
REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO THE GROUP'S BUSINESS

The laws regulating the development, assembly and sale of software and solution for mobile appliances and mobile handset hardware in the PRC include, but not limited to, Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》), Administration of Telecommunication Equipment Entering into the Public Telecommunication Networks (《電信設備進網管理辦法》), Regulations concerning Management of Compulsive Product Certification (《強制性產品認證管理規定》), Radio Administration Rules (《無線電管理條例》). Certain important provisions of the above laws and regulations relating to the mobile handset industry are set out below.

Business

According to the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) issued by the Ministry of Commerce (“MOFCOM”) and the NDRC on 30 November 2004, the foreign investment in the field of mobile phone manufacture is encouraged by the PRC government. Pursuant to item 21 of the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) regarding foreign investments in communication equipments issued by the MOFCOM and the NDRC on 31 October 2007 and took effect on 1 December 2007, foreign investment in the field of 3G and the subsequent mobile phone manufacture is encouraged by the PRC government, and foreign investment in other mobile phone manufacture is permitted.

On 25 September 2000, the State Council enacted the PRC Telecommunication Regulations (《中華人民共和國電信條例》) (the “Regulations”) and on 10 May 2001, MII issued the Measures for the Administration of Telecommunication Equipment Entering into the Public Telecommunication Networks (《電信設備進網管理辦法》) (the “Measures”). According to the Regulations and the Measures, telecommunication terminal equipment, wireless communication equipment and network interconnection involved equipment are subject to the approval certificate system for entering into networks, under which an approval certificate must be obtained from MII. Without the approval certificate issued by MII, the relevant equipment is forbidden to be connected onto the public telecommunication network, used or sold within the PRC.

According to the Regulations concerning Management of Compulsive Product Certification (《強制性產品認證管理規定》) issued by the State General Administration of Quality Supervision, Inspection and Quarantine (“AQSIQ”) which took effect on 1 May 2002 and amended on 26 May 2009, mobile phone, as the product listed in the Catalogue of the First Batch of Products subject to Compulsory Product Certification (《第一批實施強制性產品認證的產品目錄》), must be certified by the designated certification organization of the State. The mobile phone can be sold, imported or used for business only after obtaining the relevant certificate, which is known as China Compulsory Certification.

According to Radio Administration Rules of the PRC (《中華人民共和國無線電管理條例》) issued by the State Council on 11 September 1993, and the Radio Administration Rules of Shenzhen Special Economic Region (《深圳經濟特區無線電管理條例》) issued by the Standing Committee of the Congress, Shenzhen Municipal, Guangdong Province, on 17 February 2009, the manufacturer of radio emission equipment shall obtain approval from state radio administration authority for the working frequency, band and technical index of the equipments to be produced.

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On 19 February 2005, NDRC issued the Several Provisions on Approval of Telecommunications System and Mobile Terminals Investment Project (《移動通信系統及終端投資項目核准的若干規定》) (the “Provisions”). According to the Provisions, projects involving telecommunication systems and mobile terminals, i.e. mobile phone, are required to apply for the approval of NDRC and NDRC shall seek MII’s opinions before deciding whether or not to approve the project.

The PRC legal advisers to the Company also advise that, pursuant to the Decision Regarding Fourth Batch of the Cancellation and Adjustment of Administration Approval Project (關於第四批取消和調整行政審批項目的決定) issued by the State Council on 7 October 2007, the requirement for obtaining the approval for the investment in mobile phone production as set out in the Provisions has been cancelled.

According to the relevant PRC laws and regulations, the PRC legal advisers to the Company consider that it is not required to obtain approval from relevant government authority to engage in distribution and marketing of mobile phones.

The Product Quality Law of the PRC (《中華人民共和國產品質量法》), (the “Product Quality Law”) was promulgated on 22 February 1993 and amended on 8 July 2000. The Product Quality Law is applicable to all activities of production and sale of any product as defined under the Product Quality Law within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

The Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》) (the “Consumer Protect Law”) was enacted on 31 October 1993 and took effect on 1 January 1994. According to the Consumer Protection Law, the rights and interests of the consumers who buy or use commodities or receive services for the purposes of daily consumption are protected and all manufacturers and distributors and sellers involved must ensure that the products and services will not cause damage to persons and properties.

The Provisions on the Liabilities of Repair, Replacement and Return of Mobile Telephone Merchandise (《移動電話機商品修理更換退貨責任規定》) promulgated by AQSIQ, SAIC and MII on 17 September 2001 and came into effect on 15 November 2001, emphasise that manufacturers, sellers and repairers shall be liable for repair, replacement and return of the products if they provide the unqualified ones. Within the liability period, consumers are entitled to have the unqualified mobile phone repaired, replaced or returned according to the provisions.

REGULATIONS IN RELATION TO M&A RULES AND CSRC NOTIFICATION

On 8 August 2006, Ministry of Commerce (“MOC”), China Security and Regulatory Commission (“CSRC”) and four other PRC authorities at state level promulgated the “Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors” (“M&A Rules”), which came into effect on 8 September 2006. It is applicable to, amongst other matters, a foreign investor’s purchase of equity interests in a domestic PRC enterprise or subscription of a domestic company’s capital increase, resulting in the conversion of a domestic PRC company into a newly established Foreign-Invested Enterprise (“FIE”); or a foreign investor’s establishment of a FIE and purchase through such FIE, the

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assets of domestic PRC enterprise and use of such assets to invest in and establish a FIE to operate such assets. Pursuant to Article 39 and 40 of M&A Rules, the listing of offshore special purpose vehicles, which are directly or indirectly established or controlled by PRC entities or individuals, are subject to the prior approval from CSRC (“CSRC Approval”).

Based on the M&A Rules, on 21 September 2006, the CSRC published a notification (the “Notification”) on its official website with provisions setting out the legislative basis for this requirement and the conditions, procedures, and timeline for obtaining CSRC Approval of overseas share offering or overseas listing conducted by domestic enterprises.

Since the acquisition of Zeus by Elite Link was completed on 29 May 2006, prior to the date when the M&A Rules was promulgated, the PRC legal adviser of the Company is of the opinion that M&A Rules do not apply to this acquisition.

Pursuant to the provisions of M&A Rules, where a foreign investor intends to merge or acquire a domestic enterprise through a FIE established by it in the PRC, the deal shall be governed by relevant existing rules of FIE regarding domestic investment, merger and/or split-up. Based on this, the PRC legal adviser of the Company concludes that the acquisition of a domestic enterprise by FIE in the PRC is not applicable to M&A Rules. Zeus has become a FIE since 29 May 2006. Therefore, the PRC legal adviser of the Company opines that the acquisition of PhoneLink, a domestic enterprise, by Zeus does not apply to the M&A Rules.

The Notification was promulgated based on the M&A Rules, since M&A Rules do not apply to the acquisitions, the PRC legal adviser of the Company is of the opinion that the Notification is not required either.

Based on the above, the PRC legal adviser of the Company opines that no PRC governmental or regulatory approval is required for the Listing of the Shares on the Main Board of the Stock Exchange.

REGULATION IN RELATION TO FOREIGN EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign currency exchange

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the “Foreign Exchange Administration Rules”). It was promulgated by the State Council of the PRC (中華人民共和國國務院) on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 1 August 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loan unless prior approval of the SAFE is obtained.

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Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency to satisfy foreign exchange liabilities in respect of current account items. In addition, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval or file with the relevant governmental authorities (if necessary).

Dividend distribution

Before the promulgation of the New PRC Corporate Income Tax Law (the “New Tax Law”), the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law and Income Tax Law of PRC Foreign Investment Enterprises and Foreign Enterprises.

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempt from withholding tax. However, this provision has been revoked by the New Tax Law. The New Tax Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. However, the Implementation Rules reduced the rate from 20% to 10%, effective from 1 January 2008.

The PRC and the government of Hong Kong signed Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006 (the “Arrangement”). According to the Arrangement, no more than the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong tax resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

SAFE registration regarding return investment

Circular of the State Administration of Foreign Exchange (“SAFE”) on Relevant Issues concerning Foreign Exchange Administration of Financing and Return Investment Undertaken by Domestic Residents through Overseas Special-purpose Vehicles (“SPV”)(“Circular No. 75”) was promulgated on 21 October 2005 and went into effect as of 1 November 2005.

The Circular No. 75 states that before a SPV is set up or controlled by the domestic resident, he must apply for such vehicle to be registered with the local foreign exchange authority. It further

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requires that PRC residents shall register with the local foreign exchange authority (if they have not previously done so in accordance with previous applicable regulations), even if the special purpose vehicle is set up prior to 1 November 2005. It is further provided in the Circular No. 75 that registration is required for modification or record with the local foreign exchange authority within 30 days from the date of any increase/decrease of capital, share transfer, merger/splitting, long term equity or debt finance, granting of foreign-related security or other material changes to the capital structure of the SPV.

The SPV as mentioned in Circular No.75 refers to an overseas enterprise directly established or indirectly controlled by a domestic resident legal person or domestic resident natural person for the purposes of undertaking equity financing (including convertible bond financing) abroad with the enterprise assets or rights and interests it/he holds inside China.

By examination of the incorporation date of foreign entities, including Elastic Glory, Elite Link, Max Sunny, and the process of acquisition or formation of domestic interests, the PRC legal adviser of the Company expresses an opinion that Elastic Glory, Elite Link and Max Sunny are not SPVs as defined in Circular No. 75, and there is no return investment involved in the restructuring as described in this prospectus.

The PRC legal adviser of the Company concludes that Circular No. 75 does not apply to the Shareholders, and there is no legal requirement or obligation for them to submit SAFE registration.

REGULATION IN RELATION TO THE PRC CUSTOMS DUTIES

According to the Customs Law of the PRC, the consignee of the imports, the consignor of exports and the owner of the imports and the exports are the persons obligated to pay customs duties (generally speaking, exports are not subject to customs duties). The Customs is the authority in charge of the collection of customs duties.

The customs duties in the PRC mainly fall under ad valorem duties, i.e. the price of import/export commodities is the basis for the calculation of the duties. When calculating the customs duties, import/export commodities shall be classified under appropriate dutiable items in accordance with the category provisions of the Customs Import and Export Tariff and shall be subject to duty levies pursuant to relevant duty rates.

Under the laws of the PRC, raw materials, supplementary materials, parts, components, accessories and packing materials imported for processing and assembling finished products for foreign parties or for manufacturing products for export shall be exempt from import duties pursuant to the actual amount of goods processed for export; or import duties may be levied upfront on import materials and parts and subsequently refunded pursuant to the actual amount of goods processed for export.

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To encourage the introduction of foreign investment, as of 1992, the PRC exercised exemption and reduction of customs duties on the import of machinery, equipment, parts and other materials within the total investment of foreign investment companies. But after the adjustment of policies as of 1 April 1996, such exemption and reduction has been terminated, while the foreign investment companies incorporated before then can still continue to enjoy such preferential treatment within the grace period.

As from 1 January 1998, according to the Notice of the State Council regarding the Adjustment of Taxation Policy of Import Equipment, in respect of the foreign investment projects that fall under the Encouraging Category and the Restricted B Category of the Industrial Guidance Catalogue of Foreign Investment and also involve the transfer of technology, the equipment imported for its own use within the total investment can be exempt from the customs duties, except for the commodities listed in the Catalogue of the non-tax exemption Import Commodity of Foreign Investment Projects.

REGULATION IN RELATION TO THE PRC LABOUR LAW

The Group is subject to the Labour Law of the PRC, pursuant to which companies must enter into employment contracts with their employees, based on the principles of equality, consent and agreement through consultation. Companies must establish and effectively implement a system of ensuring occupational safety and health, educate employees on occupational safety and health, preventing work-related accidents and reducing occupational hazards. Companies must also pay for their employees' social insurance premium.

The principal regulations governing the employment contract is the PRC Labour Contract Law (中華人民共和國勞動合同法), which was promulgated by the Standing Committee of the NPC on 29 June 2007 and came into effect on 1 January 2008. Pursuant to the Labour Contract Law, employers shall establish employment relationship with employees on the date that they start employing the employees. To establish such relationship, a written labour contract shall be concluded, otherwise employers will be liable. Furthermore, the probation period and liquidated damages shall be restricted by the law to safeguard employees' rights and interests.

On 18 September 2008, the State Council promulgated the Implementation Regulations of the PRC Labor Contract Law ("Implementation Regulations") which came into effect on the same day. Pursuant to the Implementation Regulations, the conclusion or dissolution of a non-fixed term employment contract were formulated intensively and special provisions on the labor-dispatch also were instituted. Furthermore, the Implementation Regulations may improve and implement the economic compensation system.

REGULATION IN RELATION TO THE ENVIRONMENTAL PROTECTION OF THE PRC

The Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

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Any company or enterprise which causes environmental pollution and discharges polluting materials that endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which cause severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company or enterprise fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies or enterprises which fail to restore the environment or remedy the effects of the pollution within the prescribed time will either be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate for any losses or damages suffered as a result of such environmental pollution.

REGULATION IN RELATION TO THE TAXATION OF THE PRC

Income tax

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) ("FIE Tax Law") promulgated on 9 April 1991 and effective on 1 July 1991 and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local tax at the rate of 3% unless a lower rate was provided by laws or administrative regulations. The income tax on foreign-invested enterprises established in Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%.

Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a fifty per cent. reduction in the following three consecutive years.

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According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (“New Tax Law”), which was promulgated on 16 March 2007, the income tax for both domestic and foreign invested enterprises is at the same rate of 25% effective from 1 January 2008. In order to clarify some provisions in the New Tax Law, the Implementation Rules to the New Tax Law (中華人民共和國企業所得稅法實施條例) (“Implementation Rules”) was promulgated on 6 December 2007, effective from 1 January 2008. The New Tax Law provides certain relief during the transition period that apply to enterprises that were established prior to 16 March 2007 (i) if foreign-invested enterprises enjoy reduced tax rates under the laws and regulations, the tax rate will be gradually increased to coincide with the new tax rate within five years starting from 2008; and (ii) if foreign-invested enterprises enjoy tax holidays for a fixed period under laws and regulations, such foreign-invested enterprises can continue the holiday until its expiry. However, if an enterprise has not started to enjoy the tax holiday due to a lack of profit, 2008 will be regarded as the first profit-making year and the enterprise starts to enjoy the tax holiday.

Value-added tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) effective from 1 January 1994 (amended on 5 November 2008) and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, provision of processing services, repairs and replacement services, and importation of goods are required to pay value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT for normal taxpayer is 17% or in certain limited circumstances, 13%, depending on the product type whilst the rate of VAT for small-scale taxpayer is 3%.

Business tax

Pursuant to the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例) effective from 1 January 1994 (amended on 5 November 2008) and its implementation rules, businesses that provide services (including entertainment business), assign intangible assets or sell immovable property are liable to business tax at a rate ranging from 3%-20% (three to twenty per cent), of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be. The formula for calculation of the amount of tax payable is set forth below:

$$\text{Amount of tax payable} = \text{amount of business} \times \text{tax rate}$$

The amount of tax payable shall be calculated in RMB. Taxpayers that settle their business income in foreign exchange shall convert the amounts into RMB at the foreign exchange market rate.

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COMPLIANCE

The laws and regulations governing the business and operation of the Group in the PRC include, but not limited to, Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》), Administration of Telecommunication Equipment Entering into the Public Telecommunication Networks (《電信設備進網管理辦法》), Regulations concerning Management of Compulsive Product Certification (《強制性產品認證管理規定》), Radio Administration Rules of the PRC (《中華人民共和國無線電管理條例》).

According to the opinion of the legal adviser of the Company as to the PRC Laws that:

1. All requisite permits, licenses and approvals required under the laws of the PRC to carry out the business have been obtained by the Group;
2. Each company of the Group in the PRC has been conducting its business within its business scope, the requisite permits, licenses and approval; and
3. The Group has complied with all relevant laws and regulations in the PRC for its operation and business activities.