中國全通（控股）有限公司

# CHINA ALL ACCESS (HOLDINGS) LIMITED

*(incorporated in the Cayman Islands with limited liability)*

Stock Code : 633

2009 Interim Report

# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Chan Yuen Ming
Mr. Shao Kwok Keung
Mr. Gao Hou Ming

### Independent Non-Executive Directors

Mr. Pun Yan Chak
Mr. Wong Che Man Eddy *(FCPA)*
Mr. Lam Kin Hung Patrick

## COMPANY SECRETARY

Ms. Ho Hau Yin *(HKICPA, FCCA)*

## AUTHORISED REPRESENTATIVES

Mr. Chan Yuen Ming
Mr. Shao Kwok Keung

## AUDIT COMMITTEE

Mr. Wong Che Man Eddy *(Chairman)* *(FCPA)*
Mr. Pun Yan Chak
Mr. Lam Kin Hung Patrick

## REMUNERATION COMMITTEE

Mr. Pun Yan Chak *(Chairman)*
Mr. Wong Che Man Eddy *(FCPA)*
Mr. Shao Kwok Keung

## NOMINATION COMMITTEE

Mr. Lam Kin Hung Patrick *(Chairman)*
Mr. Wong Che Man Eddy *(FCPA)*
Mr. Shao Kwok Keung

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 406, 4/F
Empire Centre
68 Mody Road
Kowloon
Hong Kong

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## AUDITORS

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

**COMPLIANCE ADVISER**

Guotai Junan Capital Limited
27/F, Low Block
Grand Millenium Plaza
181 Queen's Road Central
Hong Kong

**LEGAL ADVISERS**

Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Central
Hong Kong

**PRINCIPAL BANKERS**

Bank of China (Hong Kong) Limited
9/F, Bank of China Tower
1 Garden Road
Hong Kong

**SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG**

Union Registrars Limited
Rooms 1901-02
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

**SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS**

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

**COMPANY WEBSITE**

www.chinaallaccess.com

The shares of China All Access (Holdings) Limited (the "Company") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 September 2009.

The board (the "Board") of directors (the "Directors") of the Company is pleased to announce the audited combined results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2009 together with the comparative figures for the corresponding period in 2008.

## FINANCIAL HIGHLIGHTS

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2009** | 2008 | Change |
| | ***RMB'000*** | *RMB'000* | % |
| | ***(audited)*** | *(unaudited)* | |
| Revenue | **81,841** | 9,803 | 735 |
| Gross profit | **31,642** | 4,817 | 557 |
| Profit from operations | **28,524** | 2,449 | 1,065 |
| Profit for the period | **21,273** | 783 | 2,617 |
| Earnings per share – Basic (RMB cents) | **2.80** | 0.1 | 2,700 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The first half of each year is usually the low season in terms of sales for the Group. Nevertheless, the demand for our information communication application solutions and services continued to grow significantly as compared with the same period last year. As a result, more projects were sold, more terminals were delivered, more services were provided and more customers were developed.

The Group's business of satellite communication application solutions and services represented approximately 59% of the total turnover of the Group for the period under review. It contributed the largest share of our business and its growth was mainly driven by the increasing penetration of our emergency satellite communication solutions in the market of city emergency communication in the PRC.

Meanwhile, the Group's business of wireless data communication application solutions and services continued to be our second largest business, representing approximately 39% of the total turnover of the Group for the period under review. The wireless data terminals deployed in our wireless data communication application solutions were sold into the markets of public safety and city integrated management progressively in the PRC. These kinds of applications enhanced the operational efficiency of our customers.

## FINANCIAL REVIEW

Our revenue increased from approximately RMB9.80 million for the six months ended 30 June 2008 to approximately RMB81.84 million for the six months ended 30 June 2009 which represented an increase of approximately 7.4 times.

For the six months ended 30 June 2009, the profit for the period was approximately RMB21.27 million, representing an increase of approximately 26 times as compared to the profit of approximately RMB0.78 million for the six months ended 30 June 2008. It exceeded the profit estimate of RMB18.00 million as stated in the prospectus of the Company dated 4 September 2009 (the "Prospectus") by approximately RMB3.27 million.

**FINANCIAL REVIEW** ***(Continued)***

The increase in our revenue during the period under review as compared with the corresponding period last year was mainly attributable to the following factors:

- Provision of our satellite communication application solutions and services exhibited an increase in revenue from approximately RMB1.05 million for the six months ended 30 June 2008 to approximately RMB48.15 million for the six months ended 30 June 2009 which represented a growth of approximately 45 times. The increase was mainly driven by the sale of 8 projects to 6 customers in the first half of 2009 whilst we only received application service income in the first half of 2008.

- Provision of our wireless data communication application solutions and services exhibited an increase in revenue from approximately RMB6.75 million for the six months ended 30 June 2008 to approximately RMB31.61 million for the six months ended 30 June 2009 which represented a growth of approximately 3.7 times. The increase was mainly driven by the installation of more wireless data terminals for projects done during the period due to greater demand from customers and the provision of more wireless communication application services to our customers.

- Provision of our call centre application solutions and services exhibited an increase in revenue from approximately RMB2.00 million for the six months ended 30 June 2008 to approximately RMB2.09 million for the six months ended 30 June 2009 which represented a 4% growth. The increase was in line with our understanding of our customers' practice of outsourcing more call centre activities to call centre providers.

**FINANCIAL REVIEW** ***(Continued)***

Gross profit increased from approximately RMB4.82 million for the six months ended 30 June 2008 to approximately RMB31.64 million for the six months ended 30 June 2009 which represented a growth of approximately 5.6 times. On the other hand, the gross profit margin dropped from approximately 49% for the six months ended 30 June 2008 to approximately 39% for the six months ended 30 June 2009. The changes were mainly due to the following factors:

- Provision of our satellite communication application solutions and services generated gross profit of approximately RMB0.40 million and RMB20.75 million for the six months ended 30 June 2008 and 30 June 2009 respectively, representing a growth of approximately 51 times. The gross profit margins for the six months ended 30 June 2008 and 30 June 2009 were approximately 38% and 43% respectively. The increase in gross profit margin was mainly because more dynamic satellite communication solutions, which incorporate application of the advanced technology which are generally more profitable in nature, were sold as compared with the same period last year.

- Provision of our wireless data communication application solutions and services generated gross profit of approximately RMB3.80 million and RMB14.33 million for the six months ended 30 June 2008 and 30 June 2009 respectively, representing a growth of approximately 2.8 times. The gross profit margins for the six months ended 30 June 2008 and 30 June 2009 were approximately 56% and 45% respectively. The drop in gross profit margin was mainly because of the higher proportion of sales contributed by application solutions for the six months ended 30 June 2009 as compared with the same period last year which diluted the higher gross profit margin contributed by the application services as our appication services in general involved lower costs since the cost of application services was mainly comprised of staff cost and overheads, without any major cost of materials.

- Provision of our call centre application solutions and services generated gross profit of approximately RMB1.28 million and RMB1.42 million for the six months ended 30 June 2008 and 30 June 2009 respectively, representing a growth of approximately 11%. The gross profit margins for the six months ended 30 June 2008 and 30 June 2009 were approximately 64% and 68% respectively. This was in line with the normal gross profit margin level for the business of call certre application solutions and services in the PRC.

## FINANCIAL REVIEW *(Continued)*

Profits of the Group for the six months ended 30 June 2008 and 30 June 2009 were approximately RMB0.78 million and RMB21.27 million respectively, representing an increase of approximately 26 times. The increase was mainly due to the 7.4 times growth in our revenue. The net profit margins for the six months ended 30 June 2008 and 30 June 2009 were approximately 8% and 26% respectively. The increase was because the increase in revenue over-compensated the decrease in gross profit margin and the increase in administrative and distribution expense and finance costs.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity, financial resources and capital structure

As at 30 June 2009, the Group had cash and cash equivalents of approximately RMB170.69 million (as at 31 December 2008: RMB174.71 million) and interest-bearing borrowings of approximately RMB114.90 million (as at 31 December 2008: RMB158 million) respectively.

As at 30 June 2009, the gearing ratio (calculated by dividing total interest-bearing borrowings by total assets) of the Group was approximately 32% (as at 31 December 2008: approximately 45%), due to the repayment of all bank loans by the Group during the period under review. As at 30 June 2009, the Group had current assets of approximately RMB280.47 million (as at 31 December 2008: approximately RMB275.16 million) and current liabilities of approximately RMB193.45 million (as at 31 December 2008: approximately RMB202.13 million). The current ratio (which is calculated by dividing current assets by current liabilities) was 1.45 as at 30 June 2009, which showed an increase compared with the current ratio of 1.36 as at 31 December 2008. Such increase was due to the repayment of all current portion of bank loans.

The Board's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

## LIQUIDITY AND CAPITAL RESOURCES *(Continued)*

### Foreign exchange exposure

The Group's sales were denominated in RMB, the same functional currency of the Group. Therefore the Group is not exposed to significant foreign currency exchange risks and the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group does not employ any financial instruments for hedging purposes.

### Capital expenditure

During the period under review, the Group's total capital expenditure amounted to approximately RMB0.32 million, which was used in the acquisition of property, plant and equipment.

### Charge on assets

As at 30 June 2009, the Group had no charge on any assets.

### Contingent liabilities

As at 30 June 2009, the Group had no material contingent liabilities.

## HUMAN RESOURCES

As at 30 June 2009, the Group employed approximately 111 employees (as at 30 June 2008: approximately 67 employees). The Group offered to its employees competitive salary package, as well as contribution to defined contribution retirement plan. A share option scheme has also been adopted for employees of the Group and other eligible participants, the details of which are set out in the paragraph headed "Share Option Scheme" below.

## PROSPECTS

With the completion of its initial public offering of shares of the Company on the Stock Exchange on 16 September 2009, together with the allotment and issue of additional shares of the Company pursuant to the exercise of the Over-Allotment Option (as defined in the Prospectus) on 22 September 2009, and the receipt of proceeds, net of listing expenses, of approximately HK$403 million (unaudited), the Company has the resources to expand its business scale and to bring value to our shareholders. In accordance with the section headed "Future Plans and Use of Proceeds" in the Prospectus, we currently intend to apply those proceeds in the following ways:

- approximately 60% will be used for two new projects as follows:

  (i) approximately 47% will be used for development of a new satellite communication application solution. Amongst which, approximately 36% will be used to acquire new terminals for this new satellite communication application solution and approximately 11% will be used for research and development; and

  (ii) approximately 13% will be used in a project to upgrade and promote our traffic offence electronic ticketing and payment solution.

- approximately 15% will be used for increasing the number of satellite communication application solutions and wireless data communication application solutions demo products;

- approximately 10% will be used for upgrading office facilities and setting up office facilities in new offices in the course of expanding our sales and distribution network;

- approximately 5% will be used for recruiting sales and marketing and technical staff and providing training to our existing staff; and

- approximately 10% will be used for our general working capital.

In addition to serving existing customers, the Company will continue to add new customers through the existing market channels and expand into new markets for its application solutions and services in the PRC.

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

The Company was listed on the Stock Exchange on 16 September 2009. No disclosure of interests or short positions of any Directors and/or chief executives of the Company in any shares (the "Shares"), underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) were required to be made to the Company under the provisions of Divisions 7 and 8 of Part XV of the SFO as of 30 June 2009.

As at the date of this report, the interests and short positions of the Directors and/or chief executives of the Company in any Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") are as follows:

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

| Name of Director | Capacity/ Nature of interest | Number and class of securities held *(Note 1)* | Approximate percentage of shareholding |
|---|---|---|---|
| Mr. Chan Yuen Ming ("Mr. Chan") | Interest of a controlled corporation *(Note 2)* | 435,300,000 ordinary Shares (L) | 41.96% |

*Notes:*

1. The letter "L" denotes a long position in the Shares or shares of the relevant Group member.

2. These Shares are registered in the name of Creative Sector Limited ("Creative Sector"), the entire issued share capital of which is owned by Mr. Chan. Mr. Chan is deemed to be interested in all the Shares in which Creative Sector is interested by virtue of the SFO.

Save as disclosed above, as at the date of this report, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The Company was listed on the Stock Exchange on 16 September 2009. No disclosure of interests or short positions in any Shares or underlying Shares of the Company were required to be made to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as of 30 June 2009.

As at the date of this report, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company), who have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, are as follows:

| Name of Shareholder | Company/ Name of Group member | Capacity/ Nature of interest | Number and class of securities held *(Note 1)* | Approximate percentage of shareholding |
|---|---|---|---|---|
| Creative Sector | Our Company | Beneficial owner | 435,300,000 ordinary Shares (L) | 41.96% |
| Atlantis Investment Management Limited ("Atlantis") | Our Company | Beneficial owner | 120,425,000 ordinary Shares (L) | 11.61% |
| Chengwei CAA Holdings Limited ("Chengwei") | Our Company | Beneficial owner | 106,200,000 ordinary Shares (L) | 10.24% |

**INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)***

| Name of Shareholder | Company/ Name of Group member | Capacity/ Nature of interest | Number and class of securities held *(Note 1)* | Approximate percentage of shareholding |
|---|---|---|---|---|
| Chengwei Ventures Evergreen Fund, L.P. | Our Company | Interest of a controlled corporation *(Note 2)* | 106,200,000 ordinary Shares (L) | 10.24% |
| Chengwei Ventures Evergreen Management, LLC | Our Company | Interest of a controlled corporation *(Note 3)* | 106,200,000 ordinary Shares (L) | 10.24% |
| EXL Holdings LLC | Our Company | Interest of a controlled corporation *(Note 4)* | 106,200,000 ordinary Shares (L) | 10.24% |
| Mr. Li Eric Xun | Our Company | Interest of a controlled corporation *(Note 4)* | 106,200,000 ordinary Shares (L) | 10.24% |
| Ms. Li Yijing Zhu | Our Company | Interest of spouse *(Note 5)* | 106,200,000 ordinary Shares (L) | 10.24% |

**INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)***

| Name of Shareholder | Company/ Name of Group member | Capacity/ Nature of interest | Number and class of securities held *(Note 1)* | Approximate percentage of shareholding |
|---|---|---|---|---|
| Profit Concept International Limited ("Profit Concept") | Our Company | Beneficial owner | 52,500,000 Shares (L) | 5.06% |
| Ms. Wang Yan Yun | Our Company | Interest of a controlled corporation *(Note 6)* | 52,500,000 Shares (L) | 5.06% |
| Even Grow Investments Limtied ("Even Grow") | Our Company | Beneficial owner | 52,500,000 Shares (L) | 5.06% |
| Ms. Tam Siu Fun, Yeko | Our Company | Interest of a controlled corporation *(Note 7)* | 52,500,000 Shares (L) | 5.06% |

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

*Notes:*

(1) The letter "L" denotes a person's long position in our Shares or shares of the relevant Group member.

(2) Chengwei Ventures Evergreen Fund, L.P. holds approximately 89.28% of the issued share capital in Chengwei and therefore Chengwei Ventures Evergreen Fund, L.P. is deemed to be interested in all the Shares in which Chengwei is interested by virtue of the SFO.

(3) Chengwei Ventures Evergreen Fund, L.P. is an investment fund managed by Chengwei Ventures Evergreen Management, LLC and therefore Chengwei Ventures Evergreen Management, LLC is deemed to be interested in all the Shares in which Chengwei Ventures Evergreen Fund, L.P. is interested by virtue of the SFO.

(4) Chengwei Ventures Evergreen Management, LLC is owned as to 37% by EXL Holdings LLC, which is in turn owned as to 50% by Mr. Li Eric Xun. Therefore EXL Holdings LLC is deemed to be interested in all the Shares in which Chengwei Ventures Evergreen Management, LLC is interested by virtue of the SFO, and Mr. Li Eric Xun is deemed to be interested in all the Shares in which EXL Holdings LLC is interested by virtue of the SFO.

(5) Ms. Li Yijing Zhu is the wife of Mr. Li Eric Xun, and therefore Ms. Li Yijing Zhu is deemed to be interested in all the Shares in which Mr. Li Eric Xun is interested by virtue of the SFO.

(6) Profit Concept is wholly owned by Ms. Wang Yan Yun. Ms. Wang Yan Yun is deemed to be interested in all the Shares in which Profit Concept is interested by virtue of the SFO.

(7) Even Grow is wholly owned by Ms. Tam Siu Fun, Yeko. Ms. Tam Siu Fun, Yeko is deemed to be interested in all the Shares in which Even Grow is interested by virtue of the SFO.

Save as disclosed herein, as at the date of this report, our Directors are not aware of any person (who is not a Director or chief executive of our Company) who has an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Pursuant to a reorganisation (the "Reorganisation") to rationalise the group structure in preparation for the listing of the Company's Shares on the Main Board of the Stock Exchange (the "Listing"), the Company became the holding company of the subsidiaries of the Group on 28 August 2009. The details of the Reorganisation have been set out in the Prospectus.

Save as disclosed above, during the period under review, there was no other material acquisition or disposal of subsidiaries or associated companies by the Company.

## SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the shareholders of the Company on 28 August 2009. Since the Share Option Scheme has only become effective upon the Listing, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the period under review and there were no outstanding share options under the Share Option Scheme as at 30 June 2009.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

Since the Company was only listed on the Stock Exchange on 16 September 2009, the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Corporate Governance Code") was not applicable to the Company for the period under review.

However, none of the Directors is aware of any information that would reasonably indicate that the Company or any of its Directors is not or was not, for any part of the period between the date of the Listing and the date of this report, in due compliance with the code provisions of the Corporate Governance Code.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry on all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by the Directors adopted by the Company since the Listing.

## REVIEW BY THE AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters in relation to the audited interim financial statements and the interim report of the Group for the six months ended 30 June 2009.

## GENERAL INFORMATION

The Group's combined interim financial statements for the six months ended 30 June 2009 have been audited by the Company's auditors, KPMG, in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The comparatives of the combined income statement, the combined statement of comprehensive income in respect of the six months ended 30 June 2008 and the related notes disclosed in the combined interim financial statements were derived from the Group's management accounts. The comparative amounts have not been audited.

## DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Pursuant to Rules 13.13 to 13.19 of the Listing Rules, a general disclosure obligation arises where the relevant advance to an entity, financial assistance or guarantees to affiliated companies of the Group exceeds 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

As disclosed in the section headed "Our relationship with SkyComm Group and our Controlling Shareholders — Relationship with SkyComm Group — Long Term Co-operation Agreement" in the Prospectus, the Group and Sky Communication Group Co., Ltd. ("SkyComm") entered into the Long Term Co-operation Agreement on 28 February 2008 (as supplemented by a supplemental agreement dated 14 April 2009) to reinforce and regulate our business relationship and collaboration with SkyComm and its subsidiaries (collectively as the "SkyComm Group") whereby SkyComm Group will, for a period of five years until December 2012, refer all the business opportunities relating to the provisions of integrated wireless and satellite communication application solutions (including but not limited to the research and development of communication solutions and related software, development of the related technical solutions, installation, testing, maintenance, consultation and technical support services for communication equipment) to the Group by either procuring such end customers to appoint or contract with the Group directly for the provisions of the services, or entering into contracts for provision of such services with end customers as agent on behalf of the Group for provision of such relevant services by the Group. Pursuant to the Long Term Co-operation Agreement, the Group is required, and has provided a lump sum of RMB30 million to SkyComm as performance guarantee deposit for contracts entered into by SkyComm Group as agent for the Group. The amount of the performance guarantee deposit is subject to annual adjustment in the manner specified therein, and a sum equal to 10% of the contract fee of each of such contracts shall be refundable upon completion of, and the expiry of the warranty period under, such contract. Any balance of the performance guarantee deposit will be refunded to the Group upon expiry of the Long Term Co-operation Agreement. As at the date of this announcement, the amount of performance guarantee deposit retained by SkyComm pursuant to the Long Term Co-operation Agreement had not been adjusted nor utilised to secure performance of the relevant contracts. Based on the combined balance sheet of the Group as at 30 June 2009, the performance guarantee deposit, which is regarded as advance to an entity under Rule 13.13 of the Listing Rules, represented more than 8% of the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

**DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES *(Continued)***

Save as disclosed above, our Directors have confirmed that, as at the date of this announcement, there are no other circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## INTERIM DIVIDEND

The Directors do not propose the payment of an interim dividend for the six months ended 30 June 2009 (as at 30 June 2008: nil).

By Order of the Board
**China All Access (Holdings) Limited**
**Ho Hau Yin**
*Company Secretary*

Hong Kong
28 September 2009

**Independent auditor's report to the board of directors of**
**China All Access (Holdings) Limited**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the combined interim financial statements of China All Access (Holdings) Limited (the "Company") and the subsidiaries now comprising the group as set out in note 1 to the combined interim financial statements (hereinafter collectively referred to as the "Group") set out on pages 22 to 114, which comprise the combined balance sheet as at 30 June 2009, and the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The combined interim financial statements have been prepared in accordance with the "Basis of presentation" set out in note 2 and the accounting policies set out in note 3 to the combined interim financial statements.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these interim financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Companies Ordinance (Cap.32 of the Laws of Hong Kong). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these interim financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the combined interim financial statements have been properly prepared in accordance with the "Basis of presentation" set out in note 2 and the accounting policies set out in note 3 to the combined interim financial statements and, on that basis, give a true and fair view of the state of affairs of the Group as at 30 June 2009 and of the Group's profit and cash flows for the six months then ended as if the Group's reorganisation had been affected on 1 January 2008 and the Group structure had been in existence throughout the periods presented.

## EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2 to the combined interim financial statements which states that the comparatives of the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow statement in respect of the six months ended 30 June 2008 and the related notes disclosed in the combined financial statements were derived from the Group's management accounts. Those comparative amounts have not been audited and we therefore do not express an audit opinion on them.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 September 2009

## COMBINED INCOME STATEMENT

*for the six months ended 30 June 2009*
*(Expressed in Renminbi)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | *Note* | **2009** | 2008 |
| | | ***RMB'000*** | *RMB'000* |
| | | | *(unaudited)* |
| **Revenue** | 4 | **81,841** | 9,803 |
| Cost of sales | | **(50,199)** | (4,986) |
| **Gross profit** | | **31,642** | 4,817 |
| Other net income | 6 | **1,967** | 627 |
| Administrative and distribution expenses | | **(5,085)** | (2,995) |
| **Profit from operations** | | **28,524** | 2,449 |
| Finance costs | 7(a) | **(3,453)** | (1,666) |
| **Profit before tax** | 7 | **25,071** | 783 |
| Income tax | 8 | **(3,798)** | — |
| **Profit for the period** | | **21,273** | 783 |
| **Earnings per share** | 12 | | |
| Basic (RMB) | | **0.028** | 0.001 |
| Diluted (RMB) | | **0.028** | 0.001 |

The notes on pages 29 to 114 form part of these interim financial statements.

## COMBINED STATEMENT OF COMPREHENSIVE INCOME

*for the six months ended 30 June 2009*
*(Expressed in Renminbi)*

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| **Profit for the period** | **21,273** | 783 |
| **Other comprehensive income for the period** | | |
| Exchange differences on translation of financial statements of subsidiaries outside the PRC | **(308)** | 1,753 |
| **Total comprehensive income for the period** | **20,965** | 2,536 |

The notes on pages 29 to 114 form part of these interim financial statements.

## COMBINED BALANCE SHEET

*at 30 June 2009*

*(Expressed in Renminbi)*

| | Note | At 30 June 2009 RMB'000 | At 31 December 2008 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **52,474** | 57,476 |
| Trade and other receivables | 15 | **25,444** | 21,263 |
| | | **77,918** | 78,739 |
| **Current assets** | | | |
| Inventories | 14 | **5,447** | 3,156 |
| Trade and other receivables | 15 | **104,341** | 88,667 |
| Amount due from a related party | 25(d) | **—** | 8,621 |
| Cash and cash equivalents | 16 | **170,686** | 174,711 |
| | | **280,474** | 275,155 |
| **Current liabilities** | | | |
| Interest-bearing borrowings | 18 | **114,902** | 149,653 |
| Trade and other payables | 17 | **46,489** | 44,245 |
| Amount due to a related party | 25(d) | **8,815** | — |
| Amount due to a shareholder | 25(e) | **15,931** | 3,861 |
| Income tax payable | 8(b) | **7,309** | 4,372 |
| | | **193,446** | 202,131 |
| **Net current assets** | | **87,028** | 73,024 |
| **Total assets less current liabilities** | | **164,946** | 151,763 |

## COMBINED BALANCE SHEET *(Continued)*

*at 30 June 2009*

*(Expressed in Renminbi)*

| | *Note* | **At 30 June 2009** *RMB'000* | At 31 December 2008 *RMB'000* |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 18 | **—** | 8,346 |
| Deferred tax liabilities | 8(c) | **2,599** | 1,738 |
| | | **2,599** | 10,084 |
| **Net assets** | | **162,347** | 141,679 |
| **Capital and reserves** | | | |
| Paid-in capital | 21 | **73** | 73 |
| Reserves | 22 | **162,274** | 141,606 |
| **Total equity** | | **162,347** | 141,679 |

The notes on pages 29 to 114 form part of these interim financial statements.

## COMBINED STATEMENT OF CHANGES IN EQUITY

*for the six months ended 30 June 2009*

*(Expressed in Renminbi)*

| | | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Note* | Paid in capital *RMB'000* | Capital reserve *RMB'000* | Statutory general reserve *RMB'000* | Translation reserve *RMB'000* | Merger reserve *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* |
| **Balance at 1 January 2008** | | — | (13,778) | 5,965 | 2,170 | (84,141) | 66,444 | (23,340) |
| **Changes in equity for the six months ended 30 June 2008:** | | | | | | | | |
| Issuance of share capital | 21 | 73 | 33,955 | — | — | — | — | 34,028 |
| Capital investments | 22(b)(ii) | — | 61,673 | — | — | — | — | 61,673 |
| Issuance of convertible notes | 18 | — | 1,353 | — | — | — | — | 1,353 |
| Total comprehensive income for the period | | — | — | — | 1,753 | — | 783 | 2,536 |
| Repayment of convertible notes | 18 | — | (600) | — | — | — | — | (600) |
| **Balances at 30 June 2008 (unaudited) and 1 July 2008** | | 73 | 82,603 | 5,965 | 3,923 | (84,141) | 67,227 | 75,650 |
| **Changes in equity for the six months ended 31 December 2008:** | | | | | | | | |
| Total comprehensive income for the period | | — | — | — | (984) | — | 67,013 | 66,029 |
| Appropriation of reserve | | — | — | 7,174 | — | — | (7,174) | — |
| **Balances at 31 December 2008 and 1 January 2009** | | 73 | 82,603 | 13,139 | 2,939 | (84,141) | 127,066 | 141,679 |
| **Changes in equity for the six months ended 30 June 2009:** | | | | | | | | |
| Repayment of convertible notes | 18 | — | (297) | — | — | — | — | (297) |
| Total comprehensive income for the period | | — | — | — | (308) | — | 21,273 | 20,965 |
| Balance at 30 June 2009 | | 73 | 82,306 | 13,139 | 2,631 | (84,141) | 148,339 | 162,347 |

The notes on pages 29 to 114 form part of these interim financial statements.

## COMBINED CASH FLOW STATEMENT

*for the six months ended 30 June 2009*
*(Expressed in Renminbi)*

| | *Note* | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2009** | 2008 |
| | | ***RMB'000*** | *RMB'000* |
| | | | (unaudited) |
| **Operating activities** | | | |
| **Net cash generated from/(used in) operating activities** | 16(b) | **13,130** | (95,860) |
| **Investing activities** | | | |
| Bank interest income received | | **623** | 53 |
| Payments for purchase of property, plant and equipment | | **(325)** | (1,429) |
| **Net cash generated from/(used in) investing activities** | | **298** | (1,376) |
| **Financing activities** | | | |
| Increase in an amount due to a related party | | **8,815** | — |
| Increase/(decrease) in amount due to a shareholder | | **11,681** | (5,767) |
| Proceeds from issuance of convertible notes | | **—** | 34,006 |
| Capital injection from shareholders | | **—** | 61,673 |
| Proceeds from bank loans | | **—** | 30,356 |
| Repayment of bank loans | | **(28,478)** | — |
| Repayment of convertible notes | | **(8,813)** | (8,614) |
| Interest paid | | **(632)** | (1,077) |
| Other finance costs paid | | **(26)** | (43) |

## COMBINED CASH FLOW STATEMENT *(Continued)*

*for the six months ended 30 June 2009*
*(Expressed in Renminbi)*

| | Note | Six months ended 30 June | |
|---|---|---|---|
| | | **2009** | 2008 |
| | | ***RMB'000*** | *RMB'000* |
| | | | *(unaudited)* |
| **Net cash (used in)/generated from financing activities** | | **(17,453)** | 110,534 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(4,025)** | 13,298 |
| **Cash and cash equivalents at beginning of the period** | | **174,711** | 23,559 |
| **Cash and cash equivalents at end of the period** | 16 | **170,686** | 36,857 |

The notes on pages 29 to 114 form part of these interim financial statements.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi)

### 1 Reporting entity and corporate reorganisation

China All Access (Holdings) Limited ("the Company") was incorporated in the Cayman Islands on 4 December 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 33 of 1961, as consolidated and revised) of the Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and principal place of business in Hong Kong at Room 406, 4/F, Empire Centre, 68 Mody Road, Kowloon, Hong Kong. Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group") to rationalise the group structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") the Company became the holding company of the Group on 28 August 2009. Details of the Reorganisation are set out in the prospectus of the Company dated 4 September 2009. The Company's shares were listed on the Stock Exchange on 16 September 2009.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 1 Reporting entity and corporate reorganisation *(Continued)*

Following the Reorganisation, the Company had direct or indirect interests in the following subsidiaries, which are private companies and, if established/incorporated outside Hong Kong have substantially the same characteristics as a Hong Kong private company. The particulars of these subsidiaries now comprising the Group are set out below:

| Name of company | Place and date of incorporation/ establishment | Issued and fully paid up/ registered capital | Attributable equity interest Direct % | Attributable equity interest Indirect % | Principal activity |
|---|---|---|---|---|---|
| China All Access Group Limited ("CAA BVI") | The British Virgin Islands/ 12 May 2006 | US$10,000 | 100 | — | Investment holding |
| All Access Global Limited ("CAA HK") | Hong Kong/ 18 June 2008 | HK$10,000 | — | 100 | Investment holding |
| Hebei Noter Communication Technology Company Limited ("Noter") | The People's Republic of China (the "PRC") 21 August 2006 | US$19,500,000 | — | 100 | Development and provision of communication application solutions and trading of communication equipment and application services including system operation management, application upgrade and system maintenance |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 2 Basis of presentation

As described in note 1, the Reorganisation of the Group was not completed until 28 August 2009. However, since all entities which took part in the Reorganisation were under common control of the ultimate equity holders, referred to as the "Controlling Shareholders", before and immediately after the Reorganisation and, consequently, there was a continuation of the risks and benefits to the Controlling Shareholders that existed prior to the Reorganisation, this is considered as a business combination under common control and Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants has been applied. These combined interim financial statements have been prepared by using the merger basis of accounting as if the Group had been in existence throughout the periods presented.

The combined income statement, combined statement of comprehensive income, combined statement of changes in equity and combined cash flow statement of the Group as set out in these combined interim financial statements for the six months period ended 30 June 2008 and 2009 include the results of operations of the companies now comprising the Group as if the current group structure had been in existence throughout the entire periods presented. The combined balance sheet of the Group as at 30 June 2009 and 31 December 2008 have been prepared to present the state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates. The net assets of the combining companies are combined using the existing book values from the Controlling Shareholders' perspective.

All material intra-group transactions and balances have been eliminated on combination.

The comparatives of the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity, and the combined cash flow statement in respect of the six months ended 30 June 2008 and the related notes disclosed in the combined interim financial statements were derived from the Group's management accounts and have not been audited.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies

#### *(a) Statement of compliance*

These combined interim financial statements for the six months period ended 30 June 2009 (also referred to as the "interim financial statements") have been prepared in accordance with Hong Kong Accounting Standard 34, Interim financial reporting and all the applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These combined financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

A summary of the significant accounting policies adopted and consistently applied by the Group in the preparation of these combined financial statements is set out below.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(b) Basis of preparation of the interim financial statements*

The interim financial statements include the results of operations of the companies comprising the Group.

The interim financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Group's major operating unit. The interim financial statements are prepared on the historical cost basis. The interim financial statements presented in RMB have been rounded to the nearest thousands.

The preparation of the interim financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by the management in the application of HKFRSs that have significant effect on the interim financial statements and major sources of estimation uncertainty are disclosed in note 27.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(c) Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of a subsidiary are included in the interim financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the interim financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(d) Property, plant and equipment*

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (note 3(f)).

Cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are substantially complete. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major component) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day serving of property, plant and equipment are recognised in the income statement as incurred.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(d) Property, plant and equipment* *(Continued)*

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis after taking into account their estimated residual values over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives of other property, plant and equipment are as follows:

| | |
|---|---|
| Electronic equipment | 5 years |
| Office equipment | 5 years |
| Computer software | 5 years |

No depreciation is provided in respect of construction is progress until it is substantially complete and ready for its intended use. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified above.

Depreciation methods, useful lives of assets and residual values, if any, are reviewed at the reporting date.

#### *(e) Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting periods in which they are incurred.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(f) Impairment of assets*

(i) Impairment of trade and other receivables

Trade and other receivables and other financial assets carried at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(f) Impairment of assets* *(Continued)*

(i) Impairment of trade and other receivables *(Continued)*

If any such evidence exists, any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior periods.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, the recovery of which is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(f) Impairment of assets (Continued)*

(ii) Impairment of property, plant and equipment

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculations of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows, largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

**3 Significant accounting policies *(Continued)***

***(f) Impairment of assets*** *(Continued)*

(ii) Impairment of property, plant and equipment *(Continued)*

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the period in which the reversals are recognised.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(g) Inventories*

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Deferred costs incurred on a project which has not been completed as completion or inspection certificates have not been issued are classified as inventory. The deferred costs are charged to cost of sales in the same period that the revenue for which the project is related to is recognised.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(h) Trade and other receivables*

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance impairment of doubtful debts (see note 3(f)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(i) Convertible notes*

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method. The equity component is recognised as part of the equity until either the note is converted or redeemed.

If the note is converted, the equity component, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the equity component is released directly to retained profits.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(j) Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

#### *(k) Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

#### *(l) Trade and other payables*

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(o)(i), trade and other payables are thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(m) Employee benefits*

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for its employees administered by the local government authorities. The Group makes contributions to the retirement scheme at the applicable rate based on the employees' salaries. The contributions are charged to the income statement on an accrual basis. After the payment of the contributions under the retirement plan, the Group does not have any other obligations in this respect.

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

**3 Significant accounting policies *(Continued)***

***(n) Income tax***

Income tax in the combined income statement comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(n) Income tax (Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(n) Income tax* *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(o) Financial guarantees issued, provisions and contingent liabilities*

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income. The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 3(o)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

**3 Significant accounting policies *(Continued)***

***(o) Financial guarantees issued, provisions and contingent liabilities*** *(Continued)*

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(p) Revenue recognition*

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenues is recognised in the income statement as follows:

(i) Sales of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Integrated system revenue

Integrated system revenue in respect of a turnkey project is recognised upon completion of each of the separately specified stages of the project provided that the customer has issued an inspection certificate to indicate its acceptance of the services and works provided.

(iii) Applications service income

Revenue from system operation management, application upgrade and system maintenance services is recognised once the relevant service has been rendered to customers.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(p) Revenue recognition* *(Continued)*

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

#### *(q) Translation of foreign currencies*

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency").

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the date of the transaction. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(r) Borrowing costs*

Borrowing costs are expensed in the income statement in the period in which they are incurred.

#### *(s) Related parties*

For the purposes of these interim financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 3 Significant accounting policies *(Continued)*

#### *(t) Segment reporting*

Operating segments, and the amounts of each segment item reported in these interim financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 4 Revenue

The principal activities of the Group are the provision of satellite communication application solutions and services, wireless data communication application solutions and services and call centre application solutions and services. These solutions consist of project design, sourcing terminals from external suppliers, designing applications pursuant to customer specifications, installation and testing, and application service provision including system operations management, application upgrade and system maintenance. The businesses of satellite communication solutions and services and wireless data communication solutions and services also include distribution of terminals and equipment.

Revenue, which represents the sales value of goods sold to customers, excludes value added tax or other sales taxes and is after allowance for goods returned and deduction of any trade discounts. The amount of each significant category of revenue recognised during the period presented is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| Provision of satellite communications application solutions and services | **48,146** | 1,052 |
| Provision of wireless data communication application solutions and services | **31,605** | 6,747 |
| Provision of call centre application solutions and services | **2,090** | 2,004 |
| | **81,841** | 9,803 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 5 Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Provision of satellite communication application solutions and services include project design, installation, testing, application service provision for satellite communication, as well as distribution of satellite receivers and equipment.

— Provision of wireless data communication application solutions and services include installation, testing, application service provision for wireless data communication, as well as distribution of wireless terminals and equipment.

— Provision of call centre application solutions and services including system design, software development, technical support, system installation, quality control for call centres.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 5 Segment reporting *(Continued)*

#### *(a) Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of deferred tax assets, other corporate assets and certain communication equipment which is jointly used by all reportable segments. Segment liabilities include trade creditors and accruals attributable to the activities of the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "segment operating profit". Segment operating profit includes the gross profit generated by the segment and certain administration and other income or expenses directly attributable to the segment. Items that are not specifically attributed to individual segments, such as unallocated finance costs, depreciation of certain communication equipment and other corporate administration costs, are excluded from segment operating profits.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 5 Segment reporting *(Continued)*

#### *(a) Segment results, assets and liabilities* (Continued)

In addition to receiving segment information concerning profit before tax, management is provided with segment information concerning revenue, depreciation and additions to non-current segment assets used by the segments in their operations.

| For six months ended 30 June | Provision of satellite communication application solutions and services | | Provision of wireless data communication application solutions and services | | Provision of call centre application solutions and services | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* | | *(unaudited)* | | *(unaudited)* | | *(unaudited)* |
| Revenue from external customers (Note) | **48,146** | 1,052 | **31,605** | 6,747 | **2,090** | 2,004 | **81,841** | 9,803 |
| Segment operating profit | **20,643** | 302 | **14,133** | 3,746 | **1,294** | 1,183 | **36,070** | 5,231 |
| Depreciation for the period | **109** | — | **36** | 28 | **311** | 284 | **456** | 312 |

## 5 Segment reporting *(Continued)*

### (a) *Segment results, assets and liabilities (Continued)*

| | Provision of satellite communication application solutions and services | | Provision of wireless data communication application solutions and services | | Provision of call centre application solutions and services | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **At 30 June 2009** | At 31 December 2008 | **At 30 June 2009** | At 31 December 2008 | **At 30 June 2009** | At 31 December 2008 | **At 30 June 2009** | At 31 December 2008 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Reportable segment assets | **51,845** | 29,541 | **37,669** | 46,471 | **4,156** | 3,391 | **93,670** | 79,403 |
| Additions to non-current segment assets during the period | **55** | — | **30** | 92 | **101** | 139 | **186** | 231 |
| Reportable segment liabilities | **27,919** | 31,388 | **2,437** | 5,225 | **3** | — | **30,359** | 36,613 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 5 Segment reporting *(Continued)*

#### (a) *Segment results, assets and liabilities* (Continued)

Note: Major customers

Revenues of Customer A and Customer B, each of them amounting to 10 percent or more of the Group's revenue for the six months ended 30 June 2009; and revenue from Customer C amounting to 10 percent or more of the Group's revenue for the six months ended 30 June 2008 are set out below:

| For the six months ended 30 June | Provision of satellite communication application solutions and services | | Provision of wireless data communication application solutions and services | | Provision of call centre application solutions and services | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* | | *(unaudited)* | | *(unaudited)* | | *(unaudited)* |
| Customer A | **28,565** | — | **9,971** | — | **—** | — | **38,536** | — |
| Customer B | **10,995** | — | **—** | — | **—** | — | **10,995** | — |
| Customer C | **—** | — | **5,575** | 3,818 | **—** | — | **5,575** | 3,818 |
| | **39,560** | — | **15,546** | 3,818 | **—** | — | **55,106** | 3,818 |

Further details of concentration of credit risk arising from these customers are set out in note 26(a).

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

**5 Segment reporting *(Continued)***

***(b) Reconciliation of reportable segment profit, assets and liabilities***

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| **Profit** | | |
| Reportable segment profit derived from the Group's external customers | **36,070** | 5,231 |
| Other net income | **1,967** | 627 |
| Unallocated depreciation | **(4,871)** | (22) |
| Finance costs | **(3,453)** | (1,666) |
| Other unallocated income and expense | **(4,642)** | (3,387) |
| Combined profit before tax | **25,071** | 783 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 5 Segment reporting *(Continued)*

#### *(b) Reconciliation of reportable segment profit, assets and liabilities* (Continued)

| | At 30 June 2009 *RMB'000* | At 31 December 2008 *RMB'000* |
|---|---|---|
| **Assets** | | |
| Reportable segment assets | **93,670** | 79,403 |
| Unallocated corporate assets | **264,722** | 274,491 |
| Combined total assets | **358,392** | 353,894 |
| **Liabilities** | | |
| Reportable segment liabilities | **30,359** | 36,613 |
| Unallocated corporate liabilities | **165,686** | 175,602 |
| Combined total liabilities | **196,045** | 212,215 |

Unallocated income and expense mainly includes directors' and auditors' remuneration, consulting fees and other corporate administration costs.

Unallocated corporate assets mainly includes cash and cash equivalents, prepayments and deposits and fixed assets which are not specifically attributed to individual segments.

Unallocated corporate liabilities mainly includes interest-bearing borrowings which are not specifically attributed to individual segments.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 5 Segment reporting *(Continued)*

#### *(b) Reconciliation of reportable segment profit, assets and liabilities* (Continued)

***Geographical segments***

Substantially all the Group's activities are based in the PRC and all of the Group's turnover and contribution to profit before tax are derived from the PRC during the periods presented.

### 6 Other net income

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| Interest income from non-current trade and other receivable | **790** | — |
| Gain on early repayment of convertible notes (note 18) | **196** | 152 |
| Bank interest income | **623** | 53 |
| Net exchange gain | **358** | 622 |
| Donation | **—** | (200) |
| | **1,967** | 627 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 7 Profit before tax

***Profit before tax is arrived at after charging:***

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| (a) Finance costs: | | |
| Interest expense on borrowings wholly repayable within five years | **3,427** | 1,623 |
| Bank charges | **26** | 43 |
| | **3,453** | 1,666 |
| (b) Staff costs: | | |
| Contributions to defined contribution retirement plans | **250** | 181 |
| Salaries, wages and other benefits | **3,284** | 2,358 |
| | **3,534** | 2,539 |

As stipulated by the regulations in the PRC, the Group is required to participate in employee pension schemes organised by the PRC government whereby the Group is required to pay annual contributions at a rate of 20% (30 June 2008: 20%) of the standard wages determined by the relevant authorities in the PRC during the period.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 7 Profit before tax *(Continued)*

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

Save for the above, the Group has no other obligation for payment of retirement benefits beyond the contributions.

| | **Six months ended 30 June** | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| (c) Other items: | | |
| Operating lease charges | **663** | 315 |
| Depreciation of property, plant and machinery | **5,327** | 334 |
| Cost of inventories (note 14(b)) | **42,607** | 1,913 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 8 Income tax

The Company and CAA BVI are incorporated in the Cayman Islands and the British Virgin Islands, respectively. They are not subject to tax on income or capital gains under the current laws of the respective jurisdictions. In addition, upon any payment of dividend by the Company or CAA BVI, no Cayman Islands and British Virgin Islands withholding tax is imposed.

No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the periods presented.

Noter, being a foreign invested production oriented enterprise established in Hebei Province on 21 August 2006, was granted a full exemption from income tax for two years followed by a 50% exemption from income tax for three years starting from its first profit-making year (the "2+3 tax holiday"). Given Noter was established in the second half of 2006, it elected to start its 2+3 tax holiday in 2007 under the relevant tax regulations and the local tax bureau approved 2007 as the first profit-making year of Noter. Therefore, Noter is within a 5-year period starting from 1 January, 2007, entitled to full exemption from PRC corporate income tax during the first two years and a reduced tax rate of 12.5% for each of the following years. Thereafter, the corporate income tax rate will be 25%. Based on the local practice, the local tax bureau has allowed Noter to settle its 2006 income tax liability after the Group is listed.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 8 Income tax *(Continued)*

The new CIT Law also imposes a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. As at 30 June 2009, temporary differences relating to the post-2007 undistributed profits of the Group's foreign-invested enterprise amounted to RMB89,763,945. Deferred tax liabilities of RMB8,976,395 have not been recognised in respect of the tax that would be payable on the distribution of these retained profits since these earnings are not intended to be distributed in the foreseeable future.

***(a) Income tax in the combined income statement represents:***

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| **PRC Income tax** | | |
| Current income tax expense | | |
| – Provision for income tax for the period | **2,937** | — |
| Deferred tax expense | | |
| – Origination and reversal of temporary difference | **861** | — |
| | **3,798** | — |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 8 Income tax *(Continued)*

**(a) *Income tax in the combined income statement represents:*** *(Continued)*

A reconciliation of income tax calculated at the applicable tax rates with profit before tax is as follow:

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| Profit before tax | **25,071** | 783 |
| PRC statutory income tax rate | **25%** | 25% |
| Computed "expected" income tax expense | **6,268** | 196 |
| Effect of tax holiday | **(2,948)** | (997) |
| Effect of non-taxable income | **(437)** | — |
| Effect of non-PRC entities not subject to income tax | **915** | 801 |
| Actual income tax expense | **3,798** | — |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 8 Income tax *(Continued)*

***(b) Current taxation in the combined balance sheet represents:***

| | **At 30 June 2009** | At 31 December 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Provision for the PRC Corporate Income Tax for the period | **2,937** | — |
| Balance of Corporate Income Tax provision relating to prior years | **4,372** | 4,372 |
| | **7,309** | 4,372 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 8 Income tax *(Continued)*

#### *(c) Deferred taxation in the combined balance sheet represents:*

The components of deferred tax (assets)/liabilities in the combined balance sheet and the movements during the period are as follows:

| *Deferred tax arising from:* | *Revenue recognition* | *Provisions* | *Net deferred tax liabilities* |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2008 | — | — | — |
| Charged/(credited) to the combined income statement | 1,823 | (85) | 1,738 |
| At 31 December 2008 | 1,823 | (85) | 1,738 |
| At 1 January 2009 | **1,823** | **(85)** | **1,738** |
| Charged to the combined income statement | **861** | **—** | **861** |
| At 30 June 2009 | **2,684** | **(85)** | **2,599** |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 9 Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

| | Six months ended 30 June 2009 | | | | |
|---|---|---|---|---|---|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| *Executive directors* | | | | | |
| CHAN Yuen Ming | — | 333 | — | 5 | 338 |
| SHAO Kwok Keung | — | 635 | — | 5 | 640 |
| GAO Hou Ming | — | 159 | — | — | 159 |
| *Independent non-executive directors* | | | | | |
| PUN Yan Chak | — | — | — | — | — |
| WONG Che Man, Eddy | — | — | — | — | — |
| LAM Kin Hung, Patrick | — | — | — | — | — |
| | — | 1,127 | — | 10 | 1,137 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 9 Directors' remuneration *(Continued)*

| | Six months ended 30 June 2008 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| *Executive directors* | | | | | |
| CHAN Yuen Ming | — | 272 | — | 5 | 277 |
| SHAO Kwok Keung | — | 652 | — | 5 | 657 |
| GAO Hou Ming | — | — | — | — | — |
| *Independent non-executive directors* | | | | | |
| PUN Yan Chak | — | — | — | — | — |
| WONG Che Man, Eddy | — | — | — | — | — |
| LAM Kin Hung, Patrick | — | — | — | — | — |
| | — | 924 | — | 10 | 934 |

During the six months ended 30 June 2009, no director received any emoluments from the Group as an inducement to join or leave the Group or compensation for loss of office and, no director waived or has agreed to waive any emoluments (30 June 2008: Nil (unaudited)).

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 10 Individuals with highest emoluments

The five individuals whose emoluments were the highest in the Group include two directors of the Company during the period presented and are reflected in the analysis presented above. Details of remuneration paid to remaining highest paid individuals of the Group are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| Salaries and other benefits | **1,523** | 1,286 |
| Retirement scheme contributions | **19** | 15 |
| Discretionary bonuses | **—** | — |
| | **1,542** | 1,301 |

The above individuals' emoluments are within the following bands:

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| Nil to RMB1,000,000 | **3** | 3 |

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the six months ended 30 June 2009 (30 June 2008: Nil).

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 11 Dividends

No dividends have been declared or paid by the Company, CAA BVI, CAA HK and Noter since their incorporation (30 June 2008 (unaudited): Nil).

### 12 Earnings per share

#### *(a) Basic earnings per share*

The calculation of basic earnings per share for the periods presented is based on the profit attributable to equity holders and on the assumption that 750,000,000 shares of the Company are in issue and issuable, comprising one share in issue during the interim period, 1,999,999 shares issued pursuant to the Reorganisation which took place on 28 August 2009 and 748,000,000 shares issued pursuant to the capitalisation issue which took place on 15 September 2009 as if the shares were outstanding throughout the periods presented.

#### *(b) Diluted earnings per share*

The calculation of diluted earnings per share is based on the diluted profit attributable to equity holders of the Company and the diluted weighted average number of ordinary shares in respective period, calculated as follows:

Profit attributable to equity holders of the Company (diluted)

| | **Six months ended 30 June** | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| Profit attributable to ordinary equity holders of the Company | **21,273** | 783 |
| After tax effect of effective interest on the liability component of convertible notes | **118** | 619 |
| Profit attributable to ordinary equity holders of the Company (diluted) | **21,391** | 1,402 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 12 Earnings per share *(Continued)*

#### *(b) Diluted earnings per share (Continued)*

Weighted average number of ordinary shares (diluted)

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***’000*** | *’000* |
| | | *(unaudited)* |
| Weighted average number of ordinary shares at 30 June | **750,000** | 750,000 |
| Effect of conversion of convertible notes | **7,467** | 74,808 |
| Weighted average number of ordinary shares (diluted) at 30 June | **757,467** | 824,808 |

The diluted earnings per share for the six-months ended 30 June 2008 was the same as the basic earnings per share as the potential ordinary shares outstanding during the six months ended 30 June 2008 were anti-dilutive.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 13 Property, plant and equipment

| | Electronic equipment | Office equipment | Computer software | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| ***Cost:*** | | | | |
| At 1 January 2008 | 2,821 | 625 | 5,070 | 8,516 |
| Additions | 54,547 | 780 | 277 | 55,604 |
| At 31 December 2008 | 57,368 | 1,405 | 5,347 | 64,120 |
| At 1 January 2009 | 57,368 | 1,405 | 5,347 | 64,120 |
| Additions | 51 | 261 | 13 | 325 |
| At 30 June 2009 | 57,419 | 1,666 | 5,360 | 64,445 |
| ***Accumulated depreciation:*** | | | | |
| At 1 January 2008 | 2,706 | 259 | 2,933 | 5,898 |
| Depreciation charge for the year | 39 | 188 | 519 | 746 |
| At 31 December 2008 | 2,745 | 447 | 3,452 | 6,644 |
| At 1 January 2009 | 2,745 | 447 | 3,452 | 6,644 |
| Depreciation charge for the period | 4,907 | 150 | 270 | 5,327 |
| At 30 June 2009 | 7,652 | 597 | 3,722 | 11,971 |
| ***Net book value:*** | | | | |
| At 30 June 2009 | 49,767 | 1,069 | 1,638 | 52,474 |
| At 31 December 2008 | 54,623 | 958 | 1,895 | 57,476 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 13 Property, plant and equipment *(Continued)*

On 20 December 2008, Noter entered into an asset purchase agreement with each of Hebei SkyComm (as defined note 25(a)) and Shanghai SkyComm (as defined note 25(a)) pursuant to which Noter acquired equipment and facilities in respect of the ALL ACCESS integrated application service platform ("the ALL ACCESS platform") at the cash consideration of RMB35,465,000 and RMB17,629,000, respectively, based on the value of the equipment and facilities as of 30 September 2008 as appraised by Hebei Tin Wha CPAs, qualified valuers in the PRC. The equipment and facilities were historically owned and operated by Hebei SkyComm and Shanghai SkyComm prior to such acquisition and had been used by Noter on a cost-reimbursement basis since the Business Transfer (as defined note 22(c)) in August 2006 as stipulated in the supplemental agreement entered into between Noter, Hebei Skycomm and Shanghai Skycomm.

In 2009, Noter entered into a lease agreement with SkyComm (as defined note 25(a)) which allows SkyComm to have access to certain functions of the ALL ACCESS platform for an annual lease charge of RMB574,800 until 2018.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | **At 30 June 2009** *RMB'000* | At 31 December 2008 *RMB'000* |
|---|---|---|
| Within 1 year | **575** | — |
| After 1 year but within 5 years | **2,300** | — |
| After 5 years | **2,587** | — |
| | **5,462** | — |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 14 Inventories

**(a) *Inventories in the combined balance sheet comprise:***

| | **At 30 June 2009** | At 31 December 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Merchandise inventories | **5,447** | 3,156 |

**(b) *The analysis of the amount of inventories recognised as an expense is as follows:***

| | **Six months ended 30 June** | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| Carrying amount of inventories sold | **42,607** | 1,913 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 15 Trade and other receivables

| | Note | At 30 June 2009 *RMB'000* | At 31 December 2008 *RMB'000* |
|---|---|---|---|
| **Non-current** | | | |
| Trade receivables | (i) | **11,344** | 7,463 |
| Performance guarantee deposit | (ii) | **14,100** | 13,800 |
| | | **25,444** | 21,263 |
| **Current** | | | |
| Trade receivables | | **70,878** | 64,617 |
| Less: Allowance for doubtful debts | | **(530)** | (530) |
| | | **70,348** | 64,087 |
| Performance guarantee deposit | (ii) | **14,700** | 14,400 |
| Other receivables, prepayments and deposits | | **19,293** | 10,180 |
| | | **104,341** | 88,667 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 15 Trade and other receivables *(Continued)*

Note:

(i) The balance as at 30 June 2009 represents the non-current portion of proceeds on merchandise sales receivable by 10 semi-annual instalments of RMB1,590,000 over a five-year period from a customer discounted at a rate generally available for discounting similar instruments with commercial banks in the PRC.

(ii) On 28 February 2008, Noter and Sky Communication Group Co., Ltd. ("SkyComm") entered into a long term co-operation agreement for a period of five years until December 2012. During this period, Noter provided a lump sum of RMB30,000,000 to SkyComm as performance guarantee deposit which is subject to an annual adjustment in the manner as specified therein. Under the long term co-operation agreement, SkyComm will act as an agent of the Group in dealing with certain customers while the Group bears all risks and rewards associated with these customers. The performance guarantee deposit is to secure SkyComm during its operations in case of the Group's failure in performance to its customers. Such performance guarantee deposit will be refunded to Noter when the retention period of the projects for which SkyComm acts as the agent for the Group has expired. The amount of performance guarantee deposit which is expected to be refunded after one year is classified as a long term receivable and was discounted at a rate generally available for discounting similar instruments with commercial banks in the PRC.

At 30 June 2009, the present value of the performance guarantee deposit amounted to RMB28,800,000 (31 December 2008: RMB28,200,000), of which RMB14,100,000 (31 December 2008: RMB13,800,000) and RMB14,700,000 (31 December 2008: RMB14,400,000) have been classified as non-current assets and current assets respectively. The increase in present value of RMB600,000 has been accounted for as an interest income during the six months ended 30 June 2009.

(iii) For certain of the contracts, retention money representing 5% to 10% of the contract amount is not due until the warranty period expired. Included in trade receivables as at 30 June 2009 and 31 December 2008 are retention money of RMB1,065,782 and RMB1,251,000 respectively.

All of the current trade and other receivables are expected to be recovered within one year.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 15 Trade and other receivables *(Continued)*

#### *(a) Ageing analysis*

Included in trade and other receivables are trade debtors with the following ageing analysis as of the balance sheet date:

| | **At 30 June 2009** *RMB'000* | At 31 December 2008 *RMB'000* |
|---|---|---|
| Current | **45,862** | 21,318 |
| Less than 1 month past due | **5,430** | 31,001 |
| 1 to 3 months past due | **3,007** | 5,922 |
| More than 3 months but less than 12 months past due | **20,538** | 6,254 |
| Over 12 months past due | **6,855** | 7,055 |
| Amounts past due | **35,830** | 50,232 |
| | **81,692** | 71,550 |

The Group's credit policy is set out in note 26(a).

Receivables that were current relate to a wide range of customers for whom there was no recent history of default.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 15 Trade and other receivables *(Continued)*

#### *(b) Impairment of trade debtors*

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly.

The movement in the allowance for doubtful debts during the period, including both specific and collective loss components, is as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **530** | — |
| Impairment loss recognised | **—** | 645 |
| Uncollectible amounts written off | **—** | (115) |
| At 30 June/31 December | **530** | 530 |

At 30 June 2009, trade debtors of RMB849,000 (31 December 2008: RMB849,000), which have been overdue for more than one year, were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB645,000 were recognised of which RMB115,000 has been written off during 2008. The Group does not hold any collateral over these balances.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 15 Trade and other receivables *(Continued)*

#### *(c) Receivables that were past due but not impaired*

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. For any significant amounts past due, the Group would actively seek repayment from the debtors and the Group would enforce its legal right to the contractually due amount when considered necessary. The majority of the past due balances were due from government organisations in various places. They recognised all payment obligations, although the process of making payment has to follow a strict annual budgeting process and payment approval procedure which may slow down the collection. However, there have been no disputes over the balances due from these government organisations, therefore the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

### 16 Cash and cash equivalents

#### *(a) Cash and cash equivalents in the combined balance sheet and combined cash flow statement comprise:*

| | **At 30 June 2009** *RMB'000* | At 31 December 2008 *RMB'000* |
|---|---|---|
| Cash at bank and on hand | **170,686** | 174,711 |

## 16 Cash and cash equivalents *(Continued)*

### *(b) Reconciliation of profit before tax to cash generated from/(used in) operations:*

| | | Six months ended 30 June | |
|---|---|---|---|
| | Note | **2009** | 2008 |
| | | ***RMB'000*** | *RMB'000* |
| | | | *(unaudited)* |
| Profit before tax | | **25,071** | 783 |
| Adjustments for: | | | |
| – Bank interest income | 6 | **(623)** | (53) |
| – Gain on early repayment of convertible notes | 6 | **(196)** | (152) |
| – Interest income from non-current trade and other receivables | 6 | **(790)** | — |
| – Finance costs | 7(a) | **3,453** | 1,666 |
| – Depreciation | 7(c) | **5,327** | 334 |
| **Changes in working capital** | | **32,242** | 2,578 |
| Increase in inventories | | **(2,291)** | (16,090) |
| Increase in trade and other receivables | | **(19,065)** | (85,388) |
| Increase in trade and other payables | | **2,244** | (9,077) |
| Decrease in amounts due from related parties | | **—** | 12,597 |
| Decrease in amounts due to related parties | | **—** | (480) |
| **Cash generated from/(used in) operations** | | **13,130** | (95,860) |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 17 Trade and other payables

| | At 30 June 2009 RMB'000 | At 31 December 2008 RMB'000 |
|---|---|---|
| Trade payables | **27,219** | 25,345 |
| Receipts in advance | **588** | 1,785 |
| Other payables and accruals | **18,682** | 17,115 |
| | **46,489** | 44,245 |

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

| | At 30 June 2009 RMB'000 | At 31 December 2008 RMB'000 |
|---|---|---|
| Due within 1 month or on demand | **13,929** | 17,456 |
| Due after 1 month but within 3 months | **13,290** | 7,889 |
| | **27,219** | 25,345 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 18 Interest-bearing borrowings

| | **At 30 June 2009** | At 31 December 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| ***Current portion*** | | |
| Bank loans (note 19) | **—** | 28,753 |
| Convertible notes | **44,339** | 51,856 |
| Fixed coupon note | **70,563** | 69,044 |
| | **114,902** | 149,653 |
| ***Non-current portion*** | | |
| Bank loans (note 19) | **—** | 8,346 |
| | **114,902** | 157,999 |

On 13 September 2007, 21 September 2007 and 13 November 2007, CAA BVI issued 3 tranches of convertible notes to three unrelated parties, namely Smart King Group Limited ("Smart King"), Profit Concept International Limited ("Profit Concept") and Guofu (Hong Kong) Holdings Limited ("Guofu"). Each tranche has a principal value of HK$10,000,000 (equivalent to RMB9,364,000) with a maturity of one to two years.

The notes bear interest at 4% per annum and are guaranteed by the Controlling Shareholders.

Each tranche of convertible notes provided a right to the note holder to convert the notes into 3.8% to 7% of the Company's share capital prior to share capital enlargement arising on the initial public offer ("IPO") ("share capital enlargement") on or before the earlier of the proposed listing date or the maturity date of the convertible notes.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 18 Interest-bearing borrowings *(Continued)*

On 1 February 2008, pursuant to a supplemental agreement entered into between CAA BVI and Smart King, CAA BVI repaid HK$4,285,714 (equivalent to RMB3,780,000) to this noteholder. Consequently, the conversion into ordinary shares was reduced from 7% to 4% of the Company's share capital before share capital enlargement, while other terms remained the same. On 1 June 2008, pursuant to another supplemental agreement entered into between CAA BVI and Smart King, the remaining convertible notes held by Smart King were redeemed and the remaining principal of HK$5,714,286 (equivalent to RMB5,039,000) repaid to Smart King. The equity component of the convertible notes of RMB600,000 was released to retained profits upon redemption.

On 15 May 2008, CAA BVI issued a tranche of convertible notes to Even Grow Investments Limited ("Even Grow"), with a principal value of HK$38,560,000 (equivalent to RMB34,006,000) and with a maturity of 18 months. The notes bear interest at 4% per annum and are guaranteed by the Controlling Shareholders. The convertible notes provided a right to the noteholder to convert the note into 7% of the Company's share capital prior to share capital enlargement, before the earlier of the proposed listing date or the maturity date.

Pursuant to the supplemental agreements entered into between CAA BVI and Profit Concept, and between CAA BVI and Even Grow on 24 November 2008, the terms of the original convertible notes issued to Profit Concept and Even Grow were amended such that holders of the convertible notes would have the right to request settlement of the convertible notes before the maturity date, and will be requested by CAA BVI and the Controlling Shareholders to settle the convertible notes upon success of the IPO by, the Controlling Shareholders transferring the prescribed percentage of the issued share capital of the Company to the convertible note holders, and the Controlling Shareholders would waive all their rights and benefits against CAA BVI and the Company in respect of the principal amount, any accrued interest and/or other amounts payable in respect of the loans under the convertible notes. The convertible notes would be repaid at the maturity date if the conversion did not take place. As a result of the amendment of terms, the conversion obligation of the convertible notes was transferred from CAA BVI to the Controlling Shareholders.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 18 Interest-bearing borrowings *(Continued)*

On 23 September 2008, CAA BVI issued a tranche of fixed coupon note to Chengwei CAA Holdings Limited ("Chengwei"). The tranche has a principal value of US$10,000,000 (equivalent to RMB68,788,000) with a maturity of 12 months. The note bears interest at 4% per annum and are guaranteed by the Controlling Shareholders. Similar to the modified notes mentioned above, the fixed coupon note holders would have the right to request for the settlement of the note before the maturity date, and will be requested by CAA BVI and the Controlling Shareholders to settle the note upon success of the IPO by, the Controlling Shareholders transferring 14.16% of the issued share capital of the Company to Chengwei, and the Controlling Shareholders shall waive all their rights and benefits against CAA BVI and the Company in respect of the principal amount or accrued interest or any money as otherwise payable to Chengwei by CAA BVI under the note. The fixed coupon note will be repaid at the maturity date if the conversion does not take place.

The tranche of convertible notes to Guofu of principal HK$10,000,000 (approximately RMB8,819,000) has been repaid in full on 30 April 2009 pursuant to a supplemental agreement entered into between CAA BVI and Guofu. The equity component of the convertible notes of RMB297,000 was released to retained profits upon redemption.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 18 Interest-bearing borrowings *(Continued)*

Movements of the convertible notes are as follows:

| | Liability component | Equity component | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2008 | 27,377 | 1,207 | 28,584 |
| Exchange adjustments | (1,593) | — | (1,593) |
| Issuance of convertible notes | 32,653 | 1,353 | 34,006 |
| Accrual of interest costs | 2,386 | — | 2,386 |
| Repayment of convertible notes | (8,967) | (600) | (9,567) |
| At 31 December 2008 | 51,856 | 1,960 | 53,816 |
| At 1 January 2009 | 51,856 | 1,960 | 53,816 |
| Exchange adjustments | (15) | — | (15) |
| Accrual of interest costs | 1,346 | — | 1,346 |
| Repayment of convertible notes | (8,848) | (297) | (9,145) |
| At 30 June 2009 | 44,339 | 1,663 | 46,002 |

On 15 September 2009, the outstanding convertible notes of Profit Concept and Even Grow, and the fixed coupon note to Chengwei, were converted into 52,500,000, 52,500,000 and 106,200,000 ordinary shares of the Company, representing 7%, 7% and 14.16% interests in the Company prior to the share capital enlargement, respectively. Pursuant to respective agreements between the Controlling Shareholders and Profit Concept, Even Grow and Chengwei, the conversions of these convertible notes and fixed coupon note were settled by exchanging for the Controlling Shareholders' interests in the share capital of the Company with these noteholders. The Controlling Shareholders waived all their rights and benefits against CAA BVI and the Company in respect of the principal amounts and accrued interests. As a result, the principal amounts and accrued interests, totalling RMB117,635,000, waived by the Controlling Shareholders, were credited to additional paid-in capital on 15 September 2009.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 19 Bank loans

At the balance sheet date, the bank loans were repayable as follows:

| | Note | **At 30 June 2009** *RMB'000* | At 31 December 2008 *RMB'000* |
|---|---|---|---|
| **Current portion** | | | |
| Within 1 year or on demand | | — | 28,753 |
| **Non-current portion** | | | |
| After 1 year but within 2 years | | — | 281 |
| After 2 years but within 5 years | | — | 881 |
| After 5 years | | — | 7,184 |
| | | — | 8,346 |
| | | — | 37,099 |
| Representing: | | | |
| Term loan | (i) | — | 20,636 |
| Mortgage loan | (ii) | — | 8,621 |
| Short term borrowing | (iii) | — | 7,842 |
| | | — | 37,099 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 19 Bank loans *(Continued)*

Note:

(i) The term loan was secured by charges over certain directors' land and buildings. The term loan facility amounting to US$3,000,000 (equivalent to RMB20,636,000) was fully utilised as at 31 December 2008. The Group repaid US$1,000,000 and US$2,000,000 in January 2009 and June 2009 respectively.

(ii) On 31 December 2008, the loan represents a mortgage loan to Ms Wong Yuk Lan, a director of CAA BVI, through the Group. Such mortgage loan was secured by a property owned by Ms Wong Yuk Lan. Principal and interest are paid by her directly to the bank and a corresponding loan to officer in the same amount is included in "amounts due from related parties" as at 31 December 2008 (note 25(d)). The key terms of the loan to officer are disclosed in note 20 to this interim financial statements.

On 23 June 2009, the Group discharged the outstanding liability to Ms Wong Yuk Lan upon the written confirmation from the bank. Thus, there was no balance of mortgage loan and the relevant amount due from a related party as at 30 June 2009.

(iii) Short term borrowing was secured by charges over certain directors' land and buildings. Such short term borrowing facility amounted to US$2,000,000 (note 24) and was utilised to the extent of US$1,140,000 (equivalent to RMB7,842,000) as at 31 December 2008. The borrowing was repaid during the six months ended 30 June 2009.

The Group had no banking facilities drawn or available as at 30 June 2009.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 20 Loan to an officer

At 31 December 2008, the details of loan to officer of the Group were as follows:

| | |
|---|---|
| Name of borrower | Ms Wong Yuk Lan |
| Position | Director of CAA BVI |
| Terms of the loan | |
| – duration and repayment terms | 300 equal monthly instalments starting April 2008 |
| – loan amount | HK$10,000,000 |
| – interest rate | 2.1% (Hong Kong Dollar Prime rate less 2.9%) |
| – security | Property owned by Ms Wong Yuk Lan |
| Balance of the loan | |
| – at 1 January 2008 | Nil |
| – at 31 December 2008 | HK$9,776,000 (equivalent to RMB8,621,000 (note 25(d)) |
| – at 30 June 2009 | Nil |
| Maximum balance outstanding | |
| – during 2008 | HK$10,000,000 (equivalent to RMB8,819,000) |
| – during the six months ended 30 June 2009 | HK$9,776,000 (equivalent to RMB8,621,000) |

There was no amount due but unpaid, nor any provision made against the principal amount of or interest on this loan at 31 December 2008.

The loan to Ms Wong Yuk Lan has been repaid in full in April 2009. The related bank mortgage loan as disclosed in note 19(ii) was discharged to Ms Wong Yuk Lan on 23 June 2009.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 21 Paid-in capital

The paid-in capital as at 31 December 2008 and 30 June 2009 represented the aggregate amounts of paid-in capital of the Company, CAA BVI and its subsidiary, Noter, after elimination of investment in subsidiary.

CAA BVI was incorporated on 12 May 2006 in the British Virgin Islands with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each and became the holding company now comprising the Group. On 15 June 2006, one share of US$1, equivalent to RMB8, was allotted and issued as fully paid by CAA BVI to the Controlling Shareholders.

Pursuant to a shareholders' resolution of CAA BVI on 14 January 2008, 9,999 new shares of CAA BVI were issued and allotted to the Controlling Shareholders in consideration of capitalisation of the amount due to the Controlling Shareholders of HK$36,600,000, equivalent to RMB34,028,000, of which RMB73,000 and RMB33,955,000 were credited to paid-in capital and capital reserve (note 22(b)(i)) respectively.

The Company was incorporated on 4 December 2007 with an authorised capital of HK$380,000 divided into 38,800,000 shares of HK$0.01 each and one nil-paid share was issued thereafter. At 31 December 2008 and 30 June 2009, one nil-paid share was held by the Controlling Shareholders.

On 28 August 2009, the Company acquired from the shareholders of CAA BVI an aggregate of 10,000 shares of US$1 each, being its entire issued share capital, in consideration of and in exchange for which the Company (i) allotted and issued, credited as fully paid, an aggregate of 1,999,999 shares; and (ii) credited as fully paid at par a nil-paid share then held by the Controlling Shareholders. Thereafter, the Company became the holding company of the companies comprising the Group.

Pursuant to a written resolution on 28 August 2009, the authorised share capital of the Company was increased from HK$380,000 to HK$1,000,000,000 by creation of 99,962,000,000 shares of HK$0.01 each. The shares rank pari passu in all respects with all other existing shares is issue. On the same date, the Company allotted and issued a total of 748,000,000 shares credited as fully paid at par to the then shareholders of the Company in proportion to their respective shareholdings by way of capitalisation of a sum of HK$7,480,000, conditional on the initial public offering of the Company's shares in Hong Kong.

On 16 September 2009, the Company was successfully listed on the Stock Exchange following the completion of its initial public offering of 250,000,000 shares to the investors. On 22 September 2009, further 37,500,000 shares were issued pursuant to the exercise of the Over-Allotment Option (as defined in the Company's Prospectus dated 4 September 2009).

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 22 Reserves

The nature and purpose of reserves are set out below:

#### *(a) Share premium*

The application of the share premium account is governed by the Companies Law of the Cayman Islands.

#### *(b) Capital reserve*

(i) On 14 January 2008, an amount of RMB33,955,000 was credited to capital reserve upon capitalisation of the amounts due to the Controlling Shareholders as disclosed in note 21.

(ii) On 15 January 2008, Atlantis Investment Management Limited and FMG China Fund Limited acquired 1,299 shares and 81 shares respectively from the Controlling Shareholders of CAA BVI at a consideration of US$8,000,000 (approximately RMB58,051,000) and US$500,000 (approximately RMB3,622,000) respectively. The proceeds received by the Controlling Shareholders were injected into CAA BVI as shareholder loans. The shareholder loans were immediately waived by the Controlling Shareholders and capitalised into the capital reserve of CAA BVI.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 22 Reserves *(Continued)*

The nature and purpose of reserves are set out below: *(Continued)*

#### *(c) Merger reserve*

On 31 August 2006, Noter, Hebei SkyComm and Shanghai SkyComm, as defined in note 25(a), entered into a business transfer agreement pursuant to which Hebei SkyComm and Shanghai SkyComm agreed to sell to Noter the entire interests of their business operations, referred to as the "Transferred Businesses") at a consideration of RMB102,600,000. The difference between the consideration over the historical net asset value of the Transferred Businesses at the effective business transfer date of 30 June 2006, amounting to RMB84,141,000, was debited to the merger reserve.

#### *(d) Statutory general reserve*

This represents the statutory general reserve of Noter. Transfers from retained earnings to the statutory general reserve were made in accordance with the articles of association of Noter.

The statutory general reserve can be used to cover previous years' losses, if any, and may be converted into paid-up capital to shareholders in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital of Noter.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

**22 Reserves *(Continued)***

The nature and purpose of reserves are set out below: *(Continued)*

***(e) Distributability of reserve***

There was no reserve available for distribution to shareholders by the Company as at 30 June 2009 (2008: Nil).

The aggregate amounts of distributable reserves of the companies comprising the Group at 31 December 2008 and 30 June 2009 were RMB112,081,000 and RMB133,354,000 respectively. The retained profits of the Transferred Businesses before the Business Transfer of RMB14,985,000 were not distributable.

***(f) Capital management***

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital on the basis of a gearing ratio, being the total interest-bearing borrowings divided by total assets. The gearing ratio at 31 December 2008 and 30 June 2009 were 45% and 32% respectively. The Group is at the early stage of developing its business. In order to raise additional capital to grow the business rapidly, the Group issued several tranches of convertible notes and fixed coupon notes in 2007 and 2008. As a result, the directors consider the historical gearing ratio to be within a reasonable range.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 22 Reserves *(Continued)*

The nature and purpose of reserves are set out below: *(Continued)*

*(f)* ***Capital management*** *(Continued)*

Neither the Company nor any of its subsidiaries are subjected to externally imposed capital requirements.

### 23 Commitments

(a) The Group has no capital commitments at 30 June 2009 and 31 December 2008.

(b) At 30 June 2009, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | **At 30 June 2009** *RMB'000* | At 31 December 2008 *RMB'000* |
|---|---|---|
| Within 1 year | **1,228** | 1,087 |
| After 1 year but within 5 years | **1,723** | 771 |
| After 5 years | **1,476** | — |
| | **4,427** | 1,858 |

The Group is the lessee in respect of a number of properties. The leases typically run for an initial period of one to ten years, with an option to renew the leases when all the terms are renegotiated. Leasing arrangements with related parties are set out in note 25. None of the leases include contingent rentals.

## 24 Contingent assets and liabilities

***Financial guarantees issued***

As at 31 December 2008, the Company, the Director of CAA BVI and the Controlling Shareholders provided financial guarantees to CAA BVI in respect of certain banking facilities granted to the Company as disclosed in note 19 to this interim financial statements. The amounts guaranteed by the Director of CAA BVI and the Controlling Shareholders were HK$49,000,000 and HK$49,000,000, respectively, while the amount guaranteed by the Company was unlimited.

As at 31 December 2008, the directors did not consider it probable that a claim made against the Company under the guarantees. The maximum liability of the Company as at 31 December 2008 under the guarantees were the outstanding amount of the bank loans of RMB37,099,000.

The above guarantee arrangement has been released on 30 June 2009.

## 25 Material related party transactions

The Group had the following material related party transactions during the period presented.

### *(a) Name and relationship with related parties*

During the period presented, transactions with the following parties are considered as related party transactions:

| Name of party | Relationships |
|---|---|
| Sky Communication Group Co. Limited ("SkyComm") (note (ii)) | Holding company of Hebei SkyComm and Shanghai SkyComm, effectively 81% owned by Mr. Chan Yuen Ming before 28 February 2008 (note (i)) |
| Hebei Sky Communication Company Limited ("Hebei SkyComm") (note (ii)) | Subsidiary of SkyComm, effectively 81% owned by Mr. Chan Yuen Ming before 28 February 2008 (note (i)) |
| Shanghai Sky Communication Company Limited ("Shanghai SkyComm") (note (iii)) | Subsidiary of SkyComm effectively 76.95% owned by Mr. Chan Yuen Ming before 28 February 2008 (note (i)) |
| Ms Wong Yuk Lan | Director of CAA BVI |

# NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

## 25 Material related party transactions *(Continued)*

### *(a) Name and relationship with related parties* (Continued)

Note:

(i) Mr. Chan Yuen Ming is one of the Controlling Shareholders of the Group. Creative Sector Limited was incorporated on 18 January 2008 and is wholly owned by Mr. Chan Yuen Ming. Mr. Chan Yuen Ming and Creative Sector Limited are the Controlling Shareholders of the Group.

(ii) Following the Business Transfer to Noter on 30 June 2006, these entities were related parties of the Group until 28 February 2008 when the Controlling Shareholders disposed of their interests in SkyComm. Accordingly, transactions with these entities do not constitute related party transactions subsequent to 28 February 2008. Consequently, these entities became normal business partners to the Group.

(iii) Following the disposal by Mr. Chan of his interests in SkyComm on 28 February 2008. Mr. Chan remained as the chairman of the board of directors of Shanghai SkyComm until 9 December 2008. Accordingly, transactions with Shanghai SkyComm are classified as related party transactions until 9 December 2008. Since then, Shanghai SkyComm became a normal business partner of the Group.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 25 Material related party transactions *(Continued)*

#### *(b) Significant related party transactions*

Particulars of significant related party transactions during the period presented are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| *Recurring transactions:* | | |
| Rental expenses charged by | | |
| – Mr Chan Yuen Ming | 93 | 93 |
| *Non-recurring transactions:* | | |
| Technical support and service income from: | | |
| – Hebei SkyComm | — | 154 |
| – Shanghai SkyComm | — | 94 |
| | — | 248 |
| Rental expense charged by: | | |
| – SkyComm Group | — | 18 |
| Reimbursement of operating expenses to (Note): | | |
| – Hebei SkyComm | — | 219 |
| – Shanghai SkyComm | — | 426 |
| | — | 645 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 25 Material related party transactions *(Continued)*

#### *(b) Significant related party transactions (Continued)*

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned.

Note: It represents reimbursement of operating expenses of ALL ACCESS platform, excluding depreciation charges, to Hebei SkyComm and Shanghai SkyComm, before the platform was acquired.

#### *(c) Key management personnel remuneration*

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | *(unaudited)* |
| Short term employee benefits | **1,512** | 1,191 |
| Post-employment benefits | **65** | 34 |
| | **1,577** | 1,225 |

Total remuneration was included in "staff costs" (see note 7(b)).

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 25 Material related party transactions *(Continued)*

#### *(d) Amount due from/(to) a related party*

| | **At 30 June 2009** | At 31 December 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Ms Wong Yuk Lan (note 19) | **(8,815)** | 8,621 |

The amount due from Ms Wong Yuk Lan is subject to the details as set out in note 20. The outstanding balance as at 31 December 2008 has been settled by Ms Wong Yuk Lan in April 2009.

The amount due to Ms Wong Yuk Lan as at 30 June 2009 represented the amount advanced to the Group for working capital requirements. It is interest-free and is repayable on demand. The amount has been subsequently settled on 31 August 2009.

#### *(e) Amount due to a shareholder*

This represents amount advanced by the Controlling Shareholder, Mr. Chan Yuen Ming, to finance the Group's working capital requirements. It is interest-free and is repayable on demand. On 14 January 2008, an amount of HK$36,600,000 was capitalised in consideration of the allotment of 9,999 shares to Mr. Chan Yuen Ming (note 21). The amount has been subsequently settled on 31 August 2009.

## 26 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial management policies and practices used by the Group to manage these risks are described below.

### *(a) Credit risk*

The Group's credit risk is primarily attributable to cash and bank deposits, trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's cash and bank deposits are placed with major financial institutions which management believe are of high credit rating. In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Contract sums for the provision of application solutions (other than for sales of terminal equipment) are generally due and payable by instalments at different stages which comprised of (i) downpayment payable upon signing of contract; (ii) remaining balance within 180 days after acceptance of project, subject to 5%-10% retention money, if any, to be withheld by customers in our projects until expiry of the warranty period. For sale of terminal equipment, contract sums are normally payable upon delivery of the relevant terminal equipment. The Group may grant credit from 0 to 180 days to its customers according to the negotiation and relationship with these customers. Normally, the Group does not obtain collateral from customers.

**26 Financial risk management and fair values *(Continued)***

***(a) Credit risk** (Continued)*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to lesser extent. As at 30 June 2009, the Group has a certain concentration of credit risk as 9.79% and 77.59% (31 December 2008: 0% and 33.04%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

***(b) Liquidity risk***

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 26 Financial risk management and fair values *(Continued)*

#### *(b)* ***Liquidity risk*** *(Continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay.

| | At 30 June 2009<br>Contractual undiscounted cash outflow | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand<br>*RMB'000* | More than 1 year but less than 2 years<br>*RMB'000* | More than 2 years but less than 5 years<br>*RMB'000* | More than 5 years<br>*RMB'000* | Total<br>*RMB'000* | Balance sheet carrying amount<br>*RMB'000* |
| Interest-bearing borrowings | 117,113 | – | – | – | 117,113 | 114,902 |
| Trade and other payables | 46,489 | – | – | – | 46,489 | 46,489 |
| Amounts due to related parties | 8,815 | – | – | – | 8,815 | 8,815 |
| Amount due to a shareholder | 15,931 | – | – | – | 15,931 | 15,931 |
| | 188,348 | – | – | – | 188,348 | 186,137 |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 26 Financial risk management and fair values *(Continued)*

#### *(b) Liquidity risk (Continued)*

| | At 31 December 2008 Contractual undiscounted cash outflow | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand *RMB'000* | More than 1 year but less than 2 years *RMB'000* | More than 2 years but less than 5 years *RMB'000* | More than 5 years *RMB'000* | Total *RMB'000* | Balance sheet carrying amount *RMB'000* |
| Interest-bearing borrowings | 155,431 | 454 | 1,362 | 8,739 | 165,986 | 157,999 |
| Trade and other payables | 44,245 | — | — | — | 44,245 | 44,245 |
| Amount due to related parties | — | — | — | — | — | — |
| Amount due to a shareholder | 3,861 | — | — | — | 3,861 | 3,861 |
| | 203,537 | 454 | 1,362 | 8,739 | 214,092 | 206,105 |

For the purpose of above analysis, convertible notes are assumed to be repaid at maturity.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 26 Financial risk management and fair values *(Continued)*

#### *(c) Interest rate risk*

The Group's interest rate risk arises primarily from bank borrowings issued at variable rates and convertible notes issued at fixed rates that expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group adopts a policy of ensuring at least 50% of its borrowings are on a fixed rate basis. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (all interest bearing borrowings) at the balance sheet date:

| | **At 30 June 2009** | | At 31 December 2008 | |
|---|---|---|---|---|
| | **Effective interest rate** | | Effective interest rate | |
| | **%** | ***RMB'000*** | % | *RMB'000* |
| Fixed rate borrowings: | | | | |
| – Convertible notes (note 18) | **4.0%** | **44,339** | 4.0% | 51,856 |
| – Fixed coupon note (note 18) | **4.0%** | **70,563** | 4.0% | 69,044 |
| | | **114,902** | | 120,900 |
| Variable rate borrowings: | | | | |
| – Bank loans | **–** | **–** | 4.0% | 37,099 |
| Total borrowings | | **114,902** | | 157,999 |
| Fixed rate borrowings as a percentage of total Borrowings | | **100%** | | 77% |

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

**26 Financial risk management and fair values *(Continued)***

***(c) Interest rate risk***

(ii) Sensitivity analysis

At 30 June 2009, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have no impact on the Group's profit for the period and retained profits by approximately RMB Nil (2008: RMB50,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit for the period (and retained profits) that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to cash flow interest rate risk at the balance sheet date.

***(d) Currency risk***

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to conduct foreign exchange business. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

During the period presented, sales and purchases made by Noter were mainly denominated in Renminbi, which is its functional currency. Noter did not have any financial assets and liabilities that are denominated in a currency other than its functional currency as at the balance sheet dates of 30 June 2009 and 31 December 2008. Accordingly, the Group considers Noter has no significant exposure to foreign currency risk at the balance sheet date of 30 June 2009 (31 December 2008: Nil).

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 26 Financial risk management and fair values *(Continued)*

#### *(d) Currency risk (Continued)*

The functional currency of CAA BVI is Hong Kong dollars. CAA BVI has financial liabilities denominated in United States dollars amounting to US$11,932,800 at 30 June 2009 (31 December 2008: US$16,295,000). The Group believes that the pegged rate between the Hong Kong dollar and the United States dollar will be materially unaffected by any changes in the value of the United States dollars against other currencies. In this respect, the Group considers the foreign currency risk which CAA BVI is exposed to is insignificant.

#### *(e) Fair values*

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2009 and 31 December 2008.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 27 Accounting estimates and judgements

***Key sources of estimation uncertainty***

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. Key sources of estimation uncertainty are as follows:

(a) Impairment of assets

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of impairment loss and affect the Group's results in future years.

Impairment losses for bad and doubtful debts are assessed and provided for based on the directors' regular review of ageing analysis and evaluation of collectibility based on customer specific facts and economic conditions. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the Group's results in future years.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 27 Accounting estimates and judgements *(Continued)*

***Key sources of estimation uncertainty*** *(Continued)*

(b) Provision for inventories

The Group reviews the carrying amounts of the inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value as in accordance with accounting policy as set out in note 3(g). Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's results in future years.

(c) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(d) Income tax

The Group is subject to income taxes in the PRC. Judgement is required in determining the provision for income tax. There are transactions during the ordinary course of business, for which calculation of the ultimate tax determination is uncertain. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Recognition of deferred tax depends on the management's expectation of future taxable profit that will be available. The outcome of their actual utilisation may be different.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 28 Non-adjusting post balance sheet events

The following significant events took place subsequent to 30 June 2009:

(i) Group reorganisation

On 28 August 2009, the Group completed the Reorganisation to rationalise the Group's structure in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in note 1. As a result of the Reorganisation, the Company became the holding company of the Group.

(ii) Listing of the Company's shares

On 16 September 2009, the Company was successfully listed on the Stock Exchange following the completion of its initial public offering of 250,000,000 shares to the investors. On 22 September 2009, a further 37,500,000 shares were issued pursuant to the exercise of the over-allotment option.

(iii) Conversion of convertible notes and fixed coupon note

On 15 September 2009, the outstanding convertible notes of Profit Concept International Limited ("Profit Concept") and Even Grow Investments Limited ("Even Grow"), and the fixed coupon note of Chengwei CAA Holdings Limited ("Chengwei") were converted into 52,500,000, 52,500,000 and 106,200,000 ordinary shares of the Company, representing 7%, 7% and 14.16% interests in the Company prior to the share capital enlargement respectively. Pursuant to agreements between the Controlling Shareholders and Profit Concept, Even Grow and Chengwei, the conversions of these convertible notes and fixed coupon note were settled by exchanging for the Controlling Shareholders' interests in the share capital of the Company with these noteholders. The Controlling Shareholders waived all their rights and benefits against CAA BVI and the Company in respect of the principal amounts and accrued interests. As a result, the principal amounts and accrued interests, totalling RMB117,635,000, waived by the Controlling Shareholders were credited to additional paid-in capital on 15 September 2009.

## NOTES TO THE COMBINED INTERIM FINANCIAL STATEMENTS *(Continued)*

### 29 Immediate and ultimate holding company

The directors consider the immediate parent and ultimate holding company of the Company as at 30 June 2009 to be Creative Sector Limited which was incorporated in the British Virgin Islands and does not produce financial statements available for public use.

### 30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ending 31 December 2009

Up to the date of issue of this interim financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ending 31 December 2009 and which have not been adopted in the interim financial statements.

| | Effective for annual accounting periods beginning on or after |
|---|---|
| HKFRS 3 (revised), *Business combinations* | 1 July 2009 |
| Amendments to HKAS 27, *Consolidated and separate financial statements* | 1 July 2009 |
| Amendment to HKAS 39, *Financial instruments: Recognition and measurement* | 1 July 2009 |
| HK(IFRIC) 17, *Distributions of non-cash assets to owners* | 1 July 2009 |
| Improvements to HKFRSs 2009 | 1 July 2009 or 1 January 2010 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.