priority over the strategy for revenue and profit growth. In addition, this year we have to take the opportunities from construction of the 3G network reaching the peak to adjust and optimize our order mix to select the high-quality orders in order to solve our fundamental issues in relation to accounts receivable.

As mentioned before, we will also offer discounts to customers in order to speed up the process of receivables collection. This year, our target is to achieve revenue growth while we commit to limiting the accounts receivable increase to be small and continue our effort to improve our cash flow.

In view of balancing our short-term and long-term growth, we are determined to execute this initiative, which we believe they can enhance our fundamental competence and positively contribute to our sustainable growth in the future. Thank you.

Unidentified Company Representative

Thank you again for joining us today. We look forward to updating you on our progress.

Operator

Thank you all for your participation in today's conference call. This now concludes the presentation, and you may all disconnect. Have a great day.

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