
OUR RELATIONSHIP WITH SKYCOMM GROUP AND OUR CONTROLLING SHAREHOLDERS

RELATIONSHIP WITH SKYCOMM GROUP

Background of SkyComm Group

SkyComm Group is principally engaged in the basic telecommunication and value added telecommunication businesses in the PRC.

Immediately prior to the Business Transfer in August 2006, SkyComm was owned as to 16% by Shanghai Development Co, 65.125% by Hebei Hongda, 13.375% by Hebei SkyComm Technology, 3% by Shanghai Software Co., and 2.5% by Beijing Data Communication.

As each of Hebei Hongda, Hebei SkyComm Technology and Beijing Data Communication had been 100% beneficially owned by Mr. Chan, Mr. Chan indirectly controlled an aggregate of 81% equity interest in SkyComm through Hebei Hongda, Hebei SkyComm Technology and Beijing Data Communication at all material times immediately before February 2008.

In February 2008, Mr. Chan disposed of all his indirect equity interest in SkyComm by disposing of all his beneficial interest in each of Hebei Hongda, Hebei SkyComm Technology and Beijing Data Communication, the details of which are set out as below:

(a) *Disposal of interests in Hebei Hongda*

Hebei Hongda had been 100% beneficially owned by Mr. Chan and was registered as to 25% (37.5% after August 2002) under his name and 75% (62.5% after August 2002) under the names of Wang Jianhua, Feng Ruiju, Zhou Ling, Yang Zhuping, Chang Jun and Ren Runqi as Mr. Chan’s nominees (under the names of Wang Jianhua, Feng Ruiju, Yang Zhuping, Chang Jun and Ren Runqi as Mr. Chan’s nominees after August 2002) since December 2000. Such nominee shareholder arrangements were in place to ensure compliance with the relevant legal requirements in the PRC with regard to the minimum number of shareholders in a domestic company established in the PRC at the material time. In addition, these nominees were members of the core management team members of SkyComm Group at the material time and the nominee shareholder arrangements were to give these core management higher status to facilitate them in the business operation and development of SkyComm Group.

In February 2008, in order to avoid possible conflict of interests with the Group, Mr. Chan disposed of all his beneficial interest in Hebei Hongda by selling all his 100% equity interest to Wang Jianhua, Yang Zhuping, Feng Ruiju and Ren Runqi at an aggregate cash consideration of RMB9.42 million, which was determined after arm’s length negotiation among the parties and by reference to the value of 78.5% equity interest in SkyComm then directly and indirectly owned by Hebei Hongda. Each of Wang Jianhua, Yang Zhuping, Ren Runqi and Feng Ruiju had financed their respective acquisitions of the interests in Hebei Hongda with their own funds and had settled the consideration in cash by bank transfer after completion of the equity transfer.

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(b) *Disposal of interests in Hebei SkyComm Technology*

Hebei SkyComm Technology had been beneficially owned as to 25% by Mr. Chan (through Chang Jun as his nominee) and 75% by Hebei Hongda since December 2000. The nominee shareholder arrangement in respect of Mr. Chan's interests in Hebei SkyComm Technology was in place to ensure compliance with the relevant legal requirements in the PRC with regard to the minimum number of shareholders in a domestic company established in the PRC at the material time, and to give Chang Jun higher status to facilitate him in the business operation and development of SkyComm Group.

In February 2008, in order to avoid possible conflict of interests with the Group, Mr. Chan disposed of all his beneficial interest in Hebei SkyComm Technology by selling all his 25% equity interest in Hebei SkyComm Technology to Hebei Hongda for a cash consideration of RMB2 million, being the investment cost in the 25% of the total amount of registered capital in Hebei SkyComm Technology, resulting in Hebei Hongda beneficially owning 100% of the equity interest in Hebei SkyComm Technology. Such consideration had been included in the consideration payable under the disposal of Mr. Chan's 100% beneficial interests in Hebei Hongda set out in paragraph (a) above, for the reason that the disposal of Mr. Chan's interests in Hebei Hongda and Hebei SkyComm Technology was in substance the disposal of an aggregate of 78.5% interests in SkyComm directly held by Hebei Hongda and indirectly held by itself through Hebei SkyComm Technology.

(c) *Disposal of interests in Beijing Data Communication*

Beijing Data Communication had been 100% beneficially owned by Mr. Chan and was registered as to 80% under his name and 20% under the name of Ren Runqi as his nominees. The nominee shareholder arrangement in respect of Mr. Chan's interests in Beijing Data Communication was in place to ensure compliance with the relevant legal requirements in the PRC with regard to the minimum number of shareholders in a domestic company established in the PRC at the material time, and to give Ren Runqi higher status to facilitate him in the business operation and development of SkyComm Group.

In February 2008, in order to avoid possible conflict of interests with the Group, Mr. Chan disposed of his entire beneficial interest in Beijing Data Communication by selling all his 100% equity interest in Beijing Data Communication to Yang Zhuping as to 80% and to Ren Runqi as to 20% for an aggregate consideration of RMB300,000 in cash, which was determined by reference to the value of 2.5% equity interest in SkyComm then directly owned by Beijing Data Communication. Each of Yang Zhuping and Ren Runqi had financed their respective acquisitions of the interests in Beijing Data Communication with their own funds and had settled the consideration in cash by bank transfer after completion of the equity transfer.

(d) *Basis of determination of the respective considerations for the disposals*

The respective considerations receivable by Mr. Chan under the above disposals had been determined with reference to the appraised value of the assets and liabilities of SkyComm as of 31 December 2007 evaluated by a qualified valuer in the PRC, with a significant discount thereto after taking into account (i) the expected income of SkyComm Group that may be relinquished as a result of the Long Term Co-operation Agreement; (ii) the indirect benefits arising from the business referral

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arrangement, the non-compete undertakings by the SkyComm Group and its controlling shareholders and the established business cooperation and synergy effect under the Long Term Co-operation Agreement to be enjoyed by Mr. Chan as a shareholder of our Group; and (iii) the contribution to the development of SkyComm Group by these purchasers who were the core management of SkyComm Group for the past years, their passion to take up the SkyComm Group by way of management buyout, and their willingness to continue to run the SkyComm Group’s business and to establish a strategic relationship with our Group by virtue of the Long Term Co-operation Agreement and the non-compete undertakings as referred to in the paragraph “non-compete undertaking” in this section as part and parcel to the disposal.

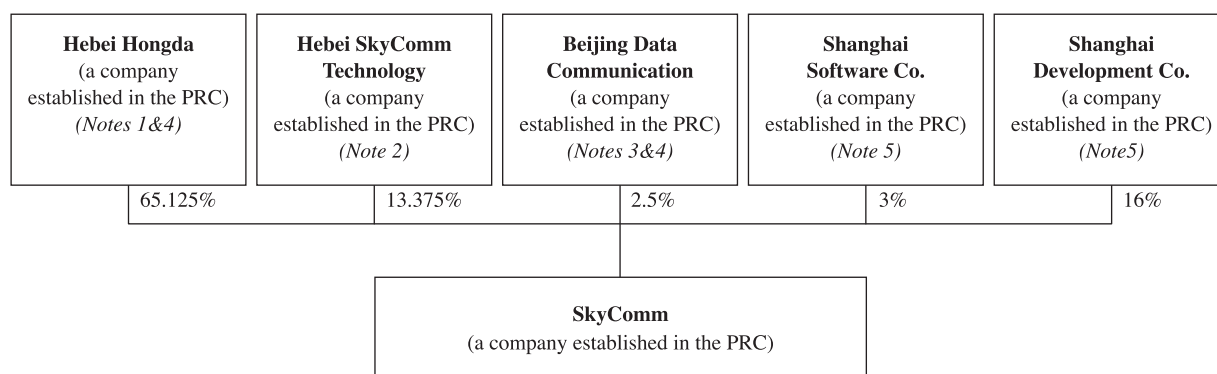
The Directors note that the appraised value of the 100% assets and liabilities of SkyComm as of 31 December 2007 amounted to approximately RMB120 million, and the aggregate consideration of RMB9.72 million receivable by Mr. Chan under the above disposals of his aggregate 81% indirect interests in SkyComm represented a significant discount of 90% of the attributable share of such appraised value. Nevertheless, the Directors note that the appraised value of the assets and liabilities of SkyComm included non-current assets, net current liabilities and non-current liabilities of SkyComm of 31 December 2007, and a significant portion of the then non-current assets of the SkyComm Group comprised of plant and equipment, which were non-liquid in nature. Taking into account the composition of the then assets and liabilities of the SkyComm Group, the Directors are satisfied that, had the purchasers chose to cease the operation of the SkyComm Group and liquidate their investments, the realizable value of SkyComm could represent a significant discount to the said appraised value.

The Directors note that after Mr. Chan disposed of his indirect interests in SkyComm at the abovementioned discount of the share of the appraised value of the assets and liabilities, we acquired from the equipment and facilities of the ALL ACCESS platform from Hebei SkyComm and Shanghai SkyComm for a total cash consideration of approximately RMB53.09 million in December 2008, the appraised value of which were approximately RMB62.10 million as at 31 December 2007. Please refer to the section headed “Business — ALL ACCESS PLATFORM” for further details of the acquisition. Given that the subject matter of the disposal by Mr. Chan in his disposal of indirect interests in SkyComm comprised of both its then assets and liabilities while the acquisition by us of the equipment and facilities of the ALL ACCESS platform comprised of assets only, and that the price for acquiring such equipment and facilities had been determined by reference to their value as appraised by an independent qualified valuer of approximately RMB53.09 million as at 30 September 2008, the Directors consider that the price for us to acquire the equipment and facilities of the ALL ACCESS platform to be fair and reasonable.

Taking into account the major components of SkyComm’s assets and liabilities as of 31 December 2007, and their implications on the possible realizable value, the Directors consider that the considerations for Mr. Chan’s disposal of his indirect interests in SkyComm, which consisted of both assets and liabilities, were on an arm’s length basis and on normal commercial terms notwithstanding the discount to the appraised value of the assets and liabilities of SkyComm.

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Set out below is the shareholding structure of SkyComm as at the Latest Practicable Date:



Notes:

1. The equity interest of Hebei Hongda was owned as to 25% by Wang Jianhua, 50% by Yang Zhuping and 25% by Ren Runqi as at the Latest Practicable Date. Hebei Hongda had been 100% beneficially owned by Mr. Chan and was registered as to 25% (37.5% after August 2002) under his name and 75% (62.5% after August 2002) under the names of Wang Jianhua, Feng Ruiju, Zhou Ling, Yang Zhuping, Chang Jun and Ren Runqi as Mr. Chan's nominees (under the names of Wang Jianhua, Feng Ruiju, Yang Zhuping, Chang Jun and Ren Runqi as Mr. Chan's nominees after August 2002) since December 2000 until February 2008, when Mr. Chan disposed of all his beneficial interest in Hebei Hongda by selling all his 100% equity interest to Wang Jianhua, Yang Zhuping, Feng Ruiju and Ren Runqi. Upon completion of the equity transfer, Hebei Hongda was owned as to 25% by each of these transferees, all of them were Independent Third Parties and members of the senior management of Hebei Hongda and SkyComm Group (other than Feng Ruiju). Feng Ruiju subsequently resigned from all her positions in Hebei Hongda and SkyComm Group and sold her equity interest in Hebei Hongda to Yang Zhuping for a cash consideration of RMB2,525,000, being the value of 25% of the registered capital of Hebei Hongda, to avoid potential conflict of interest and joined our Group as our Head of Wireless Data Communication Department in October 2008 for a better career development. As the value of 25% of the registered capital of Hebei Hongda did not significantly deviate from the consideration paid by Ms. Feng for her acquisition of such interests from Mr. Chan (that is, RMB2,355,000), and both Feng Ruiju and Yang Zhuping agreed that the factors for determining the considerations payable for Ms. Feng's acquisition for such equity interests from Mr. Chan remained substantially unchanged and valid at the time when she proposed to dispose of her equity interest in July 2008, both Mr. Yang and Ms. Feng considered it fair and reasonable to use value of 25% of the registered capital of Hebei Hongda as the basis for determining the consideration payable for Ms. Feng's disposal of her equity interest in Hebei Hongda.
2. Hebei SkyComm Technology was wholly and beneficially owned by Hebei Hongda.
3. Beijing Data Communication was owned as to 80% by Yang Zhuping and 20% by Ren Runqi, who were Independent Third Parties and members of the senior management of Beijing Data Communication and the SkyComm Group as at the Latest Practicable Date. Beijing Data Communication had been 100% beneficially owned by Mr. Chan and was registered as to 80% under his name and 20% under the name of Ren Runqi as his nominee until February 2008 when Mr. Chan disposed of his entire beneficially interest in Beijing Data Communication by selling all his 100% equity interest in Beijing Data Communication to Yang Zhuping as to 80% and to Ren Runqi as to 20%.
4. Each of the existing owners of Hebei Hongda and/or Beijing Data Communication has also confirmed that he is the beneficial owner of his equity interests in Hebei Hongda and/or Beijing Data Communication, and does not have any contract or arrangement with Mr. Chan and/or his associates in relation to any of his equity interests in Hebei Hongda and/or Beijing Data Communication. Save for the business relationship as disclosed in this document, each of them are independent of and not connected with us or any of our connected persons.

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5. *Shanghai Software Co. is a subsidiary of Shanghai Development Co., a PRC joint stock limited company whose ordinary shares are listed on the Shanghai Stock Exchange. Each of Shanghai Software Co. and Shanghai Development Co. is an Independent Third Party.*

Business Transfer and business model before and after the Business Transfer

The business of our Group was initially carried on by Hebei SkyComm, which was established by SkyComm, the holding company of the SkyComm Group, in December 2000 to engage in the satellite communication application solutions, development and application of related software, distribution, maintenance and technical support services communication apparatus and equipment and provision of other telecommunication services in the PRC. In March 2002, Shanghai SkyComm was established by SkyComm to engage in satellite communication application solutions, computer information international networking application solutions, research and development of communication apparatus and equipment, construction and engineering of communication and networking facilities and provision of technical consultation services therefor, distribution, maintenance and technical support services of communication apparatus and equipment and provision of other telecommunication services in the PRC.

Immediately prior to the Business Transfer in 2006, SkyComm, Hebei SkyComm and Shanghai SkyComm were indirectly owned and controlled by Mr. Chan, our Chairman, executive Director and one of our Controlling Shareholders. With a view to focus his resources in the development of the Related Businesses under a platform separated from other businesses then carried on by the SkyComm Group, and taken into account (i) the growing demand and market potential for the information communication application solutions and application services in the PRC, the Group’s established position as one of the major satellite and wireless communication solutions providers in the PRC, its competitive strength in the market as more particularly described in the section headed “Business — Competitive Strengths” in this document; (ii) the expected significant capital requirement for investment in the infrastructure required for business expansion and development in the telecommunication industry in order to maintain its competitiveness in the Excluded Business as compared with other State-owned and/or future foreign telecommunication network operators in the PRC, the expected increasingly tense competition following the progressive relaxation of foreign investments in the telecommunication industry in the PRC, and the limited resources for the SkyComm Group as a privately owned enterprise as compared with the other major operators in the market that limit the SkyComm Group’s Excluded Business to the niche market (that is, by providing private network services to governmental, institutional and corporate customers only) with less favourable return on investment, Mr. Chan believed that, through segregating the Related Businesses from the other businesses of the SkyComm Group, and with the expertise in the industry and strong research, design and development capabilities established in the past, our Group can better utilise its resources and expertise, establish business presence of our Group in the international market and capture the business opportunities by collaborating with the SkyComm Group as well as other major telecommunication network operators in the PRC and worldwide. Further, in view of the relatively restrictive business entry requirements then imposed on foreign-invested enterprises in telecommunication business operations under the applicable PRC telecommunication laws and regulations as particularly explained below, which had made it impractical for the inclusion of the Excluded Business in our Group for the purpose of the Listing, the Related Businesses were

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segregated from the other businesses of the SkyComm Group as part of the Reorganisation. In order to achieve clear delineation and segregation of our businesses from the other businesses of SkyComm Group, and in preparation for the Listing, the Business Transfer Agreement dated 31 August 2006 (as supplemented by a supplemental agreement dated 28 April 2009) was entered into between our Group, Hebei SkyComm and Shanghai SkyComm, pursuant to which our Group acquired from Hebei SkyComm and Shanghai SkyComm the Related Businesses.

Under the Business Transfer Agreement, Noter acquired from Hebei SkyComm and Shanghai SkyComm certain assets and liabilities (including, among other things, certain services contracts, accounts payable and receivables, but excluding certain equipment and facilities in respect of our Group’s ALL ACCESS platform) relating to all the Related Businesses.

The Related Businesses include the provision of satellite communication application solutions and services, wireless data communication application solutions and services and call centre application solutions and services, together with related assets and liabilities (including all rights and obligations under all contracts and agreements relating to such Related Businesses).

The Excluded Businesses include the provision of satellite communication network, the provision of wireless data communication network and operation of the call centre outsourcing businesses and all related assets and liabilities (including all rights and obligations under all contracts and agreements related to such Excluded Business). The table below sets out the similarities and differences between the Related Businesses and the Excluded Businesses in terms of products and services, suppliers, customers and mode of operations at the time of the Business Transfer.

	Related Businesses	Excluded Businesses
Products and services	<ul style="list-style-type: none">• Provision of application solutions.• Software development and programming.• System installation, system integration, assembly and testing.• Provision of technical support and training.• Provision of operation management, system maintenance and upgrade services.	<ul style="list-style-type: none">• Data transmission through satellite or wireless data communication network and call centre operation services which require special license under the PRC laws and regulations.

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	Related Businesses	Excluded Businesses
Suppliers	<ul style="list-style-type: none"> • Manufacturer or distributor of components and equipment for application solutions which include satellite antennas, motor vehicles, modems, satellite transceiver, wireless terminals and computers and generic items such as cases, racks and cables. 	<ul style="list-style-type: none"> • In relation to provision of satellite data transmission services, provider of satellite communication resources such as satellite transponders. • In relation to provision of wireless data transmission services and call centre services, manufacturer or distributor of components and equipment for wireless data communication network and call centre infrastructure which include wireless data transmitter, automatic call distribution system, trunk lines, computers and generic items such as cases, racks and cables.
Customers	<ul style="list-style-type: none"> • Governmental departments or agencies, public utilities institutions and business enterprises in the PRC 	<ul style="list-style-type: none"> • Governmental departments or agencies, public utilities institutions and business enterprises in the PRC.
Mode of operation	<ul style="list-style-type: none"> • To obtain new customers through market promotions and new orders from existing customers. Main source of income are sale of application solutions and provision of application services. • Provision of application solutions on project basis. • Provision of application services on on-going basis. 	<ul style="list-style-type: none"> • To maintain business relationship with existing customers and to develop new customers to fully utilize its network capacities and outsourcing call centre capacity. • Provision of data transmission services and call centre outsourcing services on on-going basis.

Pursuant to the Telecommunication Regulations of the PRC, the basic and value-added telecommunication services providers must obtain telecommunication business operation license (電訊業務經營許可證) or the value-added telecommunication business operation license (增值電信業務經營許可證) issued by the information industry authority of the State Council or

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administrative authorities in charge of telecommunications in the respective provinces, autonomous regions and municipalities in accordance with their category of services. Basic telecommunication services include data and voice transmission services provided using the basic infrastructures of the public telecommunication network while value-added telecommunication services include internet connection services, media downloading services, voice mail services and electronic mails services provided using the basic infrastructures of the public telecommunication network. As advised by our PRC Legal Advisers, since we do not provide any of the basic telecommunication services or value-added telecommunication services, we are not required to obtain the telecommunication business operation license (電訊業務經營許可證) or the value-added telecommunication business operation license (增值電信業務經營許可證) under the PRC laws and regulations. As a result, we are not allowed to carry on the Excluded Businesses without such telecommunications operator licences and the foreign-invested enterprises (in particular for foreign-invested enterprises with foreign investors holding more than 49% of their equity interests) cannot obtain such telecommunications operator licences unless certain stringent conditions are satisfied and the relevant government approvals are obtained. SkyComm Group has possessed such telecommunications operator licences and continues to carry on such Excluded Businesses after the Reorganisation.

Pursuant to the Reorganisation, the parties would complete the procedures of the Business Transfer (including obtaining third parties’ consent for transfer of certain contracts valid and continuing as at 30 June 2006) during a transitional period up to 31 December 2007

Business Model before the Business Transfer: From 1 January 2006 to 30 June 2006

Before the Business Transfer, the departments of SkyComm Group responsible for running the Excluded Businesses were separate from the departments responsible for running the Related Businesses. As at 30 June 2006, the record date of the Business Transfer, there were approximately 253 employees in the departments for the Excluded Business and there were approximately 70 employees in the departments for the Related Businesses.

However, for the purpose of reducing the operation costs, there were sharing of services from other departments, such as general administrative department, finance and accounting department, between the Related Businesses and the Excluded Businesses.

Before the Business Transfer, although the Related Businesses and the Excluded Businesses were operated separately, SkyComm Group did not enter into two separate services contracts with its customers in order not to complicate the contract administration and to reduce the operation cost. Some services contracts between our customers and SkyComm Group during this period may be related to both the Related Services and the Excluded Services.

For the purpose of this document, as the Controlling Shareholders controlled the operations of the Related Business before the Business Transfer and continue to control the entities comprising the listing group, and the control is not transitory and consequently, there was a continuation of the risks and benefits to controlling parties and therefore this is considered as business combinations under

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common control and that Accounting Guideline “Merger Accounting for Common Control Combinations” is applied for this transaction. Our financial information has been prepared using the merger basis of accounting as if the Related Business had been operated by us and the current group structure had been in existence throughout the Track Record Period.

Business Model during the Transitional Period: From 30 June 2006 to 31 December 2007

After the Business Transfer, we started to enter into separate contracts with our customers in relation to the Related Services (other than certain satellite communication and wireless data communication application solutions for the reasons as described in the paragraph “Business Model after expiry of the Transitional Period from 31 December 2007 onwards” below).

However, most of the contracts with our then existing customers were continuing and had not expired as at the date of the Business Transfer Agreement. For the purpose of perfecting the legal procedures for the Business Transfer and to avoid confusion of our customers, we have obtained consents and acknowledgements from our customers, confirming that the rights and obligations relating to the Related Services under the original contracts with SkyComm Group (other than contracts for solutions as described in the paragraph “Business Model after expiry of the Transitional Period; From 31 December 2007 onwards” below) would be transferred from SkyComm Group to us, rather than re-entering into new contracts with these customers.

As part of the transitional arrangements during the period, we continued to provide certain of our Related Services to our customers under the name of SkyComm Group and pursuant to the original contracts between SkyComm Group and the customers. In such scenario, SkyComm Group received, on behalf of us, the fees for our Related Services under the original contracts and we received the fees for our Related Services under the original contracts from SkyComm Group. In general, the fees for the Related Services and the Excluded Services have been itemised in the original contracts. The total value of these contracts (which was inclusive of the related value added tax and/or business tax) amounted to approximately RMB75.39 million as at 30 June 2006. Our turnover (which was exclusive of the related value added tax and/or business tax) of approximately RMB29.99 million, RMB10.54 million, RMB10.80 million and nil attributable to the Related Services under these contracts had been recognised for each of the three years ended 31 December 2008 and the five months ended 31 May 2009 respectively. As at 31 May 2009, the outstanding value of these contracts (which was inclusive of the related value added tax and/or business tax) in relation to the Related Services that had not yet completed was approximately RMB21.84 million. After the Business Transfer and up to the Latest Practicable Date, our Group did not encounter any difficulties in recovering the fees received by SkyComm Group on our behalf in respect of the Related Services under these contracts. As at the Latest Practicable Date, only one of these contracts was yet to be completed.

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Business Model after expiry of the Transitional Period: From 31 December 2007 onwards

In relation to most of the new projects (save as disclosed below), even if our customers chose to use the network of SkyComm Group, we would enter into a separate contract with our customers without involving SkyComm Group as a party. However, we have been cooperating with SkyComm Group in the following aspects:

- (i) we provide our customers with some of our satellite communication and wireless data communication application solutions which are compatible with and in support of the interface to the satellite and/or wireless telecommunications networks offered by SkyComm Group or other telecommunication service providers. Some of our customers are using SkyComm Group’s satellite and wireless telecommunication networks to support the operation of our satellite communication and wireless data communication application solutions. If there is no co-operation between SkyComm and us in providing our application services, SkyComm Group and we normally charge and receive fees from our customers separately. Nevertheless, some of our customers, which are mainly governmental departments, prefer SkyComm Group and us to provide the Related Services and the Excluded Services together as a package. In that case, we will co-operate with SkyComm Group in relation to certain satellite communication and wireless data communication application solutions as a package to our customers, where SkyComm Group shall provide data transmission services to the ultimate customers and we shall provide the application solutions and application services including system maintenance and technical support. Pursuant to the co-operation with SkyComm Group, the customers would pay ongoing package services fees to SkyComm Group (which shall in turn remit the fees for our application services to us).

Set out below is 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 operator during the Track Record Period:

	For the year ended 31 December			For the five months ended
	2006	2007	2008	31 May
	RMB'000	RMB'000	RMB'000	2009
				RMB'000
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 operator	<u>2,878</u>	<u>5,395</u>	<u>4,610</u>	<u>2,047</u>
Total	<u>4,410</u>	<u>7,063</u>	<u>6,029</u>	<u>3,462</u>

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In addition, we have engaged SkyComm Group as our agent to conduct sales and marketing activities to certain clients or make the bids on behalf of us. We have formalised our commercial arrangements with SkyComm Group by entering into the Long Term Co-operation Agreement with SkyComm. For details, please refer to the paragraph "Long-Term Co-operation Agreement" below. As at 31 May 2009, there was no outstanding amount due from SkyComm Group in respect of the contracts entered into by SkyComm Group as our agent with our customers.

- (ii) for most of our call centre application solutions, we co-operated with SkyComm Group to bid and/or negotiate for certain call centre outsourcing contract as one-stop application solutions to our customers. We executed a tripartite agreement with SkyComm Group and our customers whereby SkyComm Group charge our customers for certain Excluded Services provided by SkyComm Group (including operation of outsourced call centres and data transmission services on SkyComm Group's communication network) and we charge our customers for the Related Services (including provision of overall software design for product requirements and specifications, software programming and technical support, system installation and configuration, and quality control and testing) separately. For each of the three years ended 31 December 2008 and the five months ended 31 May 2009, our turnover attributable to provision of call centre application solutions and services (all of which uses SkyComm Group's communication network) amounted to approximately RMB2.98 million, RMB2.92 million, RMB4.28 million and RMB1.78 million respectively, representing approximately 6%, 2%, 2% and 4% of our total turnover. Our customers are still the ultimate users of our call centre application services whilst SkyComm Group is our business partner in relation to the provision of call centre application services;
- (iii) our office in Shijiazhuang of Hebei Province and our sales office and the operation centre of our ALL ACCESS platform in Beijing are leased from SkyComm Group. In respect of the lease of our office in Shijiazhuang, the lease is for a period of three years commencing from 1 July 2008 without any option to renew the lease. In respect of the lease of our sales office and operation centre of our ALL ACCESS platform in Beijing, we have 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. In respect of the lease of our operation centre and sales office in Beijing, 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. So far as the Directors are aware of after making all reasonable enquiry, there are suitable premises alternative to these premises available for lease from Independent Third Parties. As advised by our property valuer, BMI Appraisals Limited, the rents payable by us under the above tenancy agreements represent fair market rents.
- (iv) we have granted a non-exclusive licence over the use of certain functions of our ALL ACCESS platform to SkyComm Group whereby SkyComm Group can have access to certain functions of our ALL ACCESS platform to provide satellite/wireless data telecommunication services for a term of 10 years commencing from 1 January 2009, subject to early termination in the manner specified in the licence agreement; and

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- (v) we used to share with SkyComm Group on general and administration resources and facilities. Since 2008, all the general and administration resources have been segregated from SkyComm Group and we no longer share any general and administration resources and facilities with SkyComm.

Long Term Co-operation Agreement

As the SkyComm Group is one of the wireless and satellite telecommunication and call centre operators and licence holders for the provision of telecommunication, the related value-added and call centre services in the PRC, which are required for use of the wireless data communication, satellite communication and call centre application solutions provided by us, we have maintained close working relationships with the SkyComm Group and another wireless and satellite telecommunication operator. To reinforce our business collaboration with the SkyComm Group, our Group and SkyComm entered into the Long Term Co-operation Agreement on 28 February 2008 (as supplemented by a supplemental agreement dated 14 April 2009) pursuant to which for a period of five years until December 2012, members of the SkyComm Group will, in respect of any business opportunities relating to the provisions of all telecommunication-related application solutions and application services (excluding telecommunication network services but including but not limited to the research and development of communication solutions and related software, development of the related technical solutions, installation, testing, maintenance, consultation and technical support services for communication equipment), refer all these business opportunities to our Group by either procuring such end customer to appoint or contract with Noter directly for the provisions of the services, or entering into contracts for provision of such services with end customers as agent on behalf of Noter for provision of the relevant services by Noter, provided that, in respect of each contract entered into by any member of SkyComm Group as agent on behalf of Noter pursuant to the Long Term Co-operation Agreement, our Group will pay 5% of the value of such contract to SkyComm as handling fee. For the year ended 31 December 2008 and the five months ended 31 May 2009, the total turnover of the business contracts entered into by SkyComm as agent of the Group pursuant to the Long Term Co-operation Agreement amounted to approximately RMB34.52 million and RMB6.32 million respectively which represented approximately 18% and 13% respectively of the turnover for the year ended 31 December 2008 and the five months ended 31 May 2009. Our Group has also provided a lump sum of RMB30 million to SkyComm as performance guarantee deposit for contracts entered into by SkyComm Group as agent for our Group. The performance guarantee deposit of RMB30 million was arrived at by reference to 10% of the estimated contract fee of the contracts to be entered into by SkyComm Group as agent for our Group during the term of the Long Term Co-operation Agreement. The amount of such performance guarantee deposit is subject to an annual adjustment in the manner as specified therein, and a sum equal to 10% of the contract fee of each of such contracts shall be refundable upon completion of, and the expiry of the warranty period under, such contract. As at the Latest Practicable Date, the amount of performance guarantee deposit retained by SkyComm pursuant to the Long Term Co-operation Agreement had not been adjusted nor utilised to secure performance of the relevant contracts. Any balance of the performance guarantee deposit will be refunded to our Group if the lump sum is not depleted upon expiry of the Long Term Co-operation Agreement. Based on the asset value and other information relating to the financial position of the SkyComm available to us, we are not aware of any circumstance that may indicate the inability of the SkyComm Group to refund any such balance of the performance guarantee deposit as and when it falls due and refundable. The Long Term Co-operation Agreement is subject to renewal for a term to be negotiated and agreed upon by the parties thereto prior to its expiry.

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The Directors consider that the above 5% handling fee charged by SkyComm Group for its agency services under the Long Term Co-operation Agreement is on normal commercial terms, fair and reasonable to the Group and comparable to offers available from Independent Third Parties. While the SkyComm Group is obliged to refer all business opportunities relating to the satellite and wireless data communication application solutions and services to our Group under the Long Term Co-operation Agreement, there is no obligation on our part to procure our customers to use the satellite or wireless data transmission services offered by the SkyComm Group. Customers choose their satellite and/or wireless data transmission services providers, and we offer application solutions and services for the customers’ specific purposes. In addition, SkyComm Group is not obliged to provide their network services to our customers only and as a result, SkyComm Group’s satellite and/or wireless telecommunication networks are not exclusively used by our customers to support operation of our application solutions.

Operational and management independence

Despite the close business relationship between SkyComm Group and us as a result of the Long Term Co-operation Agreement, SkyComm Group is our strategic business partner and such relationship does not affect the independence of our business operations and development. After the Business Transfer, we have been operating substantially independently from the SkyComm Group with, among others, our own accounting system and treasury function, sales and marketing team and administrative resources and other assets which are significant to the business and operation of our Group, such as trademarks, patents and software. We have established our own research and development, technical and engineering teams and are able to provide integrated satellite and wireless data communication applications solutions and application services to our end customers independently. We have independent access to all of our customers, including those customers contracted through the agency arrangements or tripartite agreements under the Long Term Co-operation Agreement. The terms and conditions, including the service fees and scope and specifications of our application solutions and application services, have been negotiated and agreed directly and on arm’s length basis between us and our customers. We also retain our own independent customer records. Save as incidental to such arrangements as referred to in this section, our own sales and marketing team are responsible for dealing with our existing customers and carrying out marketing activities such as exhibitions and seminars to broaden the customer base of the Group and none of the directors, senior management or employees of the SkyComm Group is an employee of, or is otherwise involved in, any of our administrative, development, engineering, sales, marketing and customer service teams. We also have independent access to our suppliers. Despite the fact that we have leased from SkyComm Group our office premises in Shijiazhuang and our operational centre of our ALL ACCESS platform and sales office in Beijing, and have granted a non-exclusive licence to SkyComm Group for their use of our ALL ACCESS platform, our Group’s premises and ALL ACCESS platform have been operated by us independently. Please refer to the section headed “Business” in this document for details of the business operations of our Group.

Non-compete undertaking

As SkyComm Group has been working with us closely as a business partner and has access to some of our customers, to facilitate the enforcement of our business arrangement with SkyComm Group and protect our Group from potential competition, each of SkyComm, Shanghai SkyComm, Hebei SkyComm and the controlling shareholders of SkyComm, namely Hebei Hongda, Hebei SkyComm Technology, Beijing Data Communication, Yang Zhuping, Ren Runqi and Wang Jianhua (collectively the “**SkyComm Related Parties**”) has given an irrevocable non-compete undertaking in

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our favour on 22 August 2009 pursuant to which each of the SkyComm Related Parties has, among other matters, irrevocably and unconditionally undertaken with us on a joint and several basis that at any time during the Relevant Period (as defined below), each of the SkyComm Related Parties shall, and shall procure that their respective associates shall:

- (i) save for the Exempted Business (as defined below), not, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the business currently and from time to time engaged by our Group (“**Restricted Business**”) including but not limited to the marketing, sales, distribution, manufacturing and/or provision of wireless and satellite communication application solutions and other products and services of our Group from time to time (“**Restricted Products and Services**”);
- (ii) not solicit any existing or then existing employee of our Group for employment by them or their respective associates;
- (iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to their knowledge through our business relations with SkyComm Group for the purpose of competing with the Restricted Business; and
- (iv) in respect of any order or any part of it undertaken or proposed to be undertaken by them or their respective associates for the marketing, sales, distribution, manufacturing and/or provision of the Restricted Products and Services under the relevant order, unconditionally use reasonable endeavours to procure such customer(s) to appoint or contract with our Group directly for the sale and supply of the Restricted Products and Services or, if the circumstances do not permit so, to procure that such sale and supply of the Restricted Products and Services shall be referred to and performed by Noter pursuant to the Long Term Co-operation Agreement (as supplemented).

For the above purpose:

- (A) the “Relevant Period” means the period commencing from the date of the non-compete undertaking and shall expire for the earliest of the dates below:
 - (a) (as regards Hebei Hongda, Hebei SkyComm Technology, Beijing Data Communication, Yang Zhuping, Ren Runqi and Wang Jianhua only) the date on which they (individually or taken as a whole) cease to have control of 30% or more of voting rights in a shareholders’ meeting of SkyComm, or cease to have the power to control and nominate the majority of members of the board of directors of SkyComm; or
 - (b) (as regards Hebei SkyComm and Shanghai SkyComm only) the date on which Hebei SkyComm or Shanghai SkyComm cease to be a subsidiary of SkyComm; or
 - (c) the expiry of 80 years from the date of the non-compete undertaking.

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- (B) the “Exempted Business” means (i) any direct or indirect investments of the SkyComm Related Parties and/or their respective associates in any member of our Group; or (ii) any such orders or contracts entered into by SkyComm Group for the marketing, sales, distribution, manufacturing and/or provision of the Restricted Products and Services for the provisions thereof by Noter pursuant to the Long Term Co-operation Agreement (as supplemented).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Company will be owned as to 43.53% by Creative Sector, the entire issued share capital of which is owned by Mr. Chan. As Mr. Chan and Creative Sector are, directly or indirectly, individually or together with others, entitled to exercise or control the exercise of 30% or more of the voting power at our general meetings, each of Mr. Chan and Creative Sector is regarded as our controlling Shareholder under the Listing Rules. Mr. Chan, who is the chairman and executive Director and the ultimate largest shareholder of our Company, has lived in the PRC for a substantial period of time. Up to the Latest Practicable Date, Mr. Chan has not been a full time government official of a country for a substantial period of time nor has he been a full time employee of a state or government-owned or operated entity for a substantial period of time.

The Directors consider that our Group is capable of carrying on our business independent of our Controlling Shareholders and their respective associates for the following reasons:

Operational independence

We are principally engaged in providing wireless data communication and satellite communication application solutions to a wide range of industries including government departments or agencies, public utilities institutions and business enterprises in the PRC and call centre application services in relation to call centre outsourcing services providers.

Our business was initially founded and carried on by Hebei Skycomm and Shanghai Skycomm, which were then indirectly controlled by Mr. Chan, before the Related Business were transferred to our Group in August 2006 pursuant to the Business Transfer under the Reorganisation. Thereafter and up to the Latest Practicable Date, our current businesses are principally based on (i) the business contracts entered into by our Group with our customers independently; (ii) the business undertakings acquired from Hebei Skycomm and Shanghai Skycomm pursuant to the Business Transfer Agreement; and (iii) the business contracts entered into by SkyComm Group as our agent pursuant to the Long Term Co-operation Agreement (as supplemented). Please refer to the paragraph headed “Long Term Co-operation Agreement” in this section for further particulars of the Long Term Co-operation Agreement.

Prior to the Business Transfer, one of our Controlling Shareholders, Mr. Chan, had been interested, directly or indirectly, in the registered capital of SkyComm, Hebei SkyComm and Shanghai SkyComm. He had also been involved in the management and operation of each of these companies in the capacity of a director. However, after the Business Transfer and as at the Latest Practicable Date, to align with the corporate strategy to focus on the development of the Related Businesses for the same reasons as that for the Business Transfer as referred to in the paragraph “Business Transfer

OUR RELATIONSHIP WITH SKYCOMM GROUP AND OUR CONTROLLING SHAREHOLDERS

and Business Model before and after the Business Transfer” in this section and to avoid possible conflict of interests with the Group, Mr. Chan has sold all his equity interests in, and resigned from the directorship and management in, the SkyComm Group, and ceased to be a shareholder and a director of any member of the SkyComm Group. Save for his indirect shareholding and directorship in the Group and Creative Sector, Mr. Chan did not have any interest in business which competes or is likely to compete, directly or indirectly, with the businesses of the Group.

We have our own research and development, marketing, technical and engineering teams, and we are able to provide integrated wireless and satellite communication application solutions, from tailor-made system integration services to the sale of satellite communication equipment, to our end customers independently. We have independent access to our suppliers and contractors, and none of our Controlling Shareholders is a supplier or intermediary for our Group’s suppliers.

We own our assets, such as trademarks, patents, operational assets and equipment, that are significant to the business and operations of our Group. We have also leased the premises at Room 1109, Information Tower, 1403 Min Sheng Road, Pudong New Area, Shanghai, PRC (上海市浦東新區民生路1403號信息大廈1109室) from Mr. Chan as the office for Noter. Particulars of the lease are described in the paragraph “Continuing connected transactions” in this section. As the premises in Shanghai is used for office purposes only, our Directors do not consider any material reliance on the Controlling Shareholders in terms of our Group’s principal operating assets and properties. Save for such lease, we do not use any facilities of our Controlling Shareholders or their respective associates.

On the basis of the above, the Directors are of the view that our operation does not unduly rely on our Controlling Shareholders and we are able to operate our own business independently from our Controlling Shareholders.

Financial independence

We have our own accounting and treasury functions.

As at 31 December 2006, 2007 and 2008 and 31 May 2009, several bank loans of our Group amounting to nil, nil, approximately HK\$37.10 million and HK\$22.25 million were secured by a personal guarantee and a mortgage of a residential property owned by Mr. Chan. All the bank borrowing secured by these personal guarantee and/or mortgage have been or will be repaid in full prior to Listing, and these personal guarantee and/or mortgage will be released by the banks upon or prior to the Listing. Mr. Chan also provided personal guarantees for the convertible loans as particularly described in the paragraph headed “Convertible Loans” in the section headed “History and Development” in this document. Further, as security for the performance by CAA BVI and Mr. Chan under a senior secured promissory note of US\$10 million dated 17 November 2008 and issued by CAA BVI to Chengwei, each of Mr. Chan and Creative Sector has charged 51% of the issued share capital of CAA BVI and our Company as the case may be in favour of Chengwei. Pursuant to the terms of these convertible loans, all such guarantees and share charges will be released upon the Listing. Mr. Chan and Creative Sector have also irrevocably waived his/its rights in respect of the convertible loans arising from the conversion thereof into Shares.

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During the Track Record Period, Mr. Chan provided a shareholder’s loan of approximately HK\$36.6 million to CAA BVI which was fully capitalised by way of allotment and issue of 9,999 ordinary shares credited as fully paid in the capital of CAA BVI to Mr. Chan in January 2008. As at 31 December 2008, there was an amount due to Mr. Chan of approximately RMB3.86 million which will be settled in full by our Group out of its internal resources upon or prior to Listing.

Our Group has been able to satisfy our working capital requirements from internal resources, convertible loans and bank borrowings. On the basis of the above, the Directors are of the view that our Group does not rely on the Controlling Shareholders and/or their respective associates by virtue of their provision of financial assistance and this financial assistance has been or will be ceased or repaid upon the Listing.

Management independence

We have our own management team for the management and operation of our business. Apart from Mr. Chan, the other members of our management team also have extensive experience in the telecommunications industry with over 10 years of experience. Details of biographies of our Directors and other senior management are set out in the section “Directors, Senior Management and Staff” of this document. Save for Mr. Chan’s involvement in the management of our Group (in his capacity as Director and employee of our Group rather than as our Controlling Shareholders), the management team manages our Group’s business independent from the Controlling Shareholders.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to an agreement (“**Shanghai Tenancy Agreement**”) dated 1 November 2007 and entered into between Mr. Chan as landlord and our Group as lessee, our Group agreed to lease (“**Lease**”) an office premises with a floor area of approximately 112.66 sq.m. located at Room 1109, Information Tower, 1403 Min Sheng Road, Pudong New Area, Shanghai (上海市浦東新區民生路1403號信息大廈1109室) for a term commencing from 1 November 2007 to 31 October 2010. The leased premises will be used for office purposes. The current monthly rent payable by our Group to Mr. Chan under the Shanghai Tenancy Agreement is RMB15,420 payable in advance on or before the tenth calendar day of each and every month. Such rent will be subject to an annual adjustment and exclusive of water and electricity charges, gas and steam fees, telephone charges, property maintenance fees and other fees in relation to the use of the premises. The rent was arrived at after arm’s length negotiations between the parties and determined by reference to the market rent of the premises.

BMI Appraisals Limited, the property valuer of our Company, considers that such rent is at market level.

The Directors anticipate that the rent payable by our Group under the Shanghai Tenancy Agreement will not exceed RMB185,040 for the year ending 31 December 2009 and RMB154,200 for the year ending 31 December 2010. The annual caps represent the current rent payable by our Group to Mr. Chan pursuant to the Shanghai Tenancy Agreement and the expected rent payable by our Group to Mr. Chan.

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Mr. Chan is our Controlling Shareholder (the particulars of which are set out in the paragraph headed "Relationship with our Controlling Shareholders" in this section) and is also our executive Director. He is therefore a connected person of our Company.

Under the Listing Rules, for so long as Mr. Chan remains as a connected person of our Company, the lease described above would constitute continuing connected transactions upon the Listing.

Based on the annual caps for the Lease under the Shanghai Tenancy Agreement, it is expected that each of the percentage ratios, where applicable, calculated by reference to Rule 14.07 of the Listing Rules, will exceed 0.1% but will not exceed 2.5%, and the monetary amount of the rent payable by our Group to Mr. Chan under the Shanghai Tenancy Agreement will not exceed RMB185,040 for the year ending 31 December 2009 and RMB154,200 for the year ending 31 December 2010, and therefore the Lease is exempt from the reporting, announcement and independent shareholders' approval requirements as set out under Rule 14A.33(3) of the Listing Rules.

NON-COMPETE UNDERTAKING

Each of our Controlling Shareholders and Directors has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from potential competition, the Controlling Shareholders have given an irrevocable non-compete undertaking in our favour on [●] 2009 pursuant to which each of the Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken with us on a joint and several basis that at any time during the CS Relevant Period (as defined below), each of the Controlling Shareholders shall, and shall procure that their respective associates (other than our Group) shall:

- (i) save for the CS Exempted Business (as defined below), not, directly or indirectly, carry on, invest in or be engaged in any Restricted Business including but not limited to the Restricted Products and Services;
- (ii) not solicit any existing or then existing employee of our Group for employment by them or their respective associates (excluding our Group);
- (iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to their knowledge in their capacity as our Controlling Shareholders and Directors for the purpose of competing with the Restricted Business;
- (iv) in respect of any order or any part of it undertaken or proposed to be undertaken by them or their respective associates for the marketing, sales, distribution, manufacturing and/or provision of the Restricted Products and Services under the relevant order; and

For the above purpose:

- (A) the "CS Relevant Period" means the period commencing from the Listing Date and shall expire for the earliest of the dates below:

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- (a) the date on which the Controlling Shareholders (individually or taken as a whole) ceases to be a Controlling Shareholder for the purpose of the Listing Rules and (in respect of Mr. Chan only) the date on which he ceases to be a Director of our Company;
 - (b) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange;
- (B) the “CS Exempted Business” means any direct or indirect investments of the Controlling Shareholders and/or their respective associates (excluding our Group) in any member of our Group.

Each of our Controlling Shareholders has undertaken under the non-compete undertaking that he or it shall provide to us and/or our Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance of the terms of the non-compete undertaking by the Controlling Shareholders. Each of the Controlling Shareholders has also undertaken to make annual declaration on compliance with the terms of the non-compete undertaking in our annual report.

In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholders in relation to the compliance and enforcement of the non-compete undertaking, we have adopted the following corporate governance measures:

- (a) our independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the non-compete undertaking by the Controlling Shareholders;
- (b) we will disclose any decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking either through our annual report or by way of announcement;
- (c) we will disclose in the corporate governance report of our annual report on how the terms of the non-compete undertaking have been complied with and enforced; and
- (d) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by our Board in relation to the compliance and enforcement of the non-compete undertaking, he/she may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in our Articles of Association.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.