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OVERVIEW

We have been an integrated information communication application solution provider and application service provider since 2003. As an application solutions and application service provider, we design and develop information communication application solutions for our customers. Our application solutions are customised according to our customers’ different needs. Our application solutions include satellite communication application solutions, wireless data communication application solutions and call centre application solutions. After the sales of our application solutions, we provide application services to our customers by assisting them to manage, upgrade and maintain the application solutions.

During the Track Record Period, some of our customers engaged us to provide application services for the application solution provided by us after the warranty period or project completion. Our application solutions are utilised by our customers for public safety, city emergency communication and city integrated management purposes. For example, our application solutions enable our customers to remotely monitor and co-ordinate emergency rescue exercises, remotely monitor the operation of fire alarm systems or traffic law enforcement officers to issue and collect fines for traffic offences at the scene or for public utilities institutions to remotely collect data from and receive information of public utilities services usage meter. For further details of our application solutions, please refer to the section headed “Business — Application solutions and application services” in this document.

Our application solutions require a telecommunication network, such as satellite or wireless telecommunication networks, for it to function. As we are not a telecommunication network providers, we do not own or operate any telecommunication networks. Our customers have to use the data transmission services provided by other satellite and wireless telecommunication network operators, such as SkyComm, in order to support the operation of our application solutions. Our reliance on the co-operation with SkyComm Group and other satellite and wireless telecommunication network operators expose us to certain risks. For details, please refer to the section headed “Risk Factors — “We are dependent on the co-operation with SkyComm Group” and “We rely on the co-operation with other satellite and wireless telecommunication network operator in the PRC” in this document.

Our application solutions serve mainly governmental departments or agencies, public utilities institutions and business enterprises in the PRC. Our application solutions are mainly divided into three categories:

1. Satellite communication application solutions: the users of this type of application solutions mainly include different governmental departments or agencies, public utilities institutions and business enterprises in Beijing, Shanghai, Tianjin, Chongqing, Hebei Province, Shandong Province, Zhejiang Province, Guangdong Province, Hainan Province, Anhui Province, Inner Mongolia Autonomous Region and Guangxi Zhuang Autonomous Region. Our application solutions satisfy our customers’ need of satellite communication for emergency visual communication, communication during disaster rescues and satellite surveillance and supervision. We provide project design, project construction, provision of terminals, installation and testing, maintenance and technical support to our satellite communication application solutions.

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2. Wireless data communication application solutions: the users of this type of application solutions mainly include different governmental departments or agencies, public utilities institutions and business enterprises in Hebei Province and Shanghai. Our application solutions satisfy our customers' needs of wireless communication for traffic management, remote surveillance, remote control, remote adjustment and data collection. We provide project design, project construction, provision of terminals, installation and testing, maintenance and technical support to our wireless data communication application solutions.
3. Call centre application solutions: the users of this type of application solutions mainly include business enterprises in the area of telecommunication, banking and broadcasting. We provide the equipment, network support and technical support including overall software design for product requirements and specifications, software programming and technical support, system installation and configuration, and quality control and testing for the outsourced call centre operator in order for them to satisfy our customers' need in standardising, regulating and controlling the quality of customer service, handling of end customer enquiries and business information despatching. During the Track Record Period, we provided our call centre application solutions and services to our customers in Hebei Province.

In addition to our provision of application solutions, we also sell and/or distribute terminal equipment with the related technical support. Among which, we have been the exclusive distributor of StealthRay Products, which is a two-way satellite system to provide communications for vehicles in motion, in the PRC, Hong Kong and Macau, since May 2007.

For the year ended 31 December 2006, our turnover attributable to provision of satellite communication application solutions and services, wireless data communication application solutions and services and call centre application solutions and services amounted to approximately RMB21.64 million, RMB29.25 million and RMB2.98 million respectively, representing approximately 40%, 54% and 6% of our total turnover. For the year ended 31 December 2007, our turnover attributable to provision of satellite communication application solutions and services, wireless data communication application solutions and services and call centre application solutions and services amounted to approximately RMB90.17 million, RMB33.96 million and RMB2.92 million respectively, representing approximately 71%, 27% and 2% of our total turnover. For the year ended 31 December 2008, our turnover attributable to provision of satellite communication application solutions and services, wireless data communication application solutions and services and call centre application solutions and services amounted to approximately RMB120.07 million, RMB62.72 million and RMB4.28 million respectively, representing approximately 64%, 34% and 2% of our total turnover. For the five months ended 31 May 2009, our turnover attributable to provision of satellite communication application solutions and services, wireless data communication applications and services and call centre application solutions and services amounted to approximately RMB25.00 million, RMB20.50 million and RMB1.78 million respectively, representing approximately 53%, 43% and 4% of our total turnover.

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The breakdown of our Group’s turnover by application solutions and application services during the Track Record Period is as follows:

	For the year ended 31 December						For the five months ended 31 May	
	2006		2007		2008		2009	
	<i>RMB'000</i>	<i>% of turnover</i>	<i>RMB'000</i>	<i>% of turnover</i>	<i>RMB'000</i>	<i>% of turnover</i>	<i>RMB'000</i>	<i>% of turnover</i>
Satellite communication application solutions and services	<u>21,640</u>	<u>40%</u>	<u>90,169</u>	<u>71%</u>	<u>120,074</u>	<u>64%</u>	<u>25,001</u>	<u>53%</u>
Wireless data communication application solutions and services	<u>29,254</u>	<u>54%</u>	<u>33,962</u>	<u>27%</u>	<u>62,718</u>	<u>34%</u>	<u>20,500</u>	<u>43%</u>
Call centre application solutions and services	<u>2,976</u>	<u>6%</u>	<u>2,921</u>	<u>2%</u>	<u>4,282</u>	<u>2%</u>	<u>1,779</u>	<u>4%</u>
Total	<u>53,870</u>	<u>100%</u>	<u>127,052</u>	<u>100%</u>	<u>187,074</u>	<u>100%</u>	<u>47,280</u>	<u>100%</u>

Our application solutions and application services are all sold and provided within the PRC domestic market.

Our main office is currently located in Shijiazhuang, Hebei Province, the PRC. In order to provide timely support and services to our customers located in Shanghai and nearby area, we established a sales office in Shanghai in October 2007. We leased our office in Shijiazhuang from SkyComm Group for a period of three years commencing from 1 July 2008, and leased our sales office in Shanghai from Mr. Chan for a period of three years commencing from 1 November 2007.

We have also leased another office in Beijing from SkyComm which is used as our operational centre of our ALL ACCESS platform and sales office in Beijing. The lease is for a term of 10 years commencing from 1 January 2009, with an option by us to renew the lease on the same term (other than the option to renew and at the then market rent subject to a cap of 120% of the existing rent) for another 10 years commencing from the expiry of the initial term, unless terminated by us by giving a written notice of at least three months. Under the relevant tenancy agreement, we have also been granted a purchase option pursuant to which we may, during the term of the lease, request SkyComm to sell the office premises to us at its then fair market value.

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COMPETITIVE STRENGTHS

We possess the following principal competitive strengths:

We are an experienced application solution and application service provider with strong customisation capabilities

Since 2003, we have been providing application solutions to government departments or agencies, public utilities institutions and other business enterprises. During those years, we have accumulated expertise and experience in the business of providing information communication application solutions and application services.

The provision of application solutions and application services mutually compliment each other which allow us to provide a more comprehensive service to our customers. We have our own application solutions development team, which customises and develops innovative application solutions and provides application services to address specific customer requirements. During the Track Record Period, we have put emphasis on the development of system application solutions that met the needs of government departments and agencies in the PRC. In particular, we have accumulated experience in developing information communication application solutions which are used in different aspects including public utilities, fire alert, traffic information management, telecommunications and emergency rescues actions. We believe that these experiences provide us with a solid background to implement large scale projects.

We believe our ability to develop innovative and customised applications and services to respond to and anticipate customers’ needs enables us to be more adaptable to changes in the economic and market conditions experienced by any individual market or industry sector.

We benefit from the China’s Informatization Development Strategy (2006-2020) policy (國家資訊化發展戰略(2006-2020年))

In May 2006, the PRC government revealed the China’s Informatization Development Strategy (2006-2020) policy. Under the China’s Informatization Development Strategy (2006-2020) policy, the PRC government will improve the system of communication network’s operation to respond to emergency situations and its ability to alert the public of such emergency and also the capability to manage and monitor emergency situations. As we focus on providing application solutions and application services for public safety, city emergency communication and city integrated management purposes, we are well positioned to benefit from the the China’s Informatization Development Strategy (2006-2020) policy.

We are one of the few providers of integrated application solutions comprising satellite communication, wireless data communication and call centre application solution in the PRC

We believe we are one of the few providers of integrated application solutions comprising satellite communication, wireless data communication and call centre application solution in the PRC. We have been responsible for several projects in major cities such as Shanghai, Beijing and

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Hebei Province in the PRC, including the provision of satellite communication application solution and wireless data communication application solution for the government departments or agencies in Hebei Province. We believe our integrated application solution service model allows us to better satisfy our customers’ needs, further develop our client relationships and cross-sell our different services.

In addition, because our application solutions comprise of satellite communication, wireless data communication and call centre application solution, we believe we can have cross-selling opportunities in respect of different application solutions to the same customer.

Our satellite communication application solutions, wireless data communication application solutions and call centre application solutions create a synergy effect and a competitive cost structure

Our satellite communication application solutions, wireless data communication application solutions and call centre application solutions all utilise the ALL ACCESS platform to process data and thereby allowing a sharing of resources. The application for each type of application solution can be readily replicated for other applications. As a result of this synergy effect, we can create a competitive cost structure.

We own an integrated application platform called “ALL ACCESS platform” which enables our customers to utilise our application solutions and complete the processing of data from different geographical locations through the use of various private and public satellite, wireless and wired networks

We own an integrated application platform called “ALL ACCESS platform” which enables our customers to utilise our application solutions and complete the processing of data from different geographical locations through the use of various private and public satellite, wireless and wired networks. Its main components are made up of a control centre, billing centre, satellite network management centre and data centre. The ALL ACCESS platform acts as a centralised data processing unit, where data received through connections from different application solutions such as the satellite and wireless data communication application solution are processed and transmitted in different mode depending on the users’ different needs. Users can access or transmit their information through our ALL ACCESS platform by using satellite, wired and wireless networks, thereby overcoming any topographical and geographical constraints.

We have strong research, design and development capabilities

We have a strong ability to design, develop and engineer a broad range of application solutions. As of the Latest Practicable Date, we had approximately 61 staff members engaged in the research and development and engineering, and all of them have received tertiary education.

We have received a number of awards and official recognition from a number of PRC authorities and professional bodies as set out in the paragraph headed “Awards and Accreditations” in this section. We believe this demonstrates our competitive edge over other application solutions providers in terms of quality and technology advancement.

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We have experienced management and staff with sound industry knowledge, management skills and technical know-how

Our senior management team has an average of more than 12 years of experience in the information communication application solution industry. We believe that our experienced management team enables us to capture market opportunities and to formulate and execute sound business strategies. They have proven ability and success in undertaking projects in different areas such as public utilities, public safety, telecommunications and metropolitan traffic management. We also provide our staff with training courses to ensure that their skills and know-how are constantly kept abreast of the changes in technology.

STRATEGY

Our goal is to become one of the leading integrated information communication application solutions providers and application services providers in China. We aim to position ourselves as a one-stop application solution provider whereby we provide both the application solutions and application services to our customers. To this end, we intend to carry out the following plans:

Creating a steady stream of income by providing more application services

We aim to position ourselves as a one-stop application solution provider whereby we provide not only the solution on a project basis but also application services to our customers on an on-going basis. After the warranty period or the project completion, some of our customers engaged us to provide application services for the application solutions purchased from us during the Track Record Period. We usually charge a fee for our application services such as system operation management, application upgrade and system maintenance to our application solutions. Such fees will be charged on a monthly, quarterly or yearly basis which will provide us with a steady stream of income.

Further enhancement of research, design and development capabilities

To support future expansion, our Directors consider it crucial to further strengthen our engineering team. We plan to recruit additional professionals to join our engineering team, purchase more equipment, and provide continuous training to improve the engineering team in the aspect of capturing new technology.

Promoting the awareness of our company and our application solutions

We aim to position ourselves as a preferred partner for governmental departments or agencies, public utilities institutions and business enterprises. To this end, we aim to maintain close contact with these customers of various provinces and cities. Our technical staff will continue to liaise closely with the representatives of these customers to proactively react to any new technical requirements as well as market development directions. We will participate in various industry exhibitions and technical conferences in the PRC to enhance the awareness of our company and our application solutions and application services in the market.

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Expanding sales, distribution and services network

Our main office is in Hebei Province, the PRC and we have offices in Shanghai and Beijing. In order to strengthen our market position, we intend to set up a number of sale liaison points and representative offices in different major cities in the PRC in future. In doing so, we expect to enlarge the sales team, expand the number of our office locations and upgrade our office facilities. In addition, we also intend to increase the number of experienced sales engineers in order to support the increasing volume of marketing activities.

Deepening relationships with existing customers and suppliers and increasing cross-selling opportunities

We seek to deepen and capitalise upon our relationship with our existing customers, as this will likely offer us additional cross-selling opportunities. We place emphasis on customer relations and dedicate particular sales personnel and engineering support personnel to each of our key customers. We have in the past assigned employees on a short-term basis to the offices of some key customers for the purpose of providing on-site sales and engineering support. This has also helped us to solidify the relationship with our customers. We seek to establish and maintain long-term partnerships with such customers by:

- being involved in strategising future direction in respect of the application solutions which can enhance our customers’ operation;
- emphasising collaboration between our sales and marketing team and engineering team to provide quality services; and
- providing optimal choice of application solutions that satisfy our customers’ requirement.

We also intend to continue to deepen our relationships with our suppliers, especially with those that provide us with key components for our application solutions through close collaboration in product development. We intend to work with our key suppliers in developing their product roadmap by providing input relating to our customers’ requirements.

ALL ACCESS PLATFORM

The core module of the Group’s integrated application platform is called “ALL ACCESS platform”. Its main components are made up of a control centre, billing centre, satellite network management centre and data centre. The ALL ACCESS platform acts as a centralised data processing unit, where data received through connections from different application solutions such as the satellite and wireless data communication application solution are processed and transmitted in different mode depending on the users’ different needs. The key function of the ALL ACCESS platform is to encrypt, verify and compile the data transmitted through the telecommunication networks so that the relevant officers of our customers can analyse the data and take responsive actions.

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The ALL ACCESS platform also supports the operation of a call centre. The key function of a call centre is to receive and process audio and data requests via telephone, fax, computers or the Internet. With the ALL ACCESS platform, the call centre operator can handle the requests of the end user and provide the requested information accordingly.

The equipment and facilities comprising the ALL ACCESS platform were owned by SkyComm Group and were licensed to Noter since the transfer of business to Noter in August 2006 on a cost reimbursement basis (excluding depreciation charges), which amounted to approximately RMB1.46 million, RMB1.36 million and RMB1.31 million for each of the three years ended 31 December 2008. After the establishment of Noter in 2006, we focused in utilising our resources for business development, therefore we did not acquire the equipment and facilities of the ALL ACCESS platform from Hebei SkyComm and Shanghai SkyComm during the Business Transfer in August 2006. However, to further reduce our reliance on SkyComm Group, on 20 December 2008, we acquired these equipment and facilities of the ALL ACCESS platform from Hebei SkyComm and Shanghai SkyComm for a total cash consideration of approximately RMB53.09 million. The consideration was arrived by reference to the value of the ALL ACCESS platform which was appraised by an independent qualified valuer to be approximately RMB53.09 million as at 30 September 2008. We are advised by our PRC Legal Advisers that subsequent to the acquisition, we are the sole legal and beneficial owner of the ALL ACCESS platform.

After we acquired the ALL ACCESS platform from Hebei SkyComm and Shanghai SkyComm, when the customers of our application solutions require to transmit data through SkyComm's communication network, SkyComm Group needs to connect to our ALL ACCESS platform to provide data transmission services to our customers. In light of the requirement of SkyComm Group to gain access to certain functions of our ALL ACCESS platform, we have entered into a licence agreement on 3 June 2009 to formalise our arrangement with SkyComm Group whereby we will receive a fee of RMB574,800 per annum from SkyComm Group and in return, SkyComm Group is granted a licence to access to certain functions of our ALL ACCESS platform on a non-exclusive basis. Our Directors believe that this licence arrangement with SkyComm does not have any material impact on our current operations. As at the Latest Practicable Date, we had not granted similar licence to other network operators. Instead, we offer the access and use of our ALL ACCESS platform as part of our application services to our customers and/or the related network operators.

As at the Latest Practicable Date, we had 30 technical staff who possess the relevant experience for the operation and maintenance of the ALL ACCESS platform.

APPLICATION SOLUTIONS AND APPLICATION SERVICES

We are principally engaged in providing information communication application solutions and application services for public safety, city emergency communication and city integrated management purposes. Our application solutions include satellite communication application solutions, wireless data communication application solutions and call centre application solutions. We offer system design, software development, system installation and sourcing the suitable terminals to provide integrated application solutions to our customers depending on their different needs. Our application

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services include system operation management, application upgrade and system maintenance for our application solutions. After the warranty period or project completion, during the Track Record Period, some of our customers engaged us to provide application services for the application solution provided by us.

Set out below is a table setting out the turnover attributable to each of our major application solutions and the respective percentage of total turnover during the Track Record Period.

	For the year ended 31 December				For the five months ended 31 May			
	2006		2007		2008		2009	
	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover
(1) Satellite communication application solutions and services								
<i>Dynamic Satellite Communication Solutions</i>	4,275	7.9%	67,683	53.3%	91,555	48.9%	12,166	25.7%
<i>Stationary Satellite Communication Solutions</i>	15,695	29.1%	19,010	15.0%	11,602	6.2%	12,092	25.6%
<i>Satellite Data Collection Solution</i>	500	0.9%	544	0.4%	781	0.4%	292	0.6%
(2) Wireless Data Communication Application Solutions and Services								
<i>Public Utilities Institutions Solution</i>	1,928	3.6%	233	0.2%	1,663	0.9%	120	0.3%
<i>Distance Fire Alarm Solution</i>	972	1.8%	92	0.1%	330	0.2%	332	0.7%
<i>Traffic Offence Electronic Ticketing and Payment Solution</i>	17,083	31.7%	6,947	5.5%	36,292	19.4%	4,455	9.4%
(3) Call centre application solutions and application services								
	2,976	5.5%	2,921	2.3%	4,282	2.3%	1,779	3.8%
Total:	<u>43,429</u>	<u>80.5%</u>	<u>97,430</u>	<u>76.8%</u>	<u>146,505</u>	<u>78.3%</u>	<u>31,236</u>	<u>66.1%</u>

Set out below is the description of our major application solutions.

1. Major satellite communication application solutions and application services

Designed to meet the demand from governmental departments or agencies, public utilities institutions and business enterprises for public safety, city emergency communication and city integrated management, we offer the Dynamic Satellite Communications Solutions, Stationary Satellite Communications Solutions and Satellite Data Collection Solutions mainly to different governmental departments or agencies. As a package, our satellite communication application solutions include application solution design, project construction, provision of terminals, installation and testing, maintenance, end users training and technical support.

(a) *Emergency Satellite Communication Solution*

The Emergency Satellite Communication Solution is an application solution designed and developed for rescue services in any region facing or recovering from natural or man-made disasters. Satellite video communications enable real-time information exchange without any terrestrial

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constraints, allowing the government departments or agencies and emergency rescuers to monitor the emergency situation live without any physical presence. In 2004, we provided this application solution to a government department in Hebei Province. Subsequently, we have provided other Emergency Satellite Communication Solution to government departments or agencies in Hebei Province, Anhui Province and Shanghai.

Emergency Satellite Communication Solution has the characteristic of providing extensive geographical coverage, fast connection, real time transmission of images and videos through satellite communication network, long distance command, video conferencing, image alternation and autonomous electricity supply. The application solutions include Dynamic Satellite Communications Solution and Stationary Satellite Communications Solution.

(i) *Dynamic Satellite Communication Solution*

The dynamic satellite communication system consists of three main components, namely, satellite transmitter, satellite receiver and the Dynamic Satellite Communication Vehicle.

Each Dynamic Satellite Communication Vehicle is mounted with a StealthRay system which is designed, developed and manufactured by RaySat. The StealthRay system comprises a vehicle roof-mounted array antenna called “StealthRay”. StealthRay is an in-motion steerable two-way satellite system designed to provide communications for vehicles in motion.

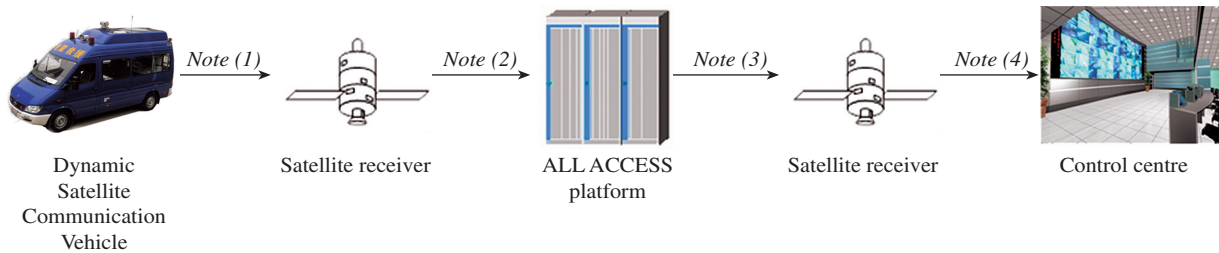
We designed the Dynamic Satellite Communication Vehicle with the use of the StealthRay system. Since 2006, we have provided the Dynamic Satellite Communication Vehicle to a government department in Hebei Province. Vehicles which are installed with our Dynamic Satellite Communication Solution can enable the control centre to monitor the emergency situation and give orders directly to the officers in the patrolling vehicle while the vehicles are moving.

In the operation of the Dynamic Satellite Communication Solution, the Dynamic Satellite Communication Vehicle and control centre both connect to the ALL ACCESS platform via satellite communication networks. Our ALL ACCESS platform coupled with the satellite communication network offered by satellite communication network operators enable our customers to have extensive geographical coverage of fast and real time transmission of data, voice and videos between the Dynamic Satellite Communication Vehicle and our customers’ control centre while the Dynamic Satellite Communication Vehicle is moving.

Our Dynamic Satellite Communication Solution is sold as a package whereby we are responsible for application solution design, application solution programming, equipment and components procurement, assembly, installation, project management, end users training, maintenance and technical support services.

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The workflow of our Dynamic Satellite Communication Solution can be illustrated in the following diagram:



Notes:

- (1) Visual and audio data are transmitted from the Dynamic Satellite Communication Vehicle to the satellite receiver.*
- (2) The data are then transmitted from the satellite receiver to the ALL ACCESS platform through satellite communication network.*
- (3) After the data have been processed by the ALL ACCESS platform, the processed data are transmitted back to satellite receiver through satellite communication network.*
- (4) The satellite receiver then transmits the processed data to our customer's control centre for further analysis and action.*

Distribution of “StealthRay Products”

In addition to using the StealthRay Products in our satellite communication application solutions, we also sell the StealthRay Products coupled with our technical support services.

Pursuant to the Exclusive Distribution Agreement with RaySat, since May 2007 we are the exclusive distributor of the StealthRay Products and any new improvements for similar two-way antennas in the PRC, Macau and Hong Kong. Under the Exclusive Distribution Agreement with RaySat, we can sell the StealthRay Products in the PRC, Hong Kong or Macau. The Exclusive Distribution Agreement with RaySat is valid for one year and shall be extended for successive terms of one year period upon expiry of the then current term, subject to the parties reaching an agreement on the minimum purchase requirements for the relevant year and our compliance of the minimum purchase requirements for the previous year. For the two years ended 31 December 2007, 31 December 2008 and the five months ended 31 May 2009, the purchase amount of StealthRay Products were approximately RMB29.67 million, RMB22.07 million and nil million respectively. We did not purchase any StealthRay Products for the five months ended 31 May 2009 because we were utilising our inventory of StealthRay Products during this period. As at 31 December 2007, 31 December 2008 and 31 May 2009, the amount of inventory of StealthRay Products were approximately RMB1.54 million, RMB1.98 million and nil. The minimum purchase requirement in respect of 2007 exclusivity period (that is, for the period between May 2007 to May 2008) was 100 antennas per year. The minimum purchase requirement for June 2008 and July 2008 were 10 antennas per month while the minimum purchase requirement for the period between August 2008 and May 2009 was to be determined by the progress of RaySat in developing and producing several new types of two-way antennas. The exact quantity of antennas

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to be delivered after July 2008 was to be agreed between RaySat and us after successful testing and price negotiation between the parties. Under this arrangement, we have respectively purchased in total 100 and 43 antennas for period from May 2007 to May 2008 and from June 2008 to May 2009. RaySat has confirmed its satisfaction of our co-operation in 2007 and 2008 and the Exclusive Distribution Agreement with RaySat was extended to 2009. The Exclusive Distribution Agreement with RaySat sets out the minimum purchase requirements from 2009 to 2015. In view of the fact that our business development strategies to expand our sales, distribution and service network as set out in the section headed "Business — Our Strategies", our Directors believe that we will be able to meet the minimum purchase requirements from 2009 to 2015. If we do not satisfy the applicable minimum purchase requirement for any exclusivity period, RaySat and ourselves have to use our best efforts to reach an agreement within one month prior to the expiration of the relevant exclusivity period in order to resolve the situation. If no agreement can be reached one month after the expiration of the relevant exclusivity period, then RaySat shall have the right, in its sole discretion, to terminate the exclusivity granted to us under the Exclusive Distribution Agreement with RaySat, whereupon, our appointment under the Exclusive Distribution Agreement with RaySat, and all authorisations and rights granted to us under the Exclusive Distribution Agreement with RaySat will be terminated immediately. Under the Exclusive Distribution Agreement with RaySat, we are responsible for providing support to our customers, which includes the handling of customers complaints and answer questions from the customers, providing customers with relevant support materials and receiving and handling of units within the limited warranty period and undertaking of minor repairs on units and on-site technical support at the premises of customers. RaySat is responsible for providing support to us, which includes resolving intractable problems that cannot be solved by us for the duration of the limited warranty period. The duration of the limited warranty period is from the date of delivery of the StealthRay Products by RaySat to us until the date falling one year after the date of delivery of the StealthRay Products by us to our customers. Upon the expiration of duration of the limited warranty period, we have the option of extending the duration of the limited warranty period for a duration and price to be negotiated by mutual agreement between RaySat and ourselves.

Pursuant to the Exclusive Distribution Agreement with RaySat, RaySat has the right, at its sole discretion, to terminate the Exclusive Distribution Agreement with RaySat upon occurrence of any of the following: (i) we become insolvent, or voluntary or involuntary bankruptcy, insolvency or similar proceedings are instituted against us; (ii) we fail to maintain operations as a going business for more than 20 consecutive days; (iii) we, or any of our officer, director, substantial shareholder or principal is convicted in a court of competent jurisdiction of any offences related to the business conducted by us in connection with the Exclusive Distribution Agreement with RaySat; (iv) we fail to comply with any applicable US or PRC law or regulation; (v) we falsify any records or reports required under and fail to correct it within 40 days after receiving notice from RaySat; (vi) we fail to renew, or loses, due to suspension, cancellation or revocation, for a period of 45 days or more, any license, permit or similar document or authority required by law or governmental authority having jurisdiction, that is necessary in carrying out the provisions of the Exclusive Distribution Agreement with RaySat and to maintain our corporate or other business status, as in effect as of the effective date of the Exclusive Distribution Agreement with RaySat; (vii) we assign, sell or transfer any of our rights and obligations under the Exclusive Distribution Agreement with RaySat unless otherwise permitted

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under the Exclusive Distribution Agreement with RaySat; (viii) any actual fraud or illegal action of any sort by us in connection with the Exclusive Distribution Agreement with RaySat; (ix) our failure to submit the initial order to RaySat in accordance with the requirements of the appointment details of the Exclusive Distribution Agreement with RaySat; (x) our failure to meet the applicable Minimum Purchases Requirement; or (xi) continued performance of the Exclusive Distribution Agreement with RaySat which could cause RaySat to be in violation of any US law or regulation; (xii) we export the StealthRay Products or sell them to customers other than pursuant to the terms and conditions of the Exclusive Distribution Agreement with RaySat.

Pursuant to the Exclusive Distribution Agreement with RaySat, we have the right, at our sole discretion, to terminate the Exclusive Distribution Agreement with RaySat upon the occurrence of any of the following: (i) RaySat becomes insolvent, or voluntary or involuntary bankruptcy, insolvency or similar proceedings are instituted against RaySat; or (ii) any representation, warranty or statement made by RaySat in the Exclusive Distribution Agreement with RaySat is incorrect or misleading in any material respect; (iii) RaySat fails to duly perform any of its obligations under the Exclusive Distribution Agreement with RaySat and the same is not capable of remedy or, if remediable, is not remedied within 21 days after written notice of such non-performance from us; or (iv) RaySat fails to maintain operations as a going business for more than 20 consecutive days.

Pursuant to the Exclusive Distribution Agreement with RaySat, both RaySat and us have the right to terminate the Exclusive Distribution Agreement with RaySat if the other party breaches any material term or condition of the Exclusive Distribution Agreement with RaySat and fails to cure such breach within 25 days after written notice or immediately upon notice if such breach is incapable of cure.

For each of the three years ended 31 December 2008 and the five months ended 31 May 2009, our turnover, cost of sales, gross profit and gross profit margin attributable to the provision of our satellite communication application solutions involving the use of the StealthRay Products and the sale of the StealthRay Products and their proportion in terms of percentage in relation to our total turnover, cost of sales and gross profit are as follows:

	For the year ended 31 December						For the five months ended 31 May	
	2006		2007		2008		2009	
	<i>RMB'000</i>	<i>% to total</i>	<i>RMB'000</i>	<i>% to total</i>	<i>RMB'000</i>	<i>% to total</i>	<i>RMB'000</i>	<i>% to total</i>
		<i>turnover/</i>		<i>turnover/</i>		<i>turnover/</i>		<i>turnover/</i>
		<i>cost of</i>		<i>cost of</i>		<i>cost of</i>		<i>cost of</i>
		<i>sales/ gross</i>		<i>sales/ gross</i>		<i>sales/ gross</i>		<i>sales/ gross</i>
		<i>profit</i>		<i>profit</i>		<i>profit</i>		<i>profit</i>
Turnover	4,275	8%	67,683	53%	91,555	49%	12,166	26%
Cost of sales	465	1%	40,226	53%	46,411	45%	7,669	23%
Gross Profit	3,810	17%	27,457	54%	45,144	54%	4,497	32%
Gross Profit Margin	89%		41%		49%		37%	

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For each of the three years ended 31 December 2008 and the five months ended 31 May 2009, turnover attributable to the provision of our satellite communication applications involving the use of the StealthRay Products amount to approximately RMB4.28 million, RMB21.54 million, RMB32.74 million and RMB4.19 million respectively, which represent approximately 8%, 17%, 18% and 9% of our total turnover. For each of the three years ended 31 December 2008 and the five months ended 31 May 2009, turnover attributable to the sale of the StealthRay Products and the related technical support amount to approximately nil, RMB46.14 million, RMB58.81 million and RMB7.98 million respectively, which represent approximately 0%, 36%, 31% and 17% of our total turnover.

The gross profit margins attributable to the provision of our satellite communication application solutions involving the use of the StealthRay Products and the sale of the StealthRay Products and the related technical support for the year ended 31 December 2007 and 2008 are consistent with our Group's average gross profit margins of the respective year while the gross profit margin for the year ended 31 December 2006 is higher than our Group's average gross profit margin due to the fact that it is a software development project engaged by a customer for an application solution to be applied on StealthRay Products. The major software development cost is the time cost of engineers involved in this project. The gross profit margin attributable to the provision of our satellite communication application solution, including the use of the StealthRay Products and the sale of the StealthRay Products and the related technical support for the five months ended 31 May 2009 is higher than our Group's average gross profit margin because it is before the absorption of the unallocated cost of the ALL Access platform's depreciation which dilutes the Group's average gross profit margin substantially.

There are alternative suppliers of two-way antennas in the PRC. The two-way antennas used in our Stationary Satellite Communications Solution are sourced from these suppliers. However, based on our co-operation with RaySat during the Track Record Period, our Directors believe there are more rooms to expand our business development with RaySat, therefore in order to maintain our long-term co-operative relationship with RaySat and the consistency of the quality of our Dynamic Satellite Communication Solution which are used in critical situations such as emergency rescues, the StealthRay Products are used in all of our Dynamic Satellite Communication Solution. For each of the three years ended 31 December 2008 and the five months ended 31 May 2009, our turnover attributable to the sales of application solutions using the two-way antennas and related products supplied by alternative suppliers amounted to approximately RMB15.69 million, RMB19.01 million, RMB17.78 million and RMB12.02 million respectively, representing approximately 29%, 15%, 10% and 25% of our total turnover.

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(ii) *Stationary Satellite Communications Solution*

The stationary satellite communication system consists of three main components, namely, satellite transmitter, satellite receiver and the Stationary Satellite Communication Vehicle.

The functions of the Stationary Satellite Communication Solution are similar to Dynamic Satellite Communication Solution except that the satellite data transmission can be carried out only when the satellite antenna is in stationary mode. Stationary Satellite Communication Vehicle is a vehicle installed with the Stationary Satellite Communication Solution which incorporates an antenna on the rooftop of a vehicle with the antenna control system installed inside the vehicle.

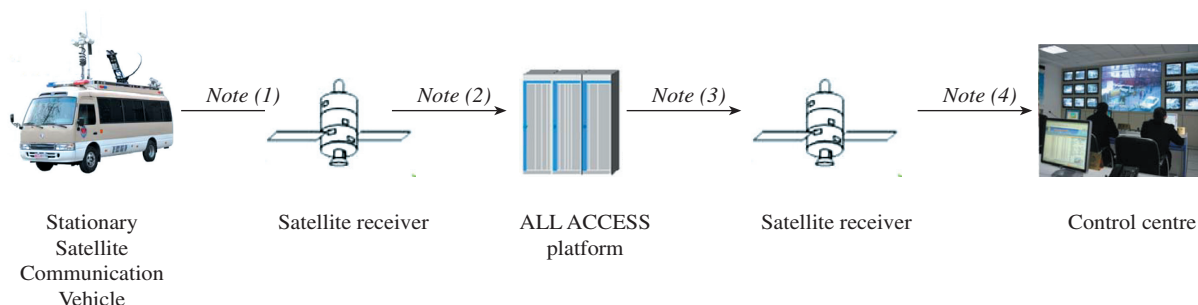
The Stationary Satellite Communication Solution can be used across a wide range of applications, including emergency communications, since it can provide rescuers and officers handling an emergency situation with a high-speed satellite communications link to vehicles independent of terrestrial infrastructures that are susceptible to local service interruptions, natural disasters and sabotage. Since it does not rely on terrestrial networks, it also offers applications for industries typically operating across remote geographical areas unserved by terrestrial network operator.

In the operation of the Stationary Satellite Communication Solution, the Stationary Satellite Communication Vehicle and control centre both connect to the ALL ACCESS platform via satellite communication networks. Our ALL ACCESS platform coupled with the satellite communication network offered by satellite communication network operators enable our customers to have extensive geographical coverage of fast and real time transmission of data, voice and videos between the Stationary Satellite Communication Vehicle and our customers’ control centre while the Stationary Satellite Communication Vehicle is stationary.

Since 2004, we provided the Stationary Satellite Communication Solution to government departments or agencies, public utilities institutions and business enterprises responsible for public safety, city integrated management and city emergency communication. In 2006, the application solution was used in an international motor racing event in Shanghai.

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The workflow of our Stationary Satellite Communications Solution can be illustrated in the following diagram:



Notes:

- (1) *Visual and audio data are transmitted from the Stationary Satellite Communication Vehicle to the satellite receiver.*
- (2) *The data are then transmitted to the ALL ACCESS platform through satellite communication network.*
- (3) *After the data have been processed by the ALL ACCESS platform, the processed data are transmitted back to satellite receiver through satellite communication network.*
- (4) *The satellite receiver then transmits the processed data to our customer's control centre for further analysis and action.*

(b) **Satellite Data Collection Solution**

The Satellite Data Collection Solution was developed based on satellite communications technologies. One of the features of satellite communications technology is its capability for the collection and dissemination of information at various locations in one venue, which in turn improves the capabilities of users for conducting statistical analysis of data and distance supervision. We have provided this type of application solution since 2004 and our customers include public utilities companies.

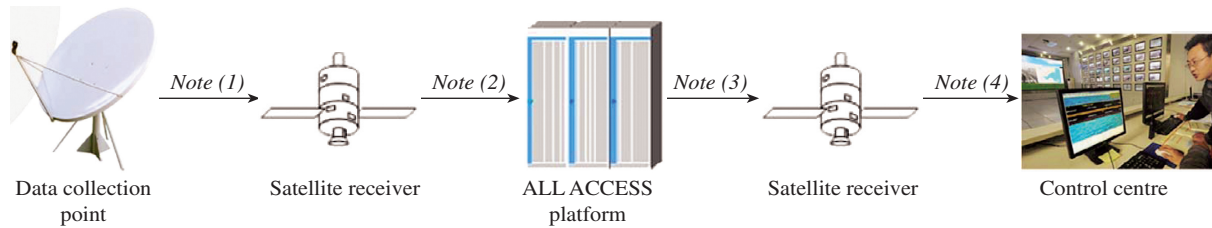
This application solution is useful for industries involving operation in remote areas without fixed or wireless communication network coverage. The Satellite Data Collection Solution enables the control centre of those industries to collect and manage information regarding safety, measurements and prediction, and to conduct distanced supervision.

As an example, our Satellite Data Collection Solution has been used in data collection in a project which involved transportation of natural gas supplied from the western region of the PRC to the eastern region of the PRC. This particular application solution consists of user control centre and data collection points which are connected and communicated through our ALL ACCESS platform. The data collection points collect and encrypt the data which is communicated to our ALL ACCESS platform through satellite communication networks. Our ALL ACCESS platform processes, verifies, analyses and compiles statistical data and send the encrypted processed data to the users' control

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centre through satellite communication network. After the user’s control centre receives the data, the data is unencrypted, analysed and stored for the user’s use. This application solution enables data communication between the user control centre and the data collection points through satellite communication network.

The workflow of our Satellite Data Collection Solution used in the transportation of natural gas project mentioned above can be illustrated in the following diagram:



Notes:

- (1) The data collection points collect and encrypt the data which is then transmitted to the satellite receiver.*
- (2) The data is then transmitted to the All ACCESS platform through satellite communication network for processing.*
- (3) After the data has been processed by the ALL ACCESS platform, the processed data is transmitted back to satellite receiver through satellite communication network.*
- (4) The satellite receiver then transmits the processed data to our customer’s control centre through satellite communication network. The data is unencrypted, analysed and stored for the user’s use.*

We charge our customers for a whole-package which we are responsible for application solution design, application solution programming, equipment and components procurement, assembly, installation, project management, end users training and maintenance and technical support services. Our satellite communication application solutions are sold for a series of instalment payable by our customers in accordance with our credit policy as described in the paragraph headed “Credit Policy” in this section and the fee for our application services such as system operation management, system connection, application upgrade and system maintenance will be charged when these services are provided.

2. Major wireless data communication application solutions and application services

Our wireless data communication application solutions are developed to address the demand of wireless data communication in remote surveillance, remote control and remote adjustment mainly in the area of public safety and city integrated management so as to increase government’s capability to manage public safety precaution issues such as fire safety, traffic safety and gas leakage and increase the level of information management. To address this need, we have developed several wireless data communication application solutions which include Public Utilities Institutions Solution, Distance Fire Alarm Solution and Traffic Offence Electronic Ticketing and Payment Solution.

Additionally, we also provide application services such as system operation management, application upgrade and system maintenance. The customers for our wireless data communication

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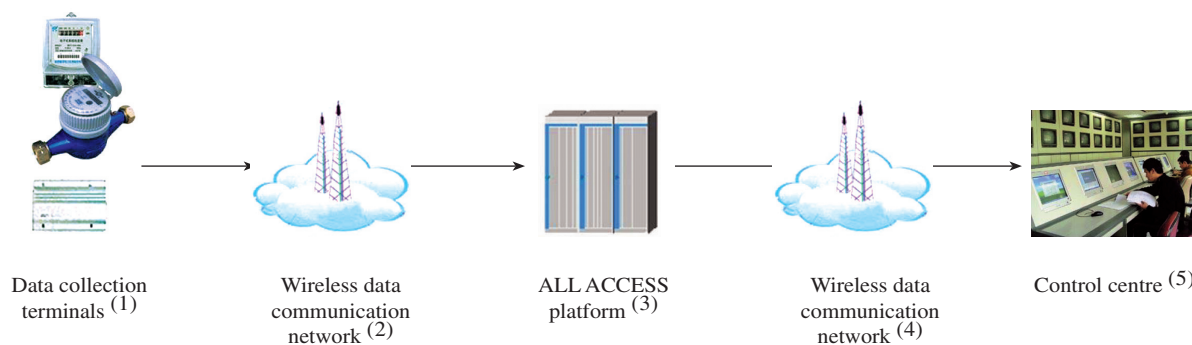
application solutions include government departments or agencies and public utilities companies. These application solutions are provided on a project basis and can be modified in accordance with the customers’ specifications. Such major application solutions provided by us can be categorised as follows:

(a) ***Public Utilities Institutions Solution***

Our Public Utilities Institutions Solution is designed to collect the data from the usage meter in a cost effective way with no environmental and geographical constraints. The relevant public utilities authority can rely on the data collected to carry out necessary maintenance, improvement work, and supply control in order to maintain a stable and reliable supply of public utilities services. We have provided this application solution since 2005 and our customers include public utilities institutions. During the Track Record Period, we have secured certain service contracts in various public utilities services including water supply, gas and heat supply companies.

Our Public Utilities Institutions Solution enables our customers to remotely collect data from and receive information of public utilities services usage meter. It allows our customers to conduct real-time monitoring of the operation of the public utilities services system and ancillary equipment. Our customers can use our Public Utilities Institutions Solution instead of sending out personnel to the site to collect the data and obtain reports from the public utilities services usage meter and to monitor the operation of the public utilities services system and ancillary equipment.

The workflow of our Public Utilities Institutions Solution can be illustrated in the following diagram:



Notes:

- (1) *Data is collected by the data collection terminals on site.*
- (2) *After the data has been processed and encrypted, the data are transmitted to the ALL ACCESS platform through wireless data communication network.*
- (3) *The data is then verified, analysed and statistical data are compiled.*
- (4) *The data is transmitted to our customer’s control centre and the servers of the control centre through wireless data communication network.*
- (5) *The data is then stored in our customer’s control centre for analysis.*

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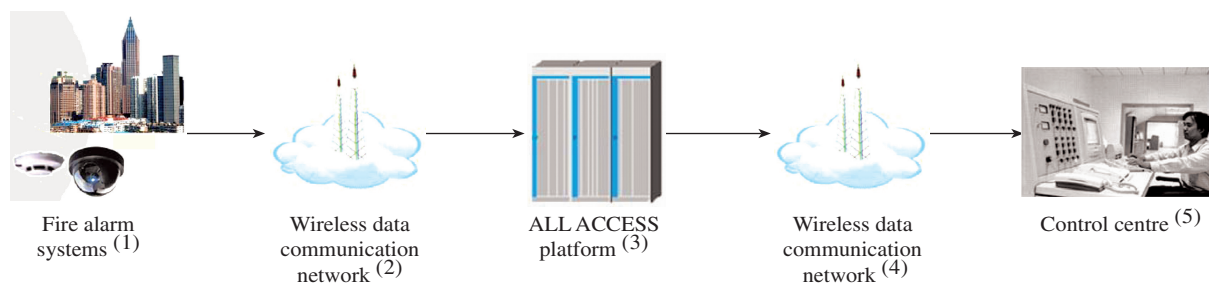
(b) *Distance Fire Alarm Solution*

Our Distance Fire Alarm Solution is designed to conduct real-time distance monitoring activities over the operations of fire service installations and equipment in premises and to detect fire hazard signals. We have provided this application solution since 2005.

Our Distance Fire Alarm Solution collects data and reports information relating to the malfunction of fire service equipment and fire hazards and conduct real-time monitoring of the operation of the automatic fire alarm system and ancillary equipment. Our customers can use our Distance Fire Alarm Solution instead of sending out personnel to the site to collect data and obtain reports relating to the malfunction of fire service equipment and fire hazards and to monitor the operation of the fire alarm system and ancillary equipment. The Distance Fire Alarm Solution also conducts fire emergency information processing by locating a fire emergency and analyse such data to enable staff in the control centre to take responsive action. The Distance Fire Alarm Solution delivers fire alerts information to local fire bureaus by sending out fire alert to inform the government emergency network staff or staff of the control centre, the location of the fire and other fire-related information. The Distance Fire Alarm Solution allows data enquiry by responding to the request of information and statistics concerning fire alerts of given units, facilities and period of time.

In the operation of our Distance Fire Alarm Solution, data collected by fire alarm systems is transmitted to the ALL ACCESS platform. The ALL ACCESS platform then verifies, the data and compiles statistical data. After the data have been processed and encrypted, the data is transmitted to the server of the control centre and stored for analysis.

The workflow of our Distance Fire Alarm Solution can be illustrated in the following diagram:



Notes:

- (1) *Data is collected from our customer’s fire alarm systems.*
- (2) *After the data has been processed and encrypted, the data are transmitted to the ALL ACCESS platform through wireless data communication network.*
- (3) *The data is then verified, analysed and statistical data are compiled.*
- (4) *The data is transmitted to our customer’s control centre and the servers of the control centre through wireless data communication network.*
- (5) *The data is then stored in our customer’s control centre for analysis.*

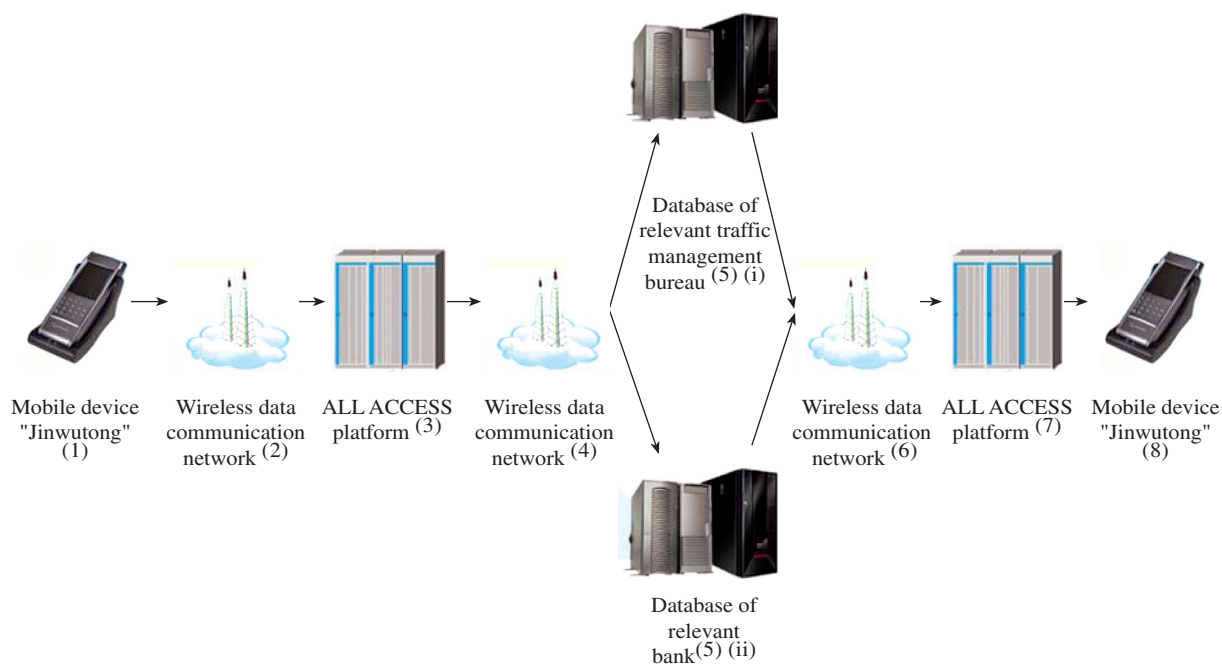
BUSINESS

(c) *Traffic Offence Electronic Ticketing and Payment Solution*

The Traffic Offence Electronic Ticketing and Payment Solution is an application solution to record, track and analyse traffic offences. It enables traffic law enforcement officers to make enquiries on the driver's details, vehicle details, handle the traffic offence and issue the fine on the spot by using a mobile device called "Jinwutong" (警務通) which is connected to the database of the department responsible for traffic management and the database of banks through the support of the wireless data communication networks. Since 2006, the Jinwutong can also act as a wireless point-of-sale device which accepts credit or debit cards allowing officers to collect fines on the spot and reduces the time required to collect fines. We have provided this application solution since 2003.

Our customers can use our Traffic Offence Electronic Ticketing and Payment Solution in place of the traditional method of issuing traffic offence fines. As the transaction of issuance and payment of the traffic offence fine occurs instantaneously through interaction with database of the relevant bank and the database of the bureau responsible for traffic management, the chance of committing an error is reduced as the system of the relevant bank and the bureau responsible for traffic management verify the information transmitted from the Jinwutong device before the transaction is processed.

The workflow of our Traffic Offence Electronic Ticketing and Payment Solution can be illustrated in the following diagram:



Notes:

- (1) *The law enforcement officer using the Jinwutong device input data request and transaction details of the payment of the fine into the "Jinwutong".*
- (2) *The data request and transaction details of the payment of the fine are sent through wireless data communication network to the ALL ACCESS platform.*

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- (3) *The ALL ACCESS platform processes and encrypts the data.*
- (4) *After the data has been processed and encrypted by the ALL ACCESS platform, the data request is transmitted to the database of the bureau responsible for traffic management and the transaction details of the payment of the fine is transmitted to the database of the relevant bank through wireless data communication network.*
- (5)
 - (i) *Data is retrieved from the database of the bureau responsible for traffic management based on the data request.*
 - (ii) *Transaction details of the payment of the fine are processed at the database of the relevant bank.*
- (6) *The data retrieved from the database of the bureau responsible for traffic management based on the data request is transmitted to the ALL ACCESS platform through wireless data communication network. The feedback of the transaction details of the payment of the fine is transmitted from the database of the relevant bank through wireless data communication network.*
- (7) *The data is then proceed and encrypted by the ALL ACCESS platform.*
- (8) *After the data has been processed and encrypted by the ALL ACCESS platform, the retrieved data and the feedback of the transaction details of the payment of the fine are transmitted to the Jinwutong device through wireless data communication network.*

This application solution was awarded the “2004 Hebei Province Technology Advancement 3rd Class Award” (2004年河北省科技進步三等獎) and the software developed by the Group for application of Jinwutong was awarded the Ten Best Software Products by Hebei Province Software Industry Association in 2005.

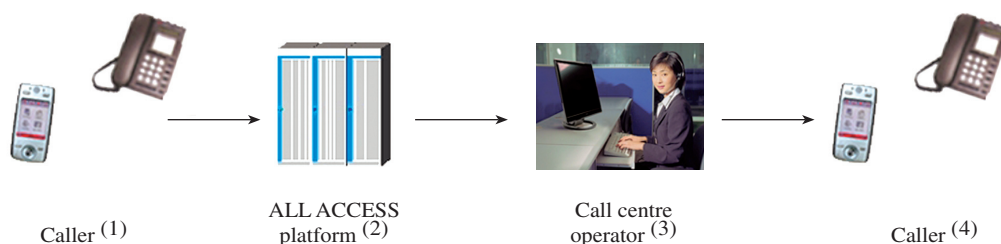
We normally charge our customers on sales of the application solution (which as a package including application solution design, application solution programming, equipment and components, procurement, assembly, installation, project management, end users training, and technical support services) by instalments payable by our customers in accordance with our credit policy as described in the paragraph headed “Credit Policy” in this section. We also charge our customers fees for our application services such as system operation management, application upgrade and system maintenance which will be on a monthly, quarterly or yearly basis.

3. Call centre application solutions and application services

Our call centre application solutions are designed for the telecommunication, banking and broadcasting enterprises which have outsourced their call centres to call centre service providers. Our ALL ACCESS platform also supports the operation of a call centre. The key function of a call centre application solution is to receive and process audio and data requests via telephone, fax, computers or the Internet. With ALL ACCESS platform, we can use the wired communication network to retrieve and transmit the data to the appropriate operators of the outsourced call centre.

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The workflow of our call centre application solutions can be illustrated in the following diagram:



Notes:

- (1) *Incoming telephone calls reach the ALL ACCESS platform through the wired or wireless data communication network.*
- (2) *The ALL ACCESS platform processes the incoming telephone call and retrieves the customer's information and call answering software according to the incoming telephone call details.*
- (3) *The ALL ACCESS platform then forwards the customer's information and incoming telephone call through the call answering software to the call centre operator.*
- (4) *The call centre operator then serves the caller and processes the caller's request.*

We have provided this application solution to a number of enterprises which has outsourced their call centres including a telecommunication service provider, a bank and a digital television broadcaster.

We sell our call centre application solutions which include provision of call centre system and network support together with application services which include application upgrade and system maintenance as a package. It is charged on a monthly, quarterly and yearly basis. The amount of fees depends on the number of operator seats in the call centre.

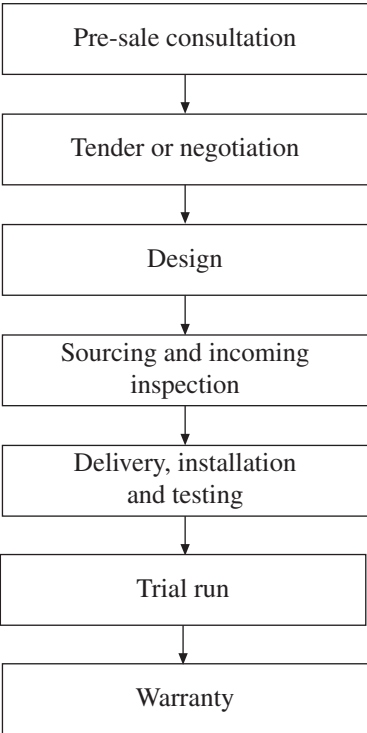
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BUSINESS MODELS

1. Provision of Application Solution Provisions

Under our current business model, our application solutions are mainly provided directly to our customers on a project basis. We provide design, delivery and installation, testing and inspection, production trial and technical support services. Upon acceptance of the application solutions provided or expiration of the relevant warranty period, some of our customer engaged us for our application services to perform maintenance and upgrading service of our solutions. 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 (i) down-payment payable after signing of contract; (ii) the remaining balance within 180 days (being the credit period which may vary on a case by case basis) after acceptance of project subsequent to trial run of the application solutions, subject to any retention money (if any) which will be withheld by customers in most of our projects until expiry of the warranty period; and (iii) the retention money (if any) will be settled by customers upon expiry of the warranty period.

The following chart sets out each step of our application solution provision:



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Pre-Sale Consultation

The members of our sales and marketing and engineering teams contact our prospective customers themselves or through our agent if they consider an application solution may be appropriate and provide general consultation services, such as discussing the specific requirements for the relevant industry in which the prospective customer operates. We also contact our current customers on a regular basis and provide general consultation services, such as analysing the system status and exploring further application opportunities for our application solutions. We introduce our new application solutions to our customers through our sales and marketing and engineering teams or our agents.

Tender or Negotiation

For application solutions which are to be provided for governmental departments and public utilities institutions, there will normally be a tender process whereby application solution providers are required to submit a detailed bidding proposal. Customers who require the submission of a bidding proposal will normally set out the technical requirements and specifications of the projects on their tender offers.

For application solutions which are to be provided for business enterprises, after various pre-sale consultation, our sales and marketing team will negotiate the terms of our application solutions provision which includes, among other things, consideration and payment terms.

After we are awarded the project, either by way of the submission of a bidding proposal or a commercial negotiation, we sign a contract with the customer and will normally receive prepayment of about 25% to 50% of the contract amount as the first instalment.

In the provision of certain application solutions, we may also engage SkyComm Group to act as our agent and/or co-operative partners to carry out the pre-sales activities and/or the bidding.

Design

For projects to be obtained through a tender process, based on the technical requirements and specifications of the projects set out by our customers, we design the relevant software and hardware, source relevant terminals and develop the installation and operational procedures for the customer’s evaluation. During the course of the bidding proposal preparation, a detailed plan will be prepared in accordance with the requirements of the prospective customer or current customer, setting out, among other things, system specifications, installation procedures, a design plan, costs structure and estimates. The design plan will be submitted to the prospective customers or current customers for selection, approval and amendment if necessary.

For projects to be obtained through negotiations, our sales and marketing and engineering teams will develop and design application solutions tailored to the customer’s needs and technical

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specifications by evaluating the customer's actual requirements. Subsequently, a detailed project design plan setting out, among other things, system specifications, installation procedures, costs structure and estimates, is then prepared and submitted to our customer for the proposed application solution.

Sourcing and incoming inspection

Principal components and equipment used by us are procured mainly in the PRC except the StealthRay Products and certain terminal equipment which are procured from overseas. Our main procurement items include satellite antennas, motor vehicles, modems, satellite transceiver, wireless terminals and computers. We procure components required for our projects on a project-by-project basis, except for some generic items, such as cases, racks, cable and wires, which we require for most of our projects. When we procure components required for our projects, our technical personnel usually select those suppliers which have previously supplied to us. If we need to procure certain equipment from suppliers which have not previously supplied to us, our technical personnel will discuss with our customers to select the equipment we need to procure and the supplier to be engaged.

Components and equipment sourced from suppliers are subject to testing and quality inspection by us before being used in our application solution projects to ensure that such materials comply with our quality standards. In the event that the components and equipment do not meet our quality standards, depending on the nature of the defects, the components and equipment may be returned to the relevant suppliers.

Delivery, installation and testing

We design the application solutions in accordance with customers' specifications. We then install our application solutions ourselves. During this stage, we conduct testing and inspection to fine tune and modify the application solution to achieve satisfactory and smooth running. Technical manuals are prepared by our engineers setting out, among other things, specifications of the application solutions installed, design and technical plans. The installation and testing works are generally completed within two months.

Trial run

After the installation and testing, a trial run will be conducted by our customers with our assistance. Trial run normally lasts for two months, depending on the size and complexity of the project. If the trial run proves to be satisfactory, our customers will confirm their acceptance of our application solutions by issuing a completion or inspection certificate and at the same time we will recognise our project revenue. Upon obtaining the acceptance, we will normally receive the remaining balance of the contract amount, subject however to a sum representing about 5% to 10% of the contract amount to be retained by our customers as retention monies pending expiry of the warranty period in some of our projects.

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Warranty

We generally provide a warranty of one year from delivery of our applications solutions. During the warranty period, complimentary after-sales maintenance and repair services are typically provided by us to customers. These include technical support, system inspection, equipment repair, replacement and maintenance. Our engineers also provide continuous customer support and technical training programs to the customers. During the warranty period, customers are provided with after-sales services and access to a telephone hotline for technical enquiries, while half-yearly, quarterly or monthly on-site inspections may be carried out by us in accordance with the terms of the contract. Inspections may also be provided to customers on request. Upon expiry of the warranty period, the retention money (if any), which is normally in the region of about 5% to 10% of the contract amount, will be paid by the customers in accordance with the terms of the contract.

2. Provision of Application Services

Our application services include system operation management, application upgrade and system maintenance to our application solutions. After the warranty period or the project completion, during the Track Record Period, some of our customers engaged us to provide application services for the application solution provided by us. We usually charge a fee for our application services. Such fees are charged on a monthly, quarterly or yearly basis.

Our customers may choose to use SkyComm Group's telecommunication networks or other networks to support the operation of our satellite and wireless communication application solutions. If there are no co-operation between us and the telecommunication network operators (which may include SkyComm Group) in providing our application services, we and the telecommunication network operators normally charge and receive fees from our customers separately.

Nevertheless, we may still co-operate with the telecommunication network operators as a package to our customers. During the Track Record Period, we co-operated with SkyComm Group and another telecommunication network operator (which is one of the largest telecommunications network operators in the PRC) where SkyComm Group or such another telecommunication network operator provided data transmission services to the ultimate customers while we provided the application solutions and application services including system maintenance and technical support.

Pursuant to the co-operation with SkyComm Group during the Track Record Period, the customers would pay ongoing package services fees to SkyComm Group (which shall in turn remit the fees for our application services to us).

Pursuant to the co-operation with such another telecommunication network operator during the Track Record Period, the customers would pay ongoing package services fees to our Group (which shall remit the fees for data transmission services to such another telecommunication network operator).

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Set out below a table showing the proportion of turnover attributable to our application services provided for our customers who used the network of SkyComm Group and who used the network of other telecommunication network operators during the Track Record Period:

	For the year ended 31 December			For the five months ended
	2006	2007	2008	31 May 2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover attributable to our application services provided for our customers who used the network of SkyComm Group	1,532	1,668	1,419	1,415
Turnover attributable to our application services provided for our customers who used the network of other telecommunication network operators	<u>2,878</u>	<u>5,395</u>	<u>4,610</u>	<u>2,047</u>
Total	<u><u>4,410</u></u>	<u><u>7,063</u></u>	<u><u>6,029</u></u>	<u><u>3,462</u></u>

In the event that SkyComm Group or any of the other telecommunication network operators is unable to maintain its telecommunication network without any interruptions or delays to effectively support the operation of our application solutions and services, our customers may need to engage alternative service provider for the telecommunication networks and we have to adjust our application solutions so as to become compatible with the networks offered by such alternative service provider to the satisfaction of our customers in terms of the time and costs involved. Although the interface of these communication networks is designed to adapt to different connections, we may still need to make certain adjustments to our application solutions. For details, please refer to the section headed “Risk Factors - We are dependent on the co-operation with SkyComm Group” and “Risk Factors - We rely on the co-operation with other satellite and wireless telecommunication network operator in the PRC”.

ASSEMBLING

Since our establishment, we have adopted the strategy of focusing on our core competencies in research, design and development of satellite communication, wireless data communication and call centre technologies and applications. We optimize internal resources by sourcing most of the terminals used in our application solutions and other components from external suppliers.

We leverage on our integrated design, engineering, in-house assembling as well as out-sourced assembling and implementation capabilities to provide customised application solutions to our customers in accordance with their specific requirements. We rely on in-house quality testing technician to ensure the quality of the terminals and components supplied to us by our suppliers. We assemble various components according to different assembly procedures to produce our application solutions.

BUSINESS

FACILITIES

Our main office is currently located in Shijiazhuang, Hebei Province, the PRC. In order to provide timely support and services to our customers located in Shanghai and nearby area, we established a sales office in Shanghai in October 2007. We leased our office in Shijiazhuang from SkyComm for a period of three years commencing from 1 July 2008, and leased our sales office in Shanghai from Mr. Chan for a period of three years commencing from 1 November 2007. Currently, our accounting department, sales and marketing department, research and development department and management are mainly located in our main office in Shijiazhuang, Hebei Province, the PRC.

We have also leased another office in Beijing from SkyComm which is used as our operational centre of our ALL ACCESS platform and sales office in Beijing. The lease is for a term of 10 years commenced from 1 January 2009, with an option by us to renew the lease on the same term (other than the option to renew and at the then market rent subject to a cap of 120% of the existing rent) for another 10 years commencing from the expiry of the initial term, unless terminated by us by giving a written notice of at least three months. Under the relevant tenancy agreement, we have also been granted a purchase option pursuant to which we may, during the term of the lease, request SkyComm to sell the office premises to us at its then fair market value.

In the event that the lease is terminated and we opt not to exercise the option to purchase the premises for any reason, in order to ensure that any relocation of our ALL ACCESS platform to the new premises will not result in any interruption of our services to our customers, we have adopted contingency procedures, pursuant to which we will need to (i) firstly, reallocate our backup equipment and facilities comprising our ALL ACCESS platform and the office facilities to other suitable premises first without interrupting the continuing operations and services of the existing equipment and facilities of the platform, (ii) secondly, reinstall the backup equipment and facilities and the connections with the ALL ACCESS platform and set up our sales office at the new premises, and (iii) thirdly, commence the operations and services of the ALL ACCESS platform and the operation of our sales office at the new premises, before we may shut down the operations and services of the platform at our existing Beijing sales office and operation centre for relocation thereafter. We estimate that it will take approximately 30 days for us to complete the relocation procedures without interruption to the existing operations and services of our ALL ACCESS platform and the operation of our sales office, and will involve a relocation cost of approximately RMB1,000,000.

BUSINESS

QUALITY CONTROL

Our Directors believe that, among other things, the two important procedures in our application solutions development process are the following:

- component/equipment quality assurance — we demand high product standards from our suppliers. Some of the key components and equipment such as satellite antennas are sourced from well-known international companies. We only purchase components and equipment from suppliers who have passed our quality and reliability assessment and have been admitted to our list of qualified suppliers of the terminals and major components, such as servers and modems. Our purchasing department evaluates various aspects of a supplier, including its overall ability, technical capability and quality control over its production process. Our quality control team inspects components and equipment upon delivery. We assess our suppliers of the terminals and major components, such as servers and modems annually and those who fail our evaluation will be removed from our qualified suppliers’ list. To replenish our list of qualified suppliers, our purchasing department either approach or is approached by potential suppliers from time to time. Our purchasing team then carry out our quality and reliability assessment by evaluating various aspects of a supplier, including its overall ability, technical capability and quality control over its production process.
- system quality assurance — the installation and integration processes are strictly monitored to ensure that they fully comply with our standardised operational procedures. We test our semi-finished application solutions at various stages of the assembly process to ensure their quality and compliance with all internal benchmarks before continuing on to the next stage of the production process. After completion of the assembly process, we perform thorough inspections to ensure that customers’ specifications are met prior to delivery of our application solutions. Following completion of the installation process, our application solutions are tested to evaluate their performance and adjustments are made to optimise their functionality for our application solutions. Our customers also perform further testing of our application solutions after installation. We generally provide warranty against defects in some of our satellite and wireless data communication application solutions. We provide on-site technical support to our customers during our warranty period and carry out repairs at no cost to our customers. Once we have identified the particular faulty component or equipment, we contact our respective suppliers to arrange repair or replacement of the component or equipment.

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AWARDS AND ACCREDITATIONS

Since our establishment, we have received certain awards and accreditations which are listed below:

Year of grant	Awards/accreditations	Awarding organizations	Description of the Awards
2005	Ten Best Software Products 全省十佳軟件	Hebei Province Software Industry Association	Award to the application of Jinwutong 警務通
2005	Hebei Sci-Tech Progress Prize	The Ministry of Public Security	Award to Traffic Offence Electronic Ticketing and Payment Solution
2004	Hebei Technology Advancement 3rd Class Award 河北科技進步三等獎	The People’s Government of Hebei Province	Award to Traffic Offence Electronic Ticketing and Payment Solution

RESEARCH, DESIGN AND DEVELOPMENT

Our Directors consider that a strong research and development capability is important to ensure our success and our ability to develop application solutions to meet the requirements of government departments or agencies, public utilities institutions and business enterprises. A strong research and development capability also enables us to continue to upgrade our existing application solutions in response to the changes in technological development.

In addition to research and development of our application solutions, our engineering team also work closely with our sales and marketing staff. Feedback from sales and marketing staff help guide the development of our application solutions to meet the requirements of different customers. To maintain the quality and market awareness of the research and development team, we provide on-going technical training and seminars for our research and development staff. Some members also attend and participate in exhibitions and external seminars to keep abreast of the latest technological developments and maintain regular contact and discussion with the PRC government department or agencies, public utilities institutions and business enterprises to ensure awareness of market needs.

As our engineering team is responsible for research and development also perform our application services, the cost of our research and development is included as part of our cost of sales.

For details of our major research and development initiatives that we intend to carry out in future, please refer to the section of “Future Plans and Use of Capital” of this document.

We have a strong ability to design, develop and engineer a broad range of application solutions. As of the Latest Practicable Date, we have approximately 61 staff members engaged in the research and development and engineering and all of them have received tertiary education.

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MARKETING AND PROMOTION

As at the Latest Practicable Date, we have a sales and marketing team of 31 members. The sales and marketing team is responsible for providing after-sales and consultancy service to major customers. In respect of sales to government departments or agencies and public utilities institutions, we principally obtain orders by placing competitive bids ourselves or through our agent, SkyComm Group.

For application solutions to be provided for business enterprises, generally we market our application solutions through various channels such as exhibitions, internet, advertisements and conference meetings. We have also sent our staff for on-site training or demonstrations in our customers' sites.

In order to promote our corporate image and our application solutions, we have adopted a series of marketing strategies, including publishing advertisements, holding technical discussions with customers, giving presentations and free trials of new application solutions to customers, and conducting satisfaction surveys with our customers. The data and feedback collected from these marketing activities are then used in the research and development process to improve our application solutions. We also participate in exhibitions and seminars to promote our application solutions in the PRC. During the Track Record Period, we have participated in the following exhibitions/seminars:

Year	Name of the exhibition/seminar
2008	China Satellite Conference China International Road Safety Product Expo China International Police Equipment Expo China Content Broadcasting Network Exhibition
2007	China (Shanghai) International Exhibition and Symposium on Police and Anti Terrorism Technology and Equipment China Satellite Conference Symposium on the Development of VSAT Satellite Communication Market in China Symposium on City Emergency Coalition Action

We also engage SkyComm Group as our agent to conduct certain pre-sale activities in respect of certain projects in order to maintain a more flexible cost structure.

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CUSTOMERS

For each of the three years ended 31 December 2008 and the five months ended 31 May 2009, our five largest customers in aggregate accounted for approximately 64%, 59%, 46% and 77%, respectively of our total turnover. Sales to the single largest customers for the same period amounted to approximately 34%, 25%, 11% and 24% of our total turnover respectively. None of the Directors or any of their respective associates, or any shareholders, who owned more than 5% of our issued share capital as at the Latest Practicable Date, holds any interest in any of our five largest customers in any of the three financial years ended 31 December 2008 and the five months ended 31 May 2009.

Our application solutions serve mainly governmental departments or agencies, public utilities institutions and business enterprises in the PRC. Set out below is a table setting out the percentage of turnover attributable to each of the customer categories during the Track Record Period.

	For the year ended 31 December						For the five months ended 31 May	
	2006		2007		2008		2009	
	<i>RMB'000</i>	<i>% of turnover</i>	<i>RMB'000</i>	<i>% of turnover</i>	<i>RMB'000</i>	<i>% of turnover</i>	<i>RMB'000</i>	<i>% of turnover</i>
(1) Governmental departments or agencies	44,456	83%	63,147	50%	68,562	37%	8,816	19%
(2) Public utilities institutions	5,029	9%	2,128	2%	2,422	1%	412	1%
(3) Business enterprises	<u>4,385</u>	<u>8%</u>	<u>61,777</u>	<u>48%</u>	<u>116,090</u>	<u>62%</u>	<u>38,052</u>	<u>80%</u>
Total:	<u>53,870</u>	<u>100%</u>	<u>127,052</u>	<u>100%</u>	<u>187,074</u>	<u>100%</u>	<u>47,280</u>	<u>100%</u>

PRICING POLICY

Some of our contracts are awarded on a competitive tender basis, which in general results in pressure on our pricing. Pricing for our major application solutions depends on the pricing for application solution of similar nature in order to increase our competitiveness on pricing. We determine our pricing primarily on the basis of the above factor, with appropriate consideration given to the size of transaction and the significance of the business opportunity to our growth.

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CREDIT POLICY

In respect of the remaining balance of the contract sums, our average credit term is 0 to 180 days from acceptance of project subsequent to trial run of the application solutions and may vary according to our negotiation and relationship with different customers.

The ageing analysis (based on date of invoices) of our trade receivables as of each balance sheet date is as follows:

	As at 31 December			As at
	2006	2007	2008	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current	<u>419</u>	<u>20,281</u>	<u>21,318</u>	<u>26,872</u>
Less than 1 month past due	4,996	17,012	31,001	7,721
1 to 3 months past due	705	2,083	5,922	9,986
More than 3 months but less than 12 months past due	1,603	1,544	6,254	21,393
Over 12 months past due	<u>1,135</u>	<u>2,430</u>	<u>7,055</u>	<u>6,779</u>
Amounts past due	<u>8,439</u>	<u>23,069</u>	<u>50,232</u>	<u>45,879</u>
	<u><u>8,858</u></u>	<u><u>43,350</u></u>	<u><u>71,550</u></u>	<u><u>72,751</u></u>

Trade receivables that were past due related to a number of customers with high credit status. Our staff in sales and marketing and finance team are responsible for monitoring collection and following up with the customers when payment is due. In addition, our management periodically monitors all outstanding receivables and assesses the creditworthiness of the customers.

Impairment for doubtful debts is made based on the evaluation of recoverability, ageing analysis of receivable and the judgment of our management on a case-by-case basis. We continue to attempt to collect account receivables from our customers even after the credit period and our staff will follow up with these customers and request payment from them. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each customer and subsequent collection. We will only deem trade receivables uncollectible upon careful consideration after having attempted to collect the same from our customers and by reference to the aforementioned factors, appropriate impairment will be recognised in our accounts.

The majority of the past due balances as at 31 May 2009 were due from government departments or agencies. Due to their lengthy budgeting and payment process, we may experience delay in our collection from them. However, there have been no significant dispute or default in payments from

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these customers. We have made full allowance for long overdue balances which are considered irrecoverable. The amount of allowance made for both the year ended 31 December 2006 and 31 December 2007 was nil whilst an amount of approximately RMB0.53 million was made for the years ended 31 December 2008. A bad debt of approximately RMB0.12 million was recorded in the year ended 31 December 2008. No bad debt expense was provided for the five months ended 31 May 2009.

INVENTORY CONTROL

Our inventories comprise components and equipment stocked for installation in our application solutions. For each of the three years ended 31 December 2008 and the five months ended 31 May 2009, the closing balance of our inventories amounted to approximately RMB3.07 million, RMB2.86 million, RMB3.16 million and RMB0.80 million respectively, which represented approximately 23%, 3%, 1% and 0% of our total current assets respectively.

We procure components required for our tendered projects on a project-by-project basis, except for some generic items, such as cases, racks, cable and wires, which are used in most of our projects. Hence, the nature of our business requires us to keep a minimal inventory level. Our inventory consists of a low level of components and equipment. We did not make any stock provision during the Track Record Period in accordance with our policy of reviewing the net realisable value of our inventories on regular basis. Deferred costs incurred on project which has been completed as completion or inspection certificates have not been issued are capitalised as inventory.

SUPPLIERS

We purchase the components and equipment necessary for our application solutions from third parties. We source these components and equipment within the PRC except for StealthRay Products and certain terminals which are sourced overseas. Most of these components and equipment purchases are paid in Renminbi and US dollars and generally have a credit term of 0 to 90 days. During the Track Record Period, purchases from our top five suppliers together accounted for approximately 42%, 62%, 61% and 89% of our total purchases of these components and equipment, respectively, while the largest supplier accounted for approximately 18%, 27%, 23% and 40% respectively.

None of our Directors, their respective associates, or to the knowledge of our Directors, shareholders who will own more than 5% of our issued share capital had any interests in any of our five largest suppliers during the Track Record Period.

COMPETITION

According to CCID Consulting, the satellite communication, wireless data communication and call centre application solutions industry has grown rapidly in recent years and competition is keen. Our Directors believe that the entry barrier for the satellite communication, wireless data communication and call centre application solutions industry in the PRC is relatively high as participants need to have technical expertise required to provide satellite communication, wireless data communication and call centre application services. Our Directors consider that the primary elements for competitiveness are technological innovation, the capability to adapt to the rapidly changing technologies, reliability, quality and pricing. Our Directors believe that application solution

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providers need to be technologically reliable, innovative and flexible in designing application solutions and competitive in terms of price and service quality. It is our Directors’ belief that these can be achieved with experience and expertise in the industry and related technologies, continuous investment in research and development and in-depth understanding of local requirements and a comprehensive services network. To remain competitive, we strive to maintain and enhance our competitive edge in all these fronts.

INTELLECTUAL PROPERTY

We rely on confidentiality agreements and other protections of our technical know-how to maintain our technical advantages in application solution design. We also expect to rely on patents and copyrights to protect our proprietary technologies. We have entered into agreements with our employees acknowledging that we own the rights to all technology, inventions, trade secrets, works of authorship, developments and other processes generated in connection with their employment with us or their use of our resources or relating to our business or our property.

We have two trademarks registered with the China’s Trademark Office of the State Administration for Industry and Commerce. We have one trademark in Hong Kong and two registered patents in China. For details, please refer to “Appendix VI — Statutory and General Information”.

Up to the Latest Practicable Date, we have not been sued for infringement of intellectual property rights by any third party. As substantially all of our business is currently conducted in China, we have not taken any action outside China to protect our intellectual property.

EMPLOYEES

As at the Latest Practicable Date, we employed 89 full-time employees. The following table sets forth the total number of employees by function as at the Latest Practicable Date:

	As at the Latest Practicable Date	
	Number of employees	% of total
Finance and administration	24	19.2
Sales and marketing	35	28.0
Research and development	25	20.0
Engineering	36	28.8
Procurement and quality control	<u>5</u>	<u>4.0</u>
TOTAL	<u>125</u>	<u>100</u>

Employee training

In order to maintain quality, knowledge and skill levels of our employees, we also provide training for our employees periodically, including introductory training for new employees, technical training, professional and management training, team-building and communications training.

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SOCIAL INSURANCE

As required by PRC regulations, Noter participates in social insurance plans organised by the respective PRC municipal governments in the areas where Noter operates. Noter has no obligation beyond the monthly contribution of 25% to 35% of basic staff salaries.

INSURANCE

We do not maintain any product liability insurance, which is not compulsory under PRC law. As of the Latest Practicable Date, we have not received any material claims from our customers regarding any of our application solutions.

ENVIRONMENTAL COMPLIANCE AND SAFETY

The environment and safety related laws and regulations applicable to our operations in the PRC include the PRC Environment Protection Law (1989) 《中華人民共和國環境保護法》, the PRC Environmental Impact Assessment Law (2002) 《中華人民共和國環境影響評價法》, and the PRC Production Safety Law (2002) 《中華人民共和國安全生產法》.

Due to the nature of our business, our assembly activities do not generate industrial pollutants and our operations do not raise any material safety or health related concerns. As at the Latest Practicable Date, we have not come across any non-compliance issues in respect of any applicable laws and regulations on environmental protection and safety or any complaints from our customers or the public in respect of safety and health issues relating to the use of, or any incidents arising from, the use of our application solutions.

The Directors are of the view that there are no environmental and safety laws and regulations which may affect the provision of our application solutions and application services in any material respect, and that our assembly activities are in compliance with the application laws and regulations of the PRC in respect of environmental protection and safety.

LEGAL PROCEEDINGS

As of the Latest Practicable Date, we are not a party to any litigation, arbitration or claim of material importance, and the Directors were not aware of any pending or threatened litigation, arbitration or claim of material importance.

As advised by our PRC Legal Advisers, our Group has (i) obtained all licences, permits or certificates necessary to conduct its business; (ii) complied in its operations with all relevant laws and regulations of the PRC and the terms and conditions set out in the relevant approvals or licences our Group has been granted; and (iii) complied in all material aspects with PRC environmental protection laws and, in respect of employment contract terms and social insurance security contribution, the PRC labour laws.