

## INDUSTRY OVERVIEW

*Certain information and statistics in this section and elsewhere in this prospectus relating to the economy in the PRC as well as the global and the PRC mobile handset industry are derived from various official and independent third party sources. In addition, certain information and statistics in this section and elsewhere in this prospectus relating to the mobile handset industry in the PRC have been derived from the industry reports prepared by the 深圳市盛世華研管理諮詢公司, entitled “2009-2012 mobile handset industry in the PRC research and strategy report” and CCID Consulting Co., Ltd, entitled “2008-2009 Annual Report on China’s Mobile Phone Market” (the “Industry Reports”) for purposes of the Share Offer. The Industry Reports were neither commissioned by the Company nor its connected persons nor the Sponsor nor the Joint Lead Managers and the Joint Bookrunners.*

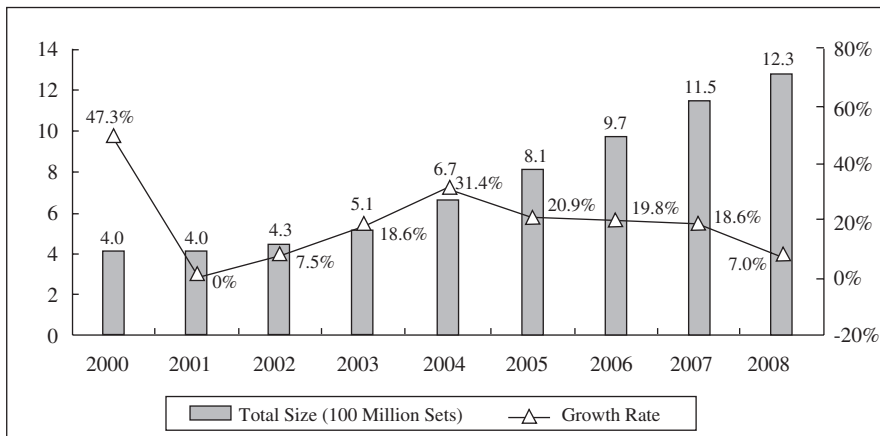
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### OVERVIEW OF THE GLOBAL MOBILE HANDSET MARKET

The global mobile handset market has expanded rapidly, in terms of total sales volume, in recent years. According to “2009-2012 mobile handset industry in the PRC research and strategy report” (2009-2012年中國手機行業調研及戰略諮詢報告) (the “Mobile Handset Report”), the global sales of mobile handset increased from approximately 400 million units in 2000 to approximately 1.1 billion units in 2007, and the estimated sales of mobile handsets may reach approximately 1.23 billion units in 2008, representing a compound annual growth rate of approximately 15.07% from 2000 to 2008. The Mobile Handset Report is published by 深圳市盛世華研管理諮詢公司 (formerly known as Oriental Intelligence Co. Ltd), which is a market researcher in the PRC and an Independent Third Party. It was neither commissioned by the Company, its connected persons nor the Sponsor.

The following chart illustrates the total sales and growth of global mobile handset industry from 2000 to 2008:

**Total sales and growth of the global mobile handset industry from 2000 to 2008**



Source: CCID Consulting, an independent research consultant

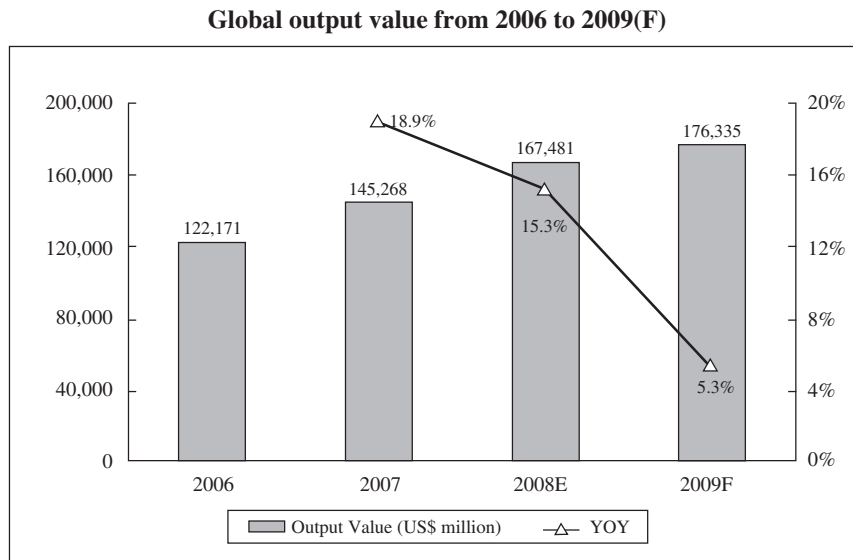
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According to the Mobile Handset Report, the annual output value of mobile handset have been increasing steadily from approximately US\$122.17 billion in 2006 to an estimated value of approximately US\$176.34 billion in year 2009, representing the compound annual growth rate of approximately 13.01%. However, annual growth rate of the global output value of mobile handsets decreased from approximately 18.91% in 2007 to approximately 15.29% in 2008, and is estimated to be further decreased to approximately 5.29% in 2009. The estimation for the substantial decrease in annual growth rate of approximately 5.3% in 2009 is expected after taking into account the effect of global financial crisis in late 2008.

The following chart illustrates the global output values of mobile handsets and their respective annual growth rate from 2006 to 2009(F):

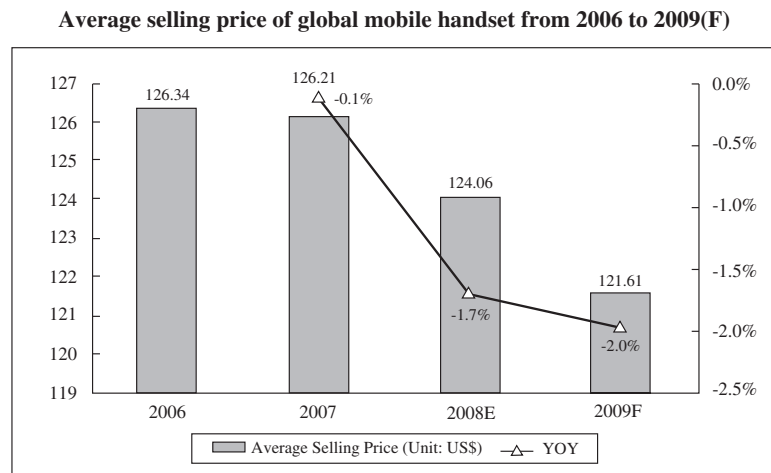


Source: Topology Research Institute, an independent research consultant

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According to the Mobile Handset Report, the global average selling price (the “ASP”) of mobile handset was almost the same in 2006 and 2007. However, the ASP is estimated to drop by approximately 1.7% and 2% in 2008 and 2009 respectively. Such drop was mainly attributable to the financial crisis in late 2008 spreading globally.

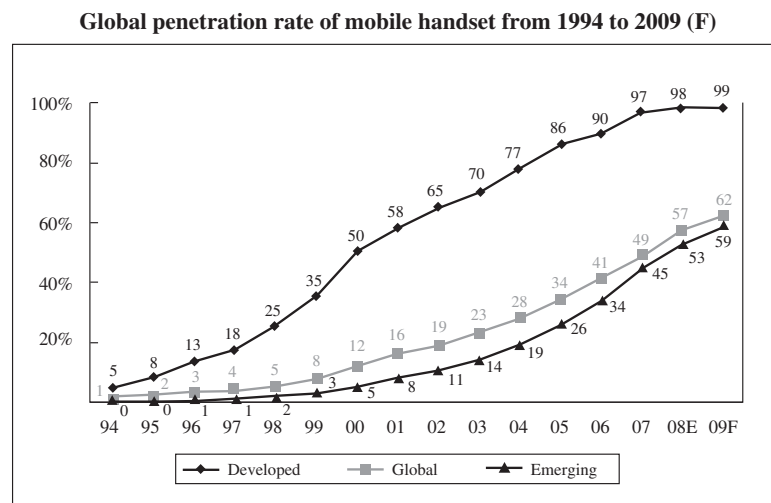
The following chart illustrates the estimated average selling price of global mobile handsets and their respective growth rate from 2006 to 2009(F):



*Source: Topology Research Institute, an independent research consultant*

According to the Mobile Handset Report, the global penetration rate of mobile handset has been tremendously increasing for the past 10 years. The mobile handset is estimated to be fully penetrated into the developed nations in 2008. In relation to the penetration rate in the emerging nations, it was estimated to reach approximately 53% and 59% in 2008 and 2009 respectively. It represents that the development potential for the mobile handset industry in the emerging nations, like China, is larger than that of developed nations.

The following chart illustrates the estimated penetration rate of mobile handsets in the developed and emerging nations from 1994 to 2009(F):



*Source: Topology Research Institute, an independent research consultant*

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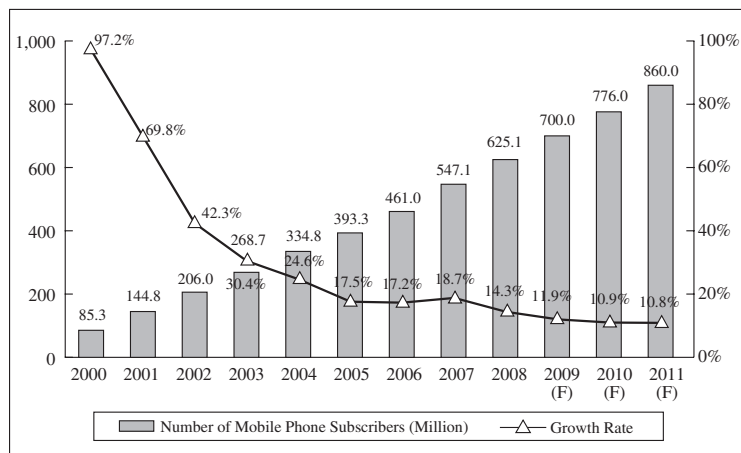
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### OVERVIEW OF THE MOBILE HANDSET MARKET IN THE PRC

The growth of PRC's mobile handset market is one of the key factors affecting the growth of the Group's business as the Group engages in mobile handset industry, particularly in (i) application design; (ii) solution design and services; (iii) mobile handset production; and (iv) distribution and marketing of mobile handset and components in the PRC. In 2008, China's mobile handset market has experienced significant growth. According to "2008-2009 Annual Report on PRC's Mobile Phone Market" published by CCID Consulting Co., Ltd. ("CCID Consulting"), the PRC has become the largest market of mobile handset subscribers in the world to date. Between 2000 and 2008, the number of mobile handset subscribers in the PRC increased rapidly from approximately 85.3 million to approximately 625.1 million, representing a compound annual growth rate of approximately 28.7%. CCID Consulting is a consulting company in the PRC, an Independent Third Party, which was neither commissioned by the Company, its connected persons or the Sponsor.

The following chart illustrates the number and growth of mobile handset subscribers in the PRC from 2000 to 2011(F):

**Number and growth of mobile handset subscribers in the PRC from 2000 to 2011(F)**



Source: CCID Consulting, an independent research consultant

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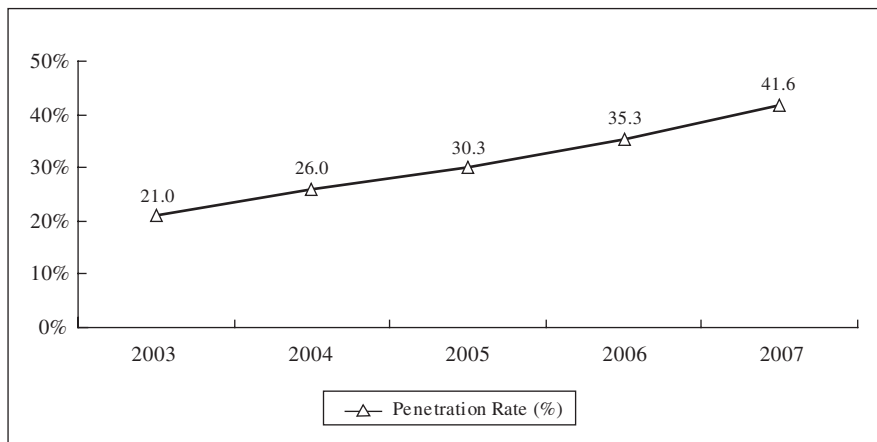
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The main driver of such growth has been the increasing overall mobile handset penetration rate in the PRC. According to National Bureau of Statistics of China, the rate changed from approximately 21.0% during 2003 to approximately 41.6% during 2007, representing the compound annual growth rate of approximately 18.64%.

The following chart illustrates the penetration rate of mobile handset subscribers in the PRC from 2003 to 2007:

**Penetration rate of mobile handset subscribers in the PRC from 2003 to 2007**

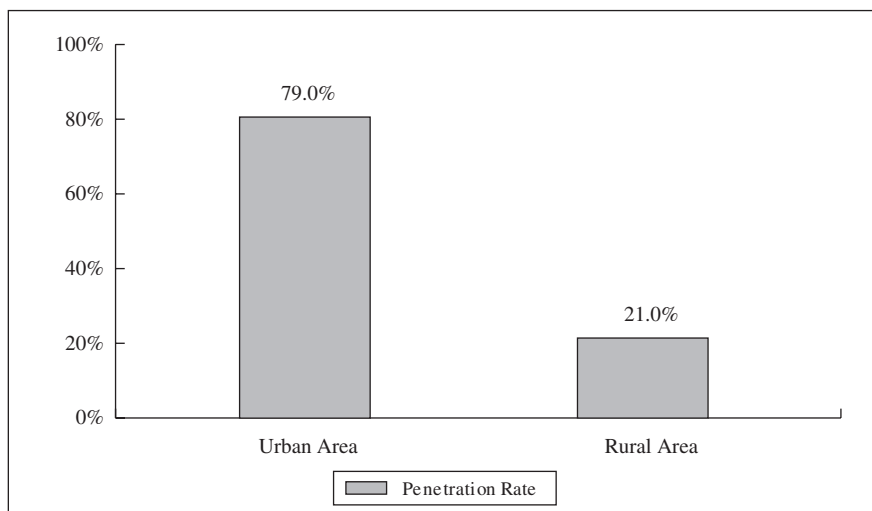


*Source: National Bureau of Statistics of China*

According to the Mobile Handset Report, the mobile handset subscriber proportion between urban and rural areas was approximately 79% and 21% respectively during 2008. In 2005, there was approximately 42.99% people residing in urban areas, with the rest of approximately 57.01% residing in rural areas. With the much lower penetration rate and larger number of population, the development potential is tremendous in the rural areas. Accordingly to CCID Consulting, agricultural population is the main part of fourth and fifth tier mobile handset markets. Rural market's rapid growth brings a large number of new mobile handset subscribers, which results in mobile handset subscribers scales' rapid expansion in fourth and fifth tier mobile handset markets.

The following chart illustrates the penetration rate of mobile handsets in the urban areas and rural areas in the PRC in 2008:

**Penetration rate of mobile handsets in urban areas and rural areas in the PRC in 2008**



*Source: ZDC, an independent research centre*

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According to CCID Consulting, during the period from 2001 to 2008, annual mobile handset sales in the PRC increased at a compound annual growth rate of approximately 19.52% from approximately 46.01 million units in 2001 to approximately 160.36 million units in 2008. This growth was mainly attributable to the existing subscribers upgrading and replacing their current handset. The upgrade and replacement trend partly results from the introduction of handset with advanced features, such as digital cameras, MP3 music players and other consumer-oriented multimedia features, as hardware and software technologies continually evolve. According to CCID Consulting's forecast, the annual mobile handset sales will increase to approximately 180 million in 2011.

The following table illustrates the annual mobile handset sales in the PRC during the period 2001 to 2011(F):

Year	Sales ( <i>'000 Units</i> )	Sales growth rate	Sales ( <i>RMB billion</i> )	Sales growth rate
2001	46,016	51.9%	90.19	33.2%
2002	62,474	35.8%	107.71	19.4%
2003	73,786	18.1%	118.93	10.4%
2004	78,696	6.7%	129.47	1.3%
2005	88,061	11.9%	131.58	9.2%
2006	119,336	35.5%	168.08	27.7%
2007	148,132	24.1%	167.98	-0.1%
2008	160,363	8.3%	181.21	7.9%
2009(F)	151,582	-5.5%	186.29	2.8%
2010(F)	161,617	6.6%	216.24	16.1%
2011(F)	179,168	10.9%	240.09	11.0%

*Source: CCID Consulting*

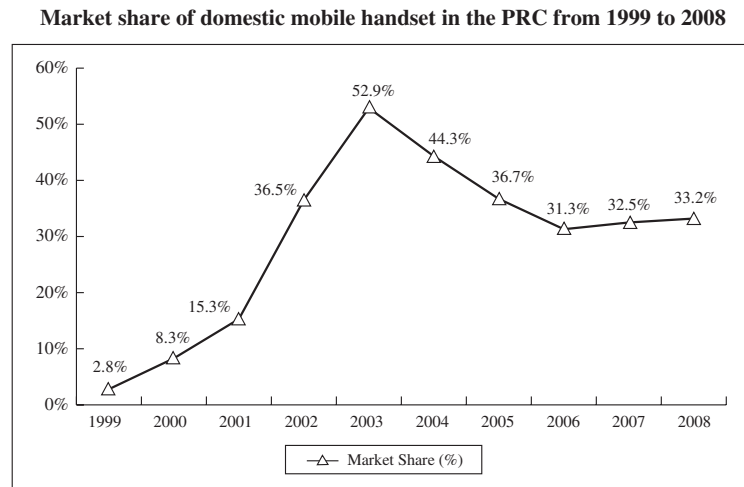
According to CCID Consulting, the market share for the Chinese manufactured mobile handset escalated substantially from 2.8% during 1999 and was peaked at approximately 52.9% during 2003. The market share for the Chinese manufactured mobile handset then decreased steadily to approximately 33.2% during 2008. Such falling market share was mainly attributable to the fierce competition from the reputable international brand names, which started to compete at the low to middle priced mobile handset in China. Although the market share for Chinese manufactured mobile handset was increasing year on year before 2003, there was no mobile handset player in the PRC successfully established a well-known international brand name during the period. Therefore, when facing the keen competition from foreign players in terms of price, quality and appearance, the Chinese mobile handset players started to lose popularity.

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The following chart illustrates the market share of domestic mobile handset in the PRC from 1999 to 2008:



Source: CCID Consulting, an independent research consultant

### THE PROSPECTS OF THE GRANT OF 3G LICENSES IN 2009

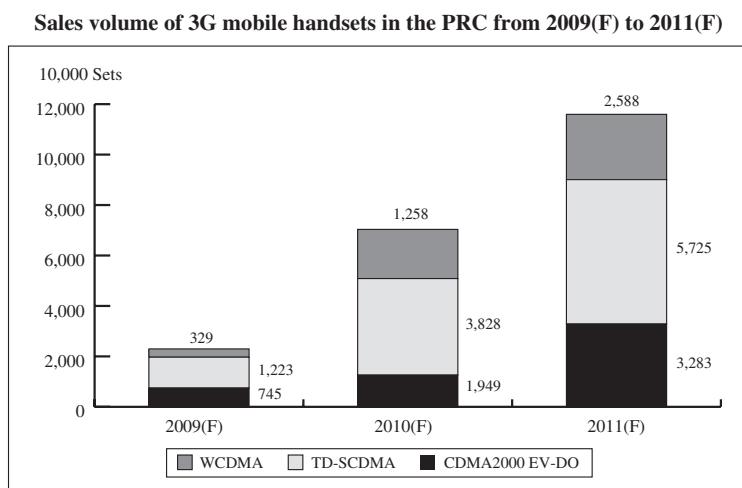
The Ministry of Industry and Information Technology of the PRC has granted 3G licenses to the major telecommunication operators in the PRC in January 2009. The grant of such licenses shows that the mobile handset industry of China has entered into a new 3G era.

According to the Mobile Handset Report, it is estimated that the 3G-related expenditures will amount to approximately RMB280 billion during the subsequent two years of 2009 and 2010. Apart from the direct investment in 3G infrastructure, the grant of 3G licenses is expected to encourage other social expenditures which are estimated to be approximately RMB2,000 billion and will in turn stimulate further the Chinese economy.

In the 3G era, 3G mobile handset users can enjoy speedier transmission of data and enhanced valued-added functions, including sophisticated data downloading, internet browsing, email communication and ecommerce. According to the Mobile Handset Report, it is estimated that the consumer demand for 3G mobile handset will prosper and there will be much development potential for new 3G application, its related services and mobile users replacing their 2G mobile handset with 3G mobile handset.

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The following chart illustrates the estimated sales volume of 3G mobile handsets in the PRC from 2009(F) to 2011(F):

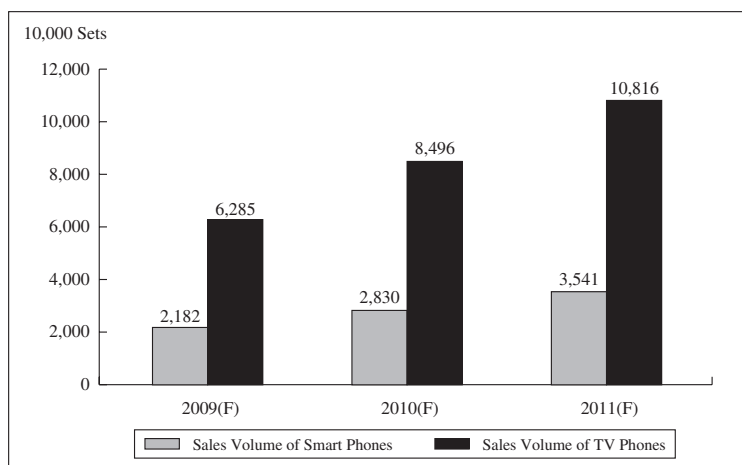


*Source: CCID Consulting, an independent research consultant*

With the arrival of 3G era, mobile handsets with varied application functions, such as voice communication, multimedia, computer function, entertainment, internet browsing and so forth, will enter rapid growth period.

The following chart illustrates the estimated sales volume of smart phones and television phones in the PRC from 2009(F) to 2011(F):

**Sales volume of smart phones and television phones in the PRC from 2009(F) to 2011(F)**



*Source: CCID Consulting, an independent research consultant*



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### THE CURRENT LANDSCAPE OF MOBILE HANDSET SOLUTION PROVIDERS IN THE PRC

In the past, the China mobile handset manufacturers did not possess the fundamentals for research and development of mobile handset. They mainly engage as OEM/ODM basis to produce mobile handset. With the accumulation of technical experience, the designs developed by the Chinese mobile handset solution providers have started to be adopted in recent years. Therefore, the China mobile handset manufacturers' in the PRC reliance on the OEM/ODM models has reduced and they showed strong demands for the designs developed by the Chinese solution houses. According to the Mobile Handset Report, the major revenues for the solution houses in the PRC were mainly attributed to China mobile handset manufacturers during 2005.

Currently, there are around 60 active mobile handset solution providers in mobile handset industry in the PRC. These companies can offer complete design solutions and some may even provide wireless module, handset software systems, platform and software applications. Most of the Chinese solutions houses are strong at software design. However, they are relatively weak at hardware structure design.

The major clients for solution houses in the PRC are mainly the mobile handset manufacturers in the PRC. Half of the solution houses may only relied on one or two China mobile handset manufacturers in the PRC.

According to the Mobile Handset Report, it is expected that the 3G communication market in the PRC would create business opportunities for mobile handset manufacturers. The consumer demand for replacement of traditional 2G mobile handset will also create business opportunities for solution houses in the PRC. With their established expertise and experience, it is believed that the mobile handset solution houses in the PRC have better positioned to capitalise on the future growth of 3G mobile handset in the PRC.