# INDUSTRY OVERVIEW

The information provided in this section is partly derived from various government and/or private publications, such as publications of IDC. The Directors believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information derived from such sources has not been prepared or independently verified by the Company or any of its respective affiliates and advisers, and may not be consistent with other information compiled within or outside the PRC. No representation is given as to its accuracy.

IT INDUSTRY IN THE PRC

Overview

According to IDC, a leading provider of market research for the information technology market, worldwide IT spending (comprising IT related products, software and services markets) increased from approximately US$1,320.7 billion (equivalent to approximately HK$10.3 trillion) in 2006 to approximately US$1,473.1 billion (equivalent to approximately HK$11.5 trillion) in 2008. The following chart sets forth the comparison between the worldwide and the PRC IT spending from 2006 to 2008:

Worldwide IT spending versus PRC IT spending, 2006 — 2008
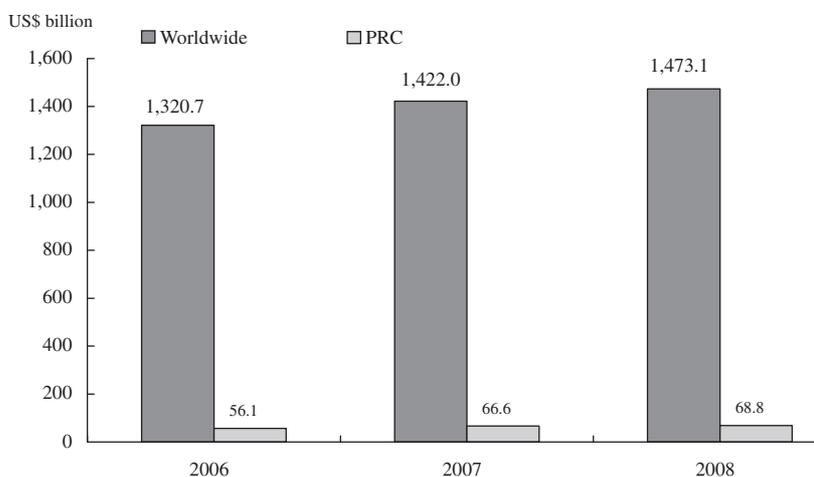
Source: IDC — PRC IT Market Overview and Forecast (Note)

Note: The Group commissioned IDC, an Independent Third Party, to produce the "PRC IT Market Overview and Forecast" report for the inclusion in this document. According to the information provided by IDC, IDC is a global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. IDC has over 1,000 analysts worldwide. The methodology used by IDC in the preparation of the report involved conducting both primary and secondary research obtained from numerous sources within the IT industry in the PRC. The primary research was conducted through telephone interviews of major vendors and corporate end-users in the PRC. The research involved

INDUSTRY OVERVIEW

participants answering a number of questions as an interactive quantitative and qualitative session to acquire, inter alia, financial figures and type of products and brands involved. Secondary research was conducted through reviewing officially published government statistics, yearbooks, trade magazines, newspapers, websites, trade shows, industry seminars, exhibition, vendors' new product and technology briefings and their financial statements, etc. to obtain the information in relation to IT industry and products of manufacturers in the PRC. IDC's forecast was prepared based on its statistical compilation and analysis of its research data and the overall economic environment worldwide, based on the assumption that the IT industry will continue to grow in the foreseeable future.

The size of the PRC IT market in terms of IT spending increased from approximately US$56.1 billion (equivalent to approximately HK$437.6 billion) in 2006 to approximately US$68.8 billion (equivalent to approximately HK$536.6 billion) in 2008, representing approximately 4.2% and 4.7% respectively of the worldwide IT spending. However, the CAGR of PRC IT market in terms of IT spending from 2006 to 2008 of approximately 10.7% was significantly higher than the CAGR of worldwide IT spending of approximately 5.6% over the same period. IDC forecasts that the IT market in the PRC would continue to grow and would account for approximately 6.4% of the total global IT market of approximately US$112.7 billion (equivalent to approximately HK$879.1 billion) in 2013.

The IT spending in the US reached approximately US$493.9 billion in 2008, representing approximately 3.4% of the US GDP for the same year, compared that with PRC IT spending of approximately US$68.8 billion in 2008, representing approximately 1.6% of the PRC GDP for the same year, there is potential growth in the overall PRC IT market in terms of an increase in the proportion of IT spending and annual GDP in the PRC.

Servers and storage devices represent approximately 6.7% and 2.1% respectively of the total PRC hardware market in 2008 and estimated to have CAGR of 8.5% and 10.7% respectively from 2009 to 2013. The following table represents the IT spending figures and forecast by various segments in the PRC IT market from 2006 to 2013:

PRC IT market value by product type, 2006 — 2013 (US$ million)

|	2006	2007	2008	2009	2010	2011	2012	2013	2009-2013 CAGR
Server	2,799.4	3,590.0	3,599.8	3,618.6	3,827.9	4,266.5	4,659.8	5,022.2	8.5%
Personal Computers	19,793.1	25,767.7	26,097.5	23,153.1	25,145.6	30,821.2	36,090.8	42,269.6	16.2%
Storage	814.3	1,037.5	1,155.0	1,238.3	1,357.8	1,546.4	1,703.3	1,858.7	10.7%
Smart Handheld	3,564.1	4,072.9	4,037.0	4,764.7	5,951.4	7,074.1	7,794.3	8,771.5	16.5%
Printers	2,516.7	2,873.1	2,953.3	2,767.0	2,853.9	2,981.8	3,100.3	3,165.4	3.4%
Network Equipment	12,886.5	13,108.6	13,533.4	15,252.6	16,475.1	17,788.3	19,167.1	20,390.3	7.5%
Others	2,190.6	2,567.0	2,416.8	2,308.7	2,539.1	3,093.1	3,575.3	4,218.5	16.3%
Total Hardware	44,564.7	53,016.8	53,792.8	53,103.0	58,150.8	67,571.4	76,090.9	85,696.2	12.7%
Packaged Software	4,360.2	5,144.4	5,494.3	5,759.4	6,175.0	6,980.8	7,936.9	9,063.7	12.0%
IT Services	7,153.7	8,423.3	9,545.6	10,498.5	11,778.1	13,616.9	15,612.7	17,950.5	14.4%
Total IT Market	56,078.6	66,584.5	68,832.7	69,360.9	76,103.9	88,169.1	99,640.5	112,710.4	12.9%

Source: IDC — PRC IT Market Overview and Forecast

INDUSTRY OVERVIEW

According to IDC, the size of the PRC IT market is expected to reach approximately US$69.4 billion (equivalent to approximately HK$541.3 billion) in 2009, it is expected that by 2013, the size of the PRC IT market will reach approximately US$112.7 billion (equivalent to approximately HK$879.1 billion) with a CAGR of approximately 12.9% from 2009 to 2013.

Historically, the primary driver of the PRC's IT industry growth has been the rapid growth of its economy. The PRC is one of the fastest growing economies in the world, with double-digit real GDP growth per year between 2003 and 2007. The PRC GDP growth rate was 9% in 2008. Set out below is a table showing the total nominal GDP and real GDP growth rate from 2000 to 2008 in the PRC.

GDP Growth in the PRC, 2000 — 2008
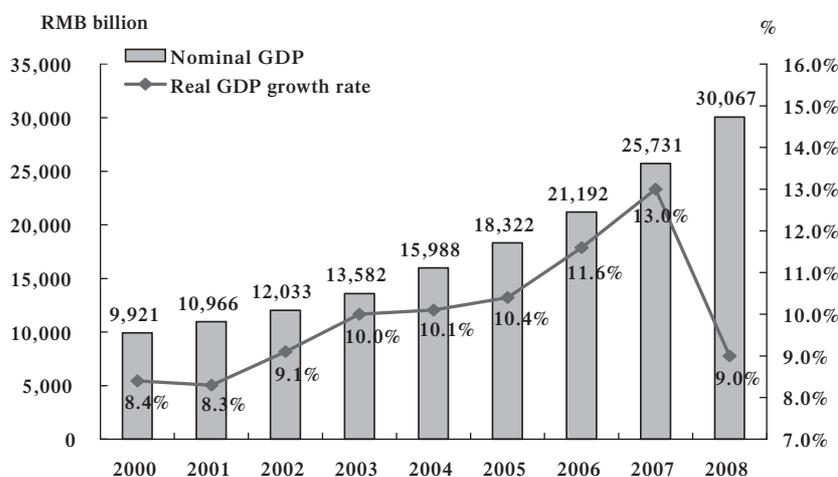
Source: China Statistical Yearbook 2009 published by National Bureau of Statistics of China

According to the policy 《2006 — 2020年國家資訊化發展戰略》 (2006 — 2020 National Information Technology Development Plan) issued by the General Office of the Central Committee of the Communist Party of China in May 2006, the PRC government will encourage the development of IT in the PRC including the promotion of the use of IT in various enterprises, enabling electronic public services, developing advanced cultural network, facilitating a digital economy, improving information-based facilities and enhancing the competitiveness of IT industry in the PRC. In view of the promotion and encouragement for the development of IT industry by the PRC government, the Directors expect that the IT industry in the PRC will continue to grow rapidly and continue to be one of the fastest growing markets in Asia. Furthermore, according to IDC, the PRC IT market is estimated to grow at CAGR of 12.9% from 2009 to 2013, faster than the Asia pacific IT market estimated growth of CAGR of 6.4% over the same period. Servers markets in the PRC are forecast to grow from US$3,599.8 million in 2008 to US$5,022.2 million in 2013. The Directors believe that China's GDP growth is expected to continue to be strong. As the PRC economy is expected to grow and income level continues to rise, IT products will become more indispensable to businesses.

INDUSTRY OVERVIEW

According to IDC, although the PRC economy was challenged by the economic crisis, it continues to grow steadily. Under the PRC government's substantial investment and favourable policies, the PRC GDP grew 6.1% in first quarter of 2009 and 7.9% in the second quarter of 2009, and is expected to be steadily growing above 6.0% in the next five years. The stable economic growth will provide a foundation for the recovery of IT purchases from both enterprises and consumers. For the short-run, the PRC government's RMB4 trillion stimulus package together with the investments from local government will give rise to potential market opportunities to PRC IT market in 2009 and 2010. Furthermore, the economic crisis is forcing industries in China to improve their efficiency, and the government implemented policies to support innovation, technology upgrading and industry restructuring, so as to improve their competitiveness and as a result, will drive up IT investment in the PRC.

Impact of the global economic crisis on the IT market in the PRC

The financial crisis and slowdown of PRC economy inevitably brings challenges to IT industry development in the PRC. Orders from overseas including the US have reduced; hence the IT sourcing market has been affected. However, the RMB4 trillion stimulus package and industrial development plan implemented by the PRC government have already had positive effects on the PRC economy. The effects of government policies to stimulate the economy have shown signs of progress. Chinese government's investment and policies may create a large potential in the PRC IT market in 2009 and 2010. Furthermore, the World Exposition 2010 Shanghai and the 16th Asian Games to be held in Guangzhou will also drive up IT investments in China. In the PRC telecommunication industry, many opportunities are mainly driven by 3G investments and the restructuring of telecommunication industry. Whilst the financial crisis has had adverse impact on the PRC economy, it encourages the integration of industries and business transformation, which will create more opportunities of IT investments in the year ahead.

HARDWARE MARKET IN THE PRC

Server Market

Server market in the PRC primarily comprises x86 servers and non-x86 servers and both foreign and local IT vendors need to rely on distributors to deliver their products or services to resellers and end-users in different regions.
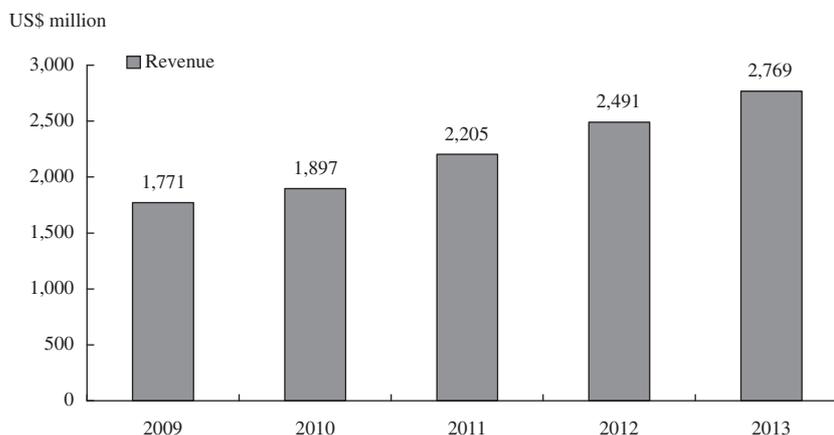
PRC x86 Server Market

According to IDC, the PRC x86 server market shipments increased from approximately US$1,450.4 million (equivalent to approximately HK$11,313.1 million) in customer revenue in 2006 to approximately US$1802.6 million (equivalent to approximately HK$14,060.3 million) in 2008, representing CAGR of approximately 11.5%. In terms of 2008 performance of x86 server vendors, the top three foreign vendors occupied more than 70% of the market. IBM accounts for approximately 26.9% of market share in the x86 server market in terms of customer revenue. IBM focused on their channel partnerships and increased the number of channel partners in different cities with the help of their distributors.

INDUSTRY OVERVIEW

Customer revenue of x86 server market is expected to reach approximately US$2,768.5 million (equivalent to approximately HK$21,594.3 million) in 2013 with CAGR at 11.8% from 2009 to 2013, as shown in the following chart:

x86 Server Growth in the PRC, 2009 — 2013

Source: IDC — PRC IT Market Overview and Forecast

IDC believes that the x86 server market is affected during the global financial crisis. Since most end-users of x86 servers were small and medium sized enterprises, which were adversely affected by the global financial crisis as a result suffered from a reduction of their IT budgets. As the economy is expected to rebound in 2010, the demand for x86 servers from these end-users will increase and hopefully will achieve double-digit growth from 2011 to 2013.
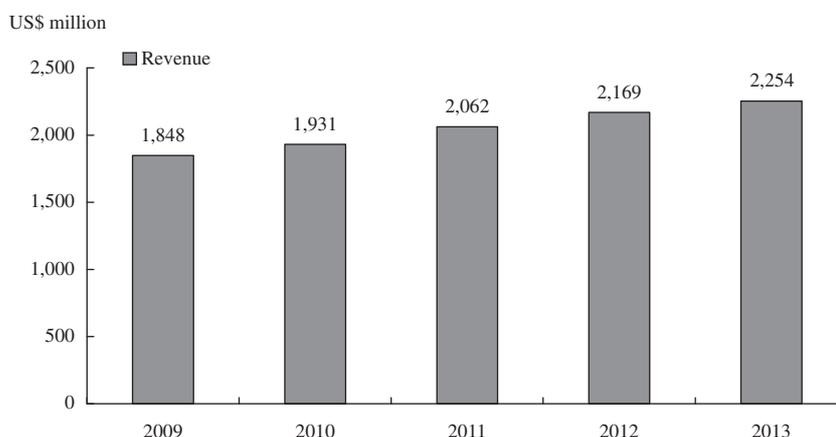
PRC Non-x86 Server Market

PRC non-x86 server market increased from approximately US$1,349.0 million (equivalent to approximately HK$10,522.2 million) by customer revenue in 2006 to approximately US$1,797.2 million (equivalent to approximately HK$14,018.2 million) in 2008, representing CAGR of approximately 15.4%. According to IDC, the construction of telecommunication business and operation support system with 3G wireless communications is to be the major driving force in the non-x86 server market.

INDUSTRY OVERVIEW

Similar to PRC x86 server market, competition of the PRC non-x86 server market is among a few foreign vendors. The top three non-x86 server vendors, including IBM, accounts for more than 97% of the market in 2008. IBM shared the PRC non-x86 server market with approximately US$931.5 million (equivalent to approximately HK$7,265.7 million) by customer revenue and has more than 50% market shares in 2008. IBM's mainframe was adopted by state-owned banks in their banking system upgrade. The restructuring of the PRC telecommunication industry with more service providers and the IT infrastructure building of 3G wireless communication business drove up strong demand on the high-end Unix server from telecommunication carriers in 2008.

Customer revenue of non-x86 server market is expected to reach approximately US$2,253.7 million (equivalent to approximately HK$17,578.9 million) in 2013 with CAGR at approximately 5.1% from 2009 to 2013, as shown in the following chart:

Non-x86 Server Growth in the PRC, 2009 — 2013

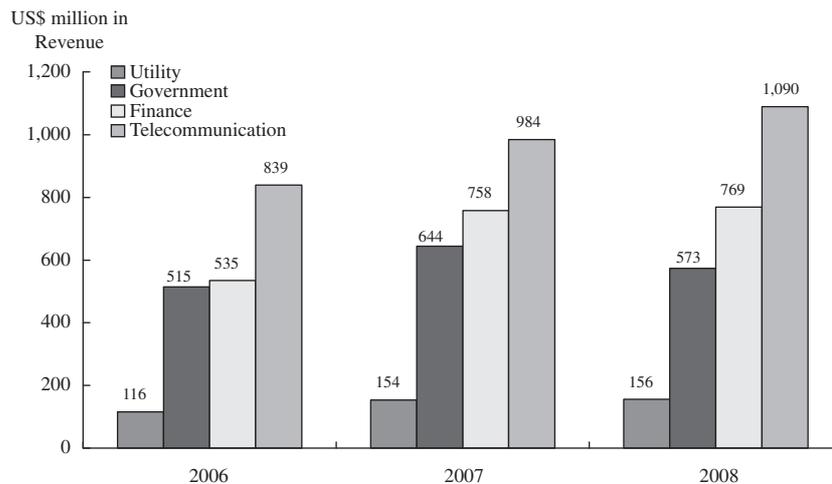*Source: IDC — PRC IT Market Overview and Forecast*

Although the non-x86 server was increasingly replaced by high-end x86 server in recent years, IDC still believes that the non-x86 server market will hold stable growth during the global financial crisis. It is because most of the non-x86 server demand derives from telecommunication service providers and government departments, which are less affected by the global financial crisis. This will facilitate the non-x86 server market to grow stronger than the x86 server market, and achieve the highest growth rate in 2011 as economy recovers in the next five years.

INDUSTRY OVERVIEW

PRC Server Market by Sector

There is considerable competition on the PRC server market in various aspects including product technology and product price across various sectors. The sales trends of servers in the PRC for the period from 2006 to 2008 in the telecommunication, finance, government and utility sectors are illustrated as follows:

Server Sales Growth in the PRC by Sectors, 2006 — 2008

Source: IDC — PRC IT Market Overview and Forecast

The CAGR for each of the telecommunication, finance, government and utility sectors in the PRC server market from 2006 to 2008 was approximately 14.0%, 19.9%, 5.5% and 16.0% respectively.

According to the China Statistical Yearbook 2009 issued by the National Bureau of Statistics of China, the business volume of telecommunication services increased from approximately RMB1,859.1 billion in 2007 to approximately RMB2,224.8 billion in 2008, representing an increase of approximately 19.7%. The total expenditure of financial institutions decreased from approximately RMB82,813.9 billion in 2007 to approximately RMB81,145.6 billion in 2008, representing a decrease of approximately 2.0%. Government expenditure increased from approximately RMB4,978.1 billion in 2007 to approximately RMB6,259.3 billion in 2008, representing an increase of approximately 25.7%. The total energy production increased from approximately 2.4 billion tons in 2007 to approximately 2.6 billion tons in 2008, representing an increase of approximately 8.3%. The Directors believe that the server market in the PRC will benefit from the continued development in these various sectors of the PRC economy.

INDUSTRY OVERVIEW

Storage Market

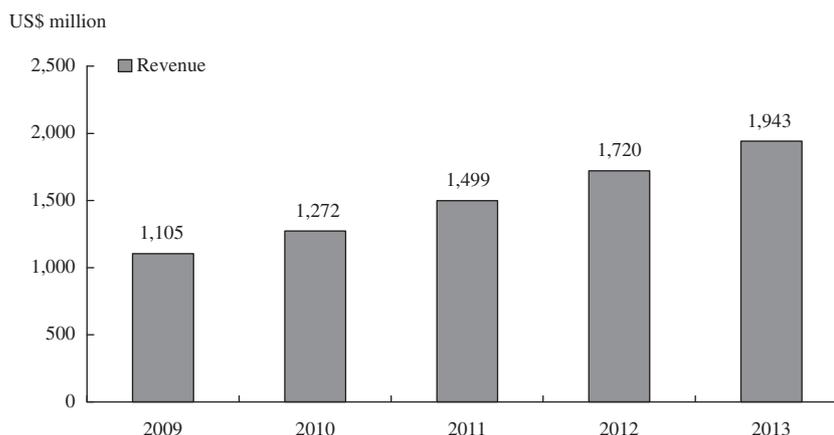Storage market in the PRC mainly consists of external storage and tape storage market.

PRC External Disk Storage Market

The PRC external disk storage market increased from approximately US$684.0 million (equivalent to approximately HK$5,335.2 million) in 2006 to approximately US$991.3 million (equivalent to approximately HK$7,732.1 million) in customer revenue in 2008, representing CAGR of approximately 20.4%. The telecommunication and banking and finance industries achieved year-on-year growth at 20.3% and 26.2% respectively, the two biggest industries in the PRC external storage market.

IBM was the leading vendor in the PRC external disk storage market, with its yearly revenue reaching US$254.3 million (equivalent to approximately HK$1,983.5 million) and occupying approximately 25.7% of the market. IBM's growth was greatly driven by its high-end products. Relying on its significant share in the non-x86 server market, IBM's midrange and high-end storage kept steady growth rate in 2008. IBM's fibre channel SAN technology in external disk storage, which was used by telecommunication carriers in their projects.

Customer revenue of external disk storage market is expected to reach US$1,942.7 million (equivalent to approximately HK$15,153.1 million) in 2013 with CAGR at approximately 15.1% from 2009 to 2013, as shown in the following chart:

External Disk Storage Growth in the PRC, 2009 — 2013

Source: IDC — PRC IT Market Overview and Forecast

IDC predicts there will be a steady growth in the PRC external disk storage market from 2009 to 2013 with over 10.0% year-on-year growth rate.

INDUSTRY OVERVIEW

PRC Tape Storage Market

The PRC tape storage market increased from approximately US$130.3 million (equivalent to approximately HK$1,016.3 million) in 2006 to approximately US$163.6 million (equivalent to approximately HK$1,276.1 million) in customer revenue in 2008, representing CAGR of approximately 12.1%.

IBM still maintained their traditional share of tape storage in banking and finance and telecommunication industries, reaching approximately US$81.1 million (equivalent to approximately HK$632.6 million) in customer revenue in 2008 and occupied nearly 50% the share of the market. In the mid-range and high-end segments, IBM's tape storage was used in the petroleum and education sectors.

Customer revenue of tape storage market is expected to reach US$197.9 million (equivalent to approximately HK$1,543.6 million) in 2013 with CAGR at approximately 4.5% from 2009 to 2013, as shown in the following chart:

Tape Storage Growth in the PRC, 2009 — 2013
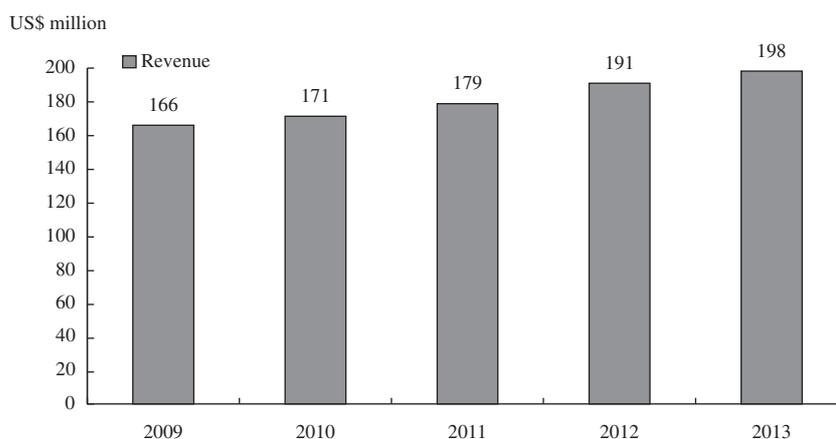
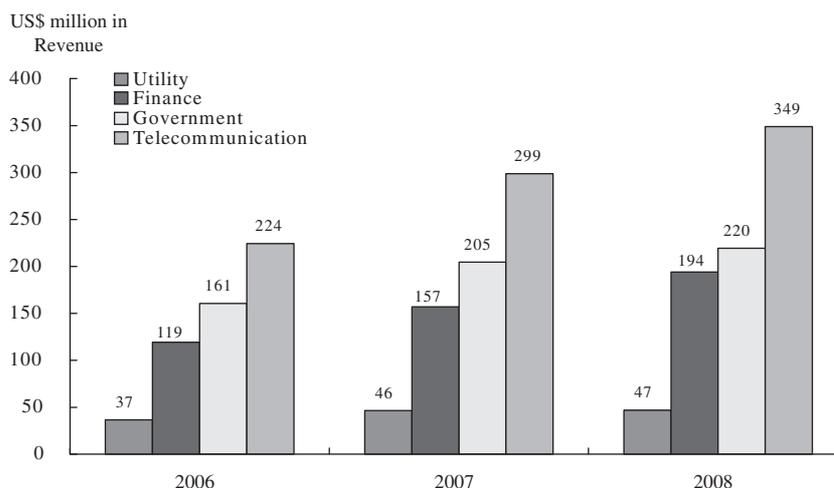*Source: IDC — PRC IT Market Overview and Forecast*

Tape solution has the advantage of being low in cost and off-line characteristic, i.e. it is an advantage that tapes could be physically stored. According to IDC, tape markets revenue will remain in single digit annual growth rate in the long-run.

INDUSTRY OVERVIEW

PRC Storage Market by Sector

The sales trends of both external disk and tape storage market in the PRC for the period from 2006 to 2008 in the telecommunication, government, finance and utility sectors are illustrated as follows:

External Disk and Tape Storage Sales Growth in the PRC by Sectors, 2006 — 2008

US$ million in Revenue

	2006	2007	2008
Utility	37	46	47
Finance	119	157	194
Government	161	205	220
Telecommunication	224	299	349

Source: IDC — PRC IT Market Overview and Forecast

The CAGR for each of the telecommunication, government, finance and utility sectors in the PRC storage market from 2006 to 2008 was approximately 24.8%, 16.9%, 27.7% and 12.7% respectively.

MIDDLEWARE MARKET IN THE PRC

According to IDC, the middleware market consists of collaboration software, application development and deployment software, as well as system infrastructure software. System infrastructure software, in particular, is most tightly linked with the enterprises' IT infrastructure and includes five functional markets, namely: system software, security software, storage software, network management software and system management software. With PRC IT adoption getting more and more mature, enterprises begin to pay increasing attention to system operation and management to ensure the IT continuity, which contributes to a large percentage of software investments in system infrastructure software, particularly system and network management software.

INDUSTRY OVERVIEW

The middleware market in the PRC is highly concentrated, and in the year of 2008, Oracle is the largest player in the PRC market with approximately 24.4% of the total market. Oracle and IBM, the second largest player, together make up around 43.0% of the market revenue. The overall middleware market has grown from US$942.7 million (equivalent to approximately HK$7,353.1 million) in 2006 to US$1,265.7 million (equivalent to approximately HK$9,872.5 million) in 2008, representing CAGR of approximately 15.9%. The following chart illustrates the middleware market size in the PRC from 2009 to 2013.

Middleware Market Growth in the PRC, 2009 — 2013
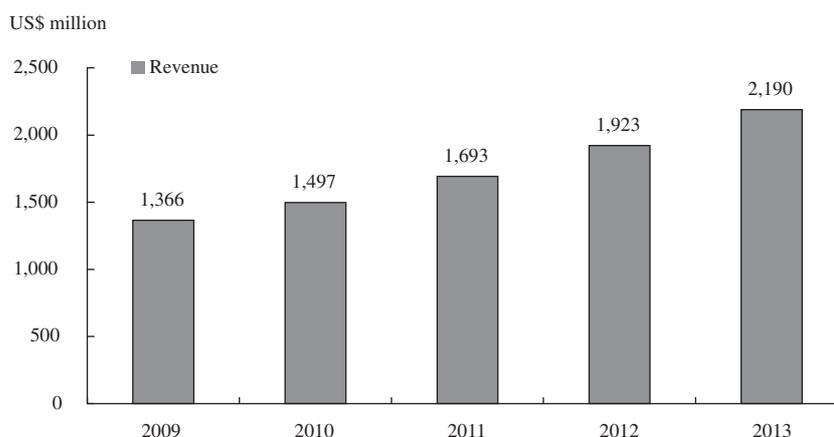
Source: IDC — PRC IT Market Overview and Forecast

As projected by IDC, the market will continue growing, and the market value will grow from approximately US$1,366.0 million (equivalent to approximately HK$10,654.8 million) in 2009 to approximately US$2,189.5 million (equivalent to approximately HK$17,078.1 million) in 2013, representing CAGR of approximately 12.5% from 2009 to 2013.

According to IDC, the middleware market is believed to recover faster than the overall packaged software market at a rate of 0.2 — 0.4% in 2009 and 2010. This is due to the strong demand of middleware software for the telecommunication and government industries to build new projects.

IT PRODUCTS SUPPORT SERVICES MARKET IN THE PRC

The IT services market in the PRC can be categorised into IT consulting service, system integration service, IT outsourcing service, hardware deployment and support service and software deployment and support service, etc..

INDUSTRY OVERVIEW

Hardware deployment and support service consists of the installation and basic configuration of hardware and hardware maintenance. Whereas software deployment and support service aims at providing the customer with proper installation and configuration of all types of software as well as appropriate ongoing support, access to resources and distribution of software product releases and upgrades. The total amount spent on hardware and software deployment and support services in the PRC reached from approximately US$1,957.9 million (equivalent to approximately HK$15,271.6 million) in 2006 to approximately US$2,502.3 million (equivalent to approximately HK$19,517.9 million) in 2008, representing CAGR of approximately 13.1%.

IDC views that enterprises would buy extended warranty services to reassure its infrastructure safety and smooth running of their operations. Thus there were many opportunities in the hardware and software deployment and support services market in the PRC.

Hardware deployment and support service continues to represent the steady-growing segment in the product related service market. According to the forecast of IDC, the total market size will grow to US$2,862.0 million (equivalent to approximately HK$22,323.6 million) in 2013, with CAGR of approximately 11.8% from 2009 to 2013. The following is a chart showing the hardware deployment and support service market forecast in the PRC from 2009 to 2013.

**Hardware Deployment and Support Service Growth in the PRC, 2009 — 2013**
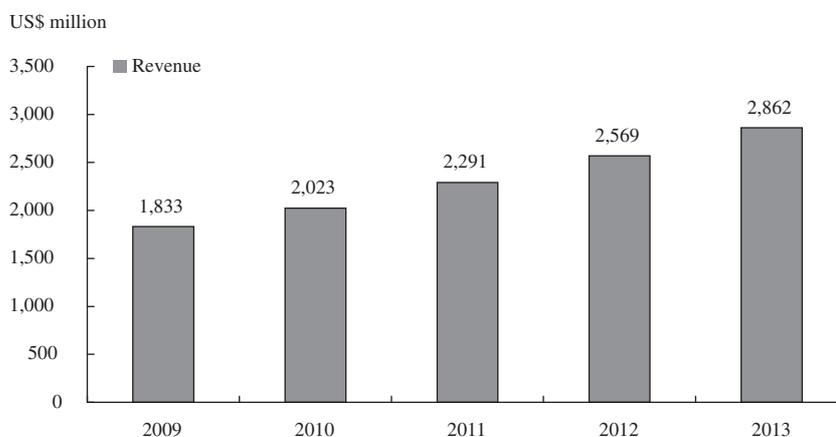
Source: IDC — PRC IT Market Overview and Forecast

The increasing demand for longer product life cycle and product maintenance continuously drive the market forward. Meanwhile, global service providers began to shift their attention from big enterprises to small and medium-sized business markets, in particular the mid-sized markets. Global and local vendors are also moving toward standardizing their support service to expand their shares in the small and medium-sized business markets. One emerging delivery model in the hardware deployment and support service market is the multi-vendor support services offering, which is targeted at enterprises with complex multi-vendor environment and interested in simplifying the support for this environment.

INDUSTRY OVERVIEW

On the other hand, the software deploy and support service market is also growing steadily, and the total market size of software deploy & support service market is expected to rise to approximately US$1,741.4 million (equivalent to approximately HK$13,582.9 million) in 2013, representing CAGR of approximately 16.2% from 2009 to 2013. The following chart illustrates IDC's forecast of the software deployment and support service market in the PRC from 2009 to 2013.

Software Deployment and Support Service Growth in the PRC, 2009 — 2013

US$ million
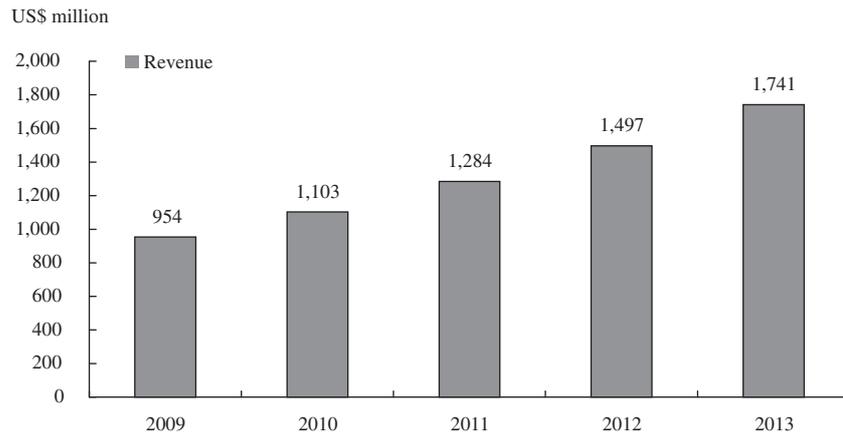
Source: IDC — PRC IT Market Overview and Forecast

As technology evolves, online and remote support services as part of the support service mix are becoming more and more important. The industry is leaning from purely reactive support towards more proactive and preventive support service. Moreover, service providers tried to design packages and deliverables about the proactive and preventive services to meet the demand of the customers.

COMPETITIVE LANDSCAPE

The PRC market of enterprise IT products is dominated by a limited number of large distributors, which compete on numerous criteria, namely price, scope and quality of products and services provided, technology capabilities of IT solutions offered, coverage of distribution and service networks, and availability of financial resources. The Directors believe that there are some entry barriers for new entrants to the industry as it would take time to build comprehensive sales and procurement networks, acquire technical know-how and knowledge on the features of the enterprise IT products and get in-depth and updated understanding of the IT requirements of various business sectors. For more detailed discussion and analysis of the competition environment, please refer to the paragraph headed "Competition" under the section headed "Business" of this document.

In order to cope with those competitions and strengthen the Group's competitive position in the market, the Group endeavors to keep abreast with the latest market development, development needs of various industry segments, and product and technology advancement. Furthermore, the Directors believe that with the Group's profound relationship with suppliers, end-users and business partners, well-established nationwide distribution and service networks, and dedicated management and

INDUSTRY OVERVIEW

professional team of sales and IT technical personnel, the Group has a solid foothold in the PRC enterprise IT products and services market for future business development. Please refer to the paragraph headed "Competitive strengths" under the section headed "Business" of this document for more detailed discussion and analysis of the Group's competitive advantages.

REGULATORY ENVIRONMENT OF THE IT INDUSTRY IN THE PRC

Regulations in respect of the control of pollution caused by electronic information products

On 28 February 2006, Ministry of Information Industry (replaced by MIIT in 2008), State Development and Reform Commission, Ministry of Commerce, General Administration of Customs, State Administration for Industry and Commerce, State Administration of Quality Supervision, Inspection and Quarantine, and State Administration of Environmental Protection jointly issued Administrative Measures for the Control of Pollution Caused by Electronic Information Products (《電子信息產品污染控制管理辦法》) effective from 1 March 2007, pursuant to which pollution and other public hazards to the environment caused by electronic information products in the process of producing, selling and importing electronic information products (including computer products) within the territory of the PRC should be controlled and reduced. Any producer, importer or seller of electronic information products must abide by such measures, and any act of producing, selling and importing electronic information products containing toxic, harmful substances or elements which do not comply with industrial or national standards for controlling pollution caused by electronic information products shall be strictly banned.

Regulation in respect of systems integration

Pursuant to Administrative Measures on Computer Systems Integration Qualification (Trial Implementation)(《計算機信息系統集成資質管理辦法（試行）》) promulgated by the Ministry of Information Industry (replaced by MIIT in 2008) and effective as of 1 January 2000, enterprises may not carry on the business of provision of computer systems integration services unless they possess the qualification certified by the relevant government authorities in charge as authorized by MIIT.

The qualification for provision of computer systems services is divided into 4 grades, and the capacity to undertake projects corresponding to each grade is different. Certified companies shall carry out annual internal inspections and submit the results to the Qualification Certification Office for the record. The Qualification Certification Office shall carry out annual inspections of certified companies once every two years and certificate renewal inspections once every four years. In addition, the Qualification Certification Office shall carry out any necessary unscheduled supervision and inspection.

On 18 November 2008, Futong Dongfang obtained the grade 3 Certificate of Computer Systems Integration Qualification of Enterprise (《計算機訊息系統集成企業資質証書》) issued by the MIIT expiring on 17 November 2011. Pursuant to Administrative Measures on Computer Systems Integration Qualification (Trial Implementation) (《計算機訊息系統集成資質管理辦法(試行)》),

INDUSTRY OVERVIEW

enterprises with grade 3 computer systems integration qualification must be competent to solely undertake projects of small and medium sized enterprises or jointly undertake similar projects of large or sizable enterprises. As confirmed by Futong Dongfang, Futong Dongfang has not undertaken any projects that would surpass its grade 3 capacities.

Regulations in respect of the PRC software market

In the PRC, software development and its related industries have been strongly encouraged and supported by the PRC government. On 24 June 2000, the State Council issued the Several Policies in Encouraging the Development of Software and Integrated Circuit Industries (《鼓勵軟件產業和集成電路產業發展的若干政策》) (the "Policies") to stimulate the development of the PRC software and integrated circuit industries. Pursuant to the Policies, the PRC software enterprise are entitled to a number of preferential treatments, including those in relation to the investment in the PRC software and integrated circuit industries, favorable tax rates, export incentives, autonomy in determining employees' benefits and professional training support.

Pursuant to the Policies, the PRC software enterprises are encouraged to develop innovative and premium software products to satisfy the demand of the PRC market and to further promote exportation. In addition, it is the intention of the Policies to attract more foreign capital and human resource investment in the PRC software industry by way of granting preferential treatments.

MIIT issued the Administrative Measures for Software Products (《軟件產品管理辦法》) effective from 10 April 2009 to regulate development, manufacture, sale, import and export of computer software or software embedded in information system or equipment provided to users and computer software in conjunction with computer information systems integration or application services or other technical services. Such administrative measures forbids the development, production, sale, import and export of the software products which infringe intellectual property rights of third party, contain computer virus, harm computer systems security, contain contents not in compliance with PRC software related regulations or contain contents prohibited by PRC laws. The Directors are not aware of any infringement by the Group of the above as at the Latest Practicable Date.

Regulations relating to computer software copyright protection

The State Council issued the Regulations for Protection of Computer Software (《計算機軟件保護條例》) effective from 1 January 2002 governing issues in connection with protection of copyright of computer software (including computer programs and related documentation). These regulations protect copyright of software developed by Chinese citizens and entities, regardless of where and whether it has been published. They also protect the copyright of software developed by foreign citizens and entities first published in the PRC or pursuant to the relevant treaties rectified by the PRC and his/her home country or resident country.

For computer software to be protected under these regulations, it must be independently developed by the developer and must be already in a material form. It dose not extend to encompass any ideas, process, processing methods and mathematic concepts.

INDUSTRY OVERVIEW

Software copyright holders may register the copyright with the relevant copyright registration administration organization, which is treated as preliminary evidencing document of the subject matter. Under these regulations, software copyright holders enjoy the right of publication, right of authorship, right of amendment, right of replication, right of distribution, right of rent, right of online distribution, right of translation and other rights which shall be enjoyed by software copyright holders. The term of copyright protection for software developed by nature person is fifty years, ending on 31 December of the fiftieth year after his/her death. The term of copyright protection for software developed by legal person or other entities is fifty years ending on 31 December of the fiftieth year after the software was first published. However, no protection is available to software which has not been published in fifty years after the completion of development.

Any license and/or transfer of software copyright shall be recorded in agreements in writing, which may be registered (at the discretion of the contractual parties) at the authorized software registration institute.